



Kingdom of Morocco
Ministry of Foreign Trade



Economic Commission for Africa
Office for North Africa

Concept and introductory paper



North Africa Development Forum

Trade for Growth and Job Creation



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CONTENTS

1. Introduction	1
2. Trade in North Africa	3
2.1. Current policies: trade liberalization is irreversible	3
2.2. Trade products and partners: weak diversification despite some gains	4
2.3. Trade agreements: Difficulties with implementation and almost – absent South – South relations	4
3. Trade policies, economic growth and employment: The causal relationships	5
3.1. Intra-regional trade: a precondition for initiating a virtuous cycle?	5
3.2. Development in North Africa	9
3.3. Regional integration and globalization	14
4. Creating more employment	12
4.1. Research, innovation and competitiveness	12
4.2. Strengthening public – private partnerships	14
4.3. Establishing FTAs and association agreements	14
4.4. Deeper involvement of financial institutions	15
4.5. Encouraging entrepreneurship	15
5. Making headway into the knowledge – based economy	17
6. Conclusion	18
7. References	19

1. Introduction

The economic performance of North African countries has improved significantly in the past few years.¹ Economic growth rates have been increasing since 2000. None the less, the subregion is still characterized by a combination of three factors, i.e. unstable economic growth rates, high unemployment, and a low level of integration.

In 2006, favourable weather conditions for agriculture, the dramatic increase in oil prices for the oil-exporting countries in the subregion, and more dynamic economic policies, have resulted in a net increase in economic growth (7 per cent, compared to 5 per cent in 2005), despite wide variation by country (5 per cent for Tunisia, 6.3 per cent for Algeria, 7 per cent for Egypt and Morocco, 8 per cent for Libya, 10 per cent for Sudan and 19.4 per cent for Mauritania). The official estimates for 2007 range from 10 per cent (Mauritania and Sudan), to 7 per cent for Libya, 6 per cent for Egypt and Tunisia, 5 to 6 per cent for Algeria, and less than 5 per cent for Morocco.

These figures, however, have not clearly translated into employment creation. In fact, recent International Labour Organization (ILO) statistics indicate high unemployment rates, most above 10 per cent, with the groups most affected being women and the youth.² North Africa, when compared to seven other subregions of the world, emerges as the least integrated.³

Intra-regional exports do not amount to more than about 2.7 per cent of total exports, compared to rates ranging from 10 to 30 per cent for COMESA, MERCOSUR, ECOWAS, ASEAN, and SADC, 56 per cent in the case of NAFTA, and 68 per cent for EU.⁴ These figures do not take into account the considerable informal sector trade among North African countries, as discussed in more detail further below.

North African countries, moreover, are not very open to international trade compared to other countries. The simple average of “most favoured nation” (MFN) customs laws applied in the industry are in the order of 21 per cent, compared to 10.8 per cent for Asia and 9.5 per cent in the case of Latin America. Although this average has tended to fall since the end of the 1990s, the decrease has not been uniform for all the countries. In fact, Morocco has reduced its average tariff by 57 per cent and its tariff peak by 65 per cent during the 1993-2003 period. On the other hand, Algeria, Egypt, and Tunisia have lowered their average tariff rates by between 20 to 30 per cent.⁵ Can growth in foreign trade help North African countries achieve new targets for economic growth and speed up the pace of job creation?

¹ Throughout this paper, the North Africa subregion comprises the seven member States served by the Subregional Office for North Africa (SRO-NA) of the Economic Commission for Africa (ECA), namely, Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia.

² Unemployment rates stood at nearly 13 per cent in Algeria, over 14 per cent in Tunisia and around 10 per cent in Morocco and in Egypt.

³ Lahcen Achy, *Evaluation of the Potential for Regional Integration in North Africa*, UNECA/ SRO-NA, March 2006.

* The Southern Common Market was formed by Argentina, Brazil, Paraguay and Uruguay in 1991, with association agreements with Chile and Bolivia in 1996.

⁴ Common Market for Eastern and Southern Africa (COMESA); Mercado Común del Sur (MERCOSUR), comprising Argentina, Brazil, Paraguay and Uruguay; Economic Community of West African States (ECOWAS); Association of Southeast Asian Nations (ASEAN); Southern African Development Community (SADC); North American Free Trade Agreement (NAFTA/ North American Free Trade Area/ ALENA) and the European Union (EU).

⁵ Achy, op cit.

In general terms, despite the short-term costs of adjustment to foreign trade liberalization by countries that have successfully integrated into regional and world markets, export-driven growth does contribute to employment. A review of the medium-term relationship between international trade and employment in the manufacturing sector in developing countries indicates a positive correlation in the medium term between employment in the sector and openness to trade.⁶

This positive causal relationship does not neatly apply in the context of North Africa. Although none of the countries has successfully achieved sustainable economic growth or tackled the scourge of unemployment by closing its borders to international trade, unilateral liberalization is not enough to guarantee rapid national socio-economic expansion and can adversely affect certain socio-professional groups, especially in the short term, due to the price adjustments implied and the resultant structural transformations required.

Successful regional integration depends on both political and economic factors. The weight of political factors is considerable but it is important to emphasize that fears about the negative short-term effects of adjustment of macroeconomic variables in relation to employment and the national budget, (through fiscal revenues) sometimes slow down regional integration and trade liberalization initiatives. Furthermore, for far too long, exports have remained concentrated on products with low value added, and with limited potential for export trade, in a part of the world that is not yet strongly connected to the world economy.

This paper explores the means necessary for implementing the virtual trade - economic growth - employment cycle in North Africa. Although decision-makers and civil society representatives remain attached to the idea of integration, thanks to the cultural factors that promote unity, it is imperative to accelerate this process by focusing on three associated components:

- The social and economic benefits of regional integration;
- The conditions necessary for speeding up the process; and
- The role(s) of the private sector and of civil society (universities, women, the youth, and others).

The rest of this paper is organized into 4 sections. The section that follows presents a brief overview of trade in North Africa. It is followed by a section that delineates the interrelationships among three variables, namely, trade, economic growth and employment. The last two sections cover the conditions essential for trade promotion and regional integration, discussing the conditions necessary for economic, financial and infrastructure management (section 4) and addressing the knowledge-based economy, which is now a cross-cutting prerequisite that drives other components (section 5).

⁶ Dipak Dasgupta et al., "Making Trade Work for Jobs: International Evidence and Lessons for MENA, World Bank, July 2003.

2. Trade in North Africa

2.1 Current policies: trade liberalization is irreversible

The seven North African countries are a part of the multilateral trade liberalization process. The four World Trade Organization (WTO) member States are Egypt since 1970, Morocco since 1987, Tunisia since 1990 and Mauritania since 1995. Algeria, Libya and Sudan have observer status and are in the accession phase.

Most economic policies formulated under year 2007 financial regulations foster foreign trade. For example, Algeria has prioritized customs tariff harmonization through codification and designation of goods, measures to fight smuggling, establishment of a customs declaration system, and specifications for export of certain products. Morocco has allowed 45 to 50 per cent reductions in the maximum rate of customs duties on industrial products and reduced the tariffs on smuggled goods. Mauritania has adopted a new tariff, in line with those in neighbouring countries and has also set out clear economic product classifications. Tunisia has relaxed customs procedures and substantially reduced the excessive duties levied on automobiles.

2.2 Trade products and partners: Weak diversification despite some gains

North African trade is characterized by:

- Low share in world trade for the whole region;
- Predominance of the EU as the principal trading partner;
- Increased imports from emerging Asian countries into the region; and
- Diversification efforts marked by increase in exports, especially for Morocco's trade goods to West Africa and Egypt's to the USA.

The most recent trade analysis for the seven countries is provided by Achy,⁷ showing that their tariffs on imports are still among some of the highest in the world. For example, the average MFN rate on industrial products is 21 per cent, compared to 10.8 per cent for Asia, and 9.5 per cent for Latin America. These rates have diminished significantly over the past decade.

However, the decreases have not been uniform for all the countries. Morocco has lowered its mean tariff by 57 per cent and its maximum tariff by 65 per cent over the 1993-2003 period. On the other hand, Algeria, Egypt and Tunisia reduced their average tariffs by between 20 to 30 per cent.

Trade in North Africa is marked by its strong geographic concentration and a low level of diversification of export commodities. These export products are still dominated by primary mineral or agricultural commodities.

The EU is still the main source of imports. (Algeria 63 per cent, Egypt 38 per cent, Libya 64 per cent, Morocco 65 per cent and Tunisia 75 per cent). With the exception of Egypt, which gets 13 per cent of its imports from North America, the other countries import

⁷ Op cit.

much less from this market. In terms of size of export market share, the countries of the subregion export little to North America, with the exception of Algeria (30 per cent) and Egypt (13 per cent). Morocco's exports to the USA increased after signature of the free trade agreement (5 per cent in 2006, from 2 per cent in 2004).

The increasing share of imports from the emerging economies in East Asia has become the most remarkable structural change in the import trade pattern of the subregion. The share of imports from this group of countries rose from 30 per cent in 1990 to 55 per cent for Sudan in 2004, 12 to 23 per cent for Egypt, 12 to 19 per cent for Libya, 14 to 18 per cent for Morocco, 9 to 17 per cent for Mauritania, 3 to 16 per cent for Algeria and 8 to 9 per cent for Tunisia.

Except for Sudan, which has 76 per cent of exports going to emerging Asian markets, especially China, the other North African countries still trade predominantly with the EU, which accounts from 40 to 80 per cent of exports from the subregion – the respective proportion being 83 per cent from Libya, 80 per cent from Tunisia, 69 per cent from Morocco, 55 per cent from Algeria, 53 per cent from Mauritania and 42 per cent from Egypt.

The share of exports to African markets is low, at just 10 per cent, except in the case of Mauritania, which accounted for 17 per cent. However, these shares should rise in the future, especially in terms of trade with West Africa, given the diversification policies being followed by North Africa over the past few years.

2.3 Trade agreements: Difficulties with implementation and almost-absent South-South relations

The most important regional preferential trade agreements for North Africa were signed with the EU under bilateral arrangements, although these are falling under the Euro-Mediterranean (Euro-Med) free trade area. However, achievements over the decade ten years of the Barcelona process fall short of the objectives.

There have been many efforts at integration among various groups of North African countries. The most ambitious in terms of the number of participating countries and the sophistication of the treaties and institutional structures is the Arab Maghreb Union (UMA), which was formed by Algeria, Libya, Mauritania, Morocco and Tunisia on 17 February 1989. UMA has experienced several operational delays but there has been notable progress in the economic sphere. The principle of setting up a Maghreb free trade area seems to have been accepted from early 2007, and a Council of Maghreb businessmen was formed in February 2007, while the Maghreb trade and investment bank was set up at the end of 2006.

Several countries have overlapping membership in various other regional economic communities (RECs). At the level of Arab unity, there is the Greater Arab Free Trade Area (GAFTA), created in 1997, that includes all the countries except Algeria and Mauritania. At the continental level, three North African countries (Egypt, Libya and Sudan) are members of the Common Market for Eastern and Southern Africa (COMESA), which was established in 1994, while five countries (Egypt, Libya, Morocco, Sudan and Tunisia), are also members of the Community of Sahelo-Saharan States (CEN-SAD), established in 1998.

In 2004, the Agadir Agreement was signed by Egypt, Jordan, Morocco, and Tunisia, with the aim of revitalizing Euro-Mediterranean partnership and strengthening South-South

integration, but the agreement never entered into force. North African countries are also signatories to several bilateral agreements for free trade zones. However, apart from the EU partnership agreements, which consolidate and strengthen the privileged bilateral trade lines with North Africa, other agreements, particularly those that are concluded among North African countries themselves as well as those linking them to other countries of the South, are rarely implemented in an effective manner.

Three reasons can be given for this failure:

1. Some agreements, such as Agadir, have only very recently entered into force;
2. The different policies can impede the process whether explicitly through refusal to translate the agreements into laws and regulations or by setting up non-tariff barriers; and
3. The overlap of the various agreements makes them difficult to understand, even for the better informed, and “spaghetti-bowl” is the expression most commonly used to illustrate this situation.

3. Trade policies, economic growth and employment: The causal relationships

3.1. Intra-regional trade, a precondition for a virtuous cycle?

Theoretically, the economic justification for integration is clear and attractive. A common market encompassing small, fragmented economies can generate economies of scale and improve competitiveness. Until now, no country has found a better alternative than regional integration to achieve these objectives. However, the positive effects of regional integration can only be realized under certain conditions.

The facts confirm this analysis. In recent years, numerous countries have reported growth rates higher than in the past and also stronger growth in exports and in foreign direct investment (FDI) inflows. However, this has not always translated into reduction of poverty, especially among the extremely poor, or improved standards of living. Moreover, the sustainability of such growth is fragile to the extent that it is strongly dependent on the fluctuating prices for primary products, as well as aid flows, preferential trade arrangements and climatic conditions. According to the United Nations Conference on Trade and Development (UNCTAD), development of domestic productive capacity and the accompanying expansion in productive employment are the key to sustainable economic growth and poverty reduction.⁸

Defining productive capacities as productive resources, entrepreneurial capacity and production relations that together determine a country’s capacity to produce goods and services and to grow and develop, UNCTAD shows that the fundamental process that shapes development of productive capacity – i.e. capital accumulation, technological process and structural transformation - have been extremely weak in most of the least developed countries (LDCs). This has resulted in modest labour productivity and a large number of under-employed.

Although the factors put forward in the UNCTAD report apply to the LDCs, they also apply to the higher-income countries of North Africa. The report calls for moving from poverty- reduction approaches that are based on consumption and on exchange rates, toward an approach that rests on production and employment. It analyses three fundamental

⁸ UNCTAD. *The Least Developed Countries Report, 2006: Developing Productive Capacities*

constraints to development of productive capacity, namely, inadequate physical infrastructure, a weak domestic private sector, weak financial and accounting systems, insufficient demand, underutilization of domestic resources and capacity, as well as weak incentives to invest and to innovate. Several studies stress that it is essential that national economies be anchored within their regional and international environment in order to overcome the constraints.

With the speeding up of globalization, regional integration schemes have been changing both quantitatively and qualitatively. Three phases are discernible since the end of the 1990s:

Firstly, it is well known that integration demands much more than reductions of tariffs and quotas. Several other barriers cause market segmentation and hinder the free movement of goods, services and investments. Innovative ideas and entrepreneurial policies that go beyond traditional trade policies are thus called for, to be able to remove such barriers. Such deepened integration was actively pursued by the EU common market programme and some of these elements are also found in other regional arrangements in Asia, Latin America and in West Africa, and also within the Cooperation Council of Arab Gulf States.

Second, an irreversible trend towards regionalism is emerging, towards a model of more openness to the rest of the world. The regional communities formed between 1960 and 1970 were almost all based on the model of import substitution based on trade protectiveness justified by the need to preserve and foster national and regional industries. The new wave of regional arrangements acknowledges and recognizes the need and usefulness of competition among national and regional economies on one hand, and with other regions globally. This demands a dynamic fostering of international trade that transcends the mere control of trade in goods and services.

Third, there are trade organizations in existence that, by means of treaties, bring together both high-income and developing countries, as equal partners. The most sophisticated example of this is the North American Free Trade Area (NAFTA) whose membership includes Canada, Mexico and the USA. More recently, EU has been trying to engage in an integration process with the Eastern European countries in transition.

All regional integration arrangements carry costs as well as benefits. The issues that are of interest decision-makers and indeed, the concerned populations in the various countries, include the sustainability of integration achievements and the balance remaining when the sum of costs is subtracted from the sum of the benefits.

Benefits are of two types, coming under the effects of scale and location respectively:

The effects of scale are due to the enlarged size of markets on which producers can sell their products which are coming from an environment which only allows for sales on local markets to one where they can sell on the regional market. This allows businesses to attract foreign investment for which the criterion of market size determines the choice of investments destinations. Businesses in the member States of the region compete at the level of trade and also in terms of the efficiency of their production processes, methods of distribution and in all the necessary logistics for guaranteeing the free movement of goods and services. The improvement in efficiency allows regional industries to modernize, offer

work opportunities and increase the productivity from thus generating higher wages. The effects of location are due to the substitution effects caused by the regional preferential tariffs which encourage producers and consumers to buy from partner countries. Businesses in member States are encouraged to boost their efforts and integrate or at least create integrated production units. Labour-intensive industries can relocate to countries where labour is under-employed, which reduces unemployment, engenders higher wages and allows for income levels to converge.

Never the less, it must be said that integration is a necessary but not sufficient condition for achieving these benefits. Proactive industrial policies, supported by research and innovation, are essential in this regard. In addition, the necessary adjustment for realizing the objectives can be onerous. In the short term, the national budget suffers from the loss of tax revenue and from industries which never capitalize on the gains from competition, limiting their activities to those which occasion employment losses, and in most cases with harmful social and economic side-effects which can affect a whole city or a whole geographical area within a country. Uncontrolled population movements may also result, particularly in terms of migration from rural to urban areas and their peripheries, as well as emigration to developed countries. Women and youth are generally the most affected by this phenomenon.

To counter the harmful effects of adjustment and to ensure that they do not linger in the short term, policies which go beyond simple support measures are necessary. It is necessary that a climate of research and innovation be established, allowing businesses to find their own means of modernizing production, and to encourage all elements of civil society to express and develop the necessary capacity for achieving economic and social goals.

In this regard, governments face three challenges:

What constitutes a regional grouping? The possibilities vary from agreement with a country or a larger regional grouping to a large heterogeneous national grouping. It is important for decision makers to have the necessary information and tools to analyse these benefits and disadvantages for each type of grouping because the final decision is not limited only to political and geostrategic considerations, much as these are important. The decision also depends on short and medium term economic effects of the type of grouping pursued. An issue is which closely linked to the former relates to the debate about whether to belong to only one regional bloc or to several.

Up to which point can there be discrimination against the rest of the world in favour of a regional community? A regional economic community is discriminatory by definition. It is important that the members clearly establish the nature and the degree of the discrimination. A customs union does not have the same effects as a free trade area. The first forces member States to unify their tax policies to all those outside the regional communities while the second allows more latitude to negotiate arrangements.

How far to go and which areas to include in regional integration? The depth of the process can be limited at first to selected products or sectors. It can also encompass an economic and political approach which harmonises fiscal policies and standard of production. The EU, for example, began in 1950 with the European Coal and Steel Community which by 1957 had become the European Economic Community (the common market). In 1993 it achieved a single market with four freedoms in place, namely, the free movement of goods, services, people and capital, and executive and parliamentary institutions for operating and controlling the union.

The main criterion for successful integration are the social and economic welfare generated for the populations concerned. For successful integration, the rules of the game have to be clear from the beginning to avoid friction among member States. It is not necessary to know the long term objectives of the process with precision but it is important to outline each stage before beginning. Moreover, decision makers must have the necessary information and data about the effects of each stage on their constituents before beginning the process. Finally, integration is inevitably synonymous with loss of sovereignty. It is essential to choose an integration plan which affects the wishes of people when it comes to transferring some of the sovereignty of their country to institutions that represents a regional grouping.

The three questions (with whom to integrate, up to what point to discriminate against the rest of the world, and how far to go with the integration) are closely linked, especially in North Africa. Several countries of the subregion have now entered into partnership agreements with EU. Can one conclude that the process should continue to build an enlarged Euro-Med? In that case, the question is no longer one of determining the degree of discrimination of North Africa towards the rest of the world but is more one of knowing whether the concept of “ North Africa” should gradually be founded on a larger concept than the Euro-Med area which was the result of bilateral arrangements between each country of the subregion and the EU.

One alternative, perhaps more sustainable, could be that North Africa continues and revitalizes its close historical, geographic and economic ties with Europe, but this means facing the EU as a cohesive regional bloc with the means to join forces in the negotiations for setting up the Euro-Med area. However, in this case, is it significant that all North African countries join in this process or should they seize all opportunities presented and begin with more active relations with sub-groups of two or three countries? Did EU not begin with a limited number of countries and with a union that in the beginning dealt only with steel and charcoal?

The many bilateral agreements between Morocco and Tunisia, Tunisia and Algeria or Libya, Egypt and Sudan, or Morocco and Mauritania would lead one to think that this approach is favoured. Nevertheless more ambitious initiatives appear to be the same. On 25 January 2007, North African trade ministers meeting in Tunis called for greater efforts with the process of economic integration among the countries of the subregion and urged finalization of the free trade agreement.

Meeting under the auspices of the sixth Arab Trade Ministerial Council, the Ministers underlined the need to coordinate efforts in order to be in step with the economic adaptations to regional and international plans.

They also recommended, in their outcome document, that the work of finishing the project agreement about the free trade zone should continue and that a study should be prepared on establishment of a Maghreb economic grouping, placing emphasis on the importance of these two projects for strengthening trade and fostering regional integration in all areas.⁹

⁹ Agence MAP, 25/01/07

The Ministers stressed the importance of the preparations for setting up a single customs classification, embodying the new amendments to trade and customs plans.

The Council also recommended that attention be given to the means of achieving and coordinating the trade and customs policies of member countries, with a view to establishment of the Euro-Med free trade zone.

The Ministers stressed the need for trade fairs and exhibitions for promoting Maghreb products and overall strengthening of trade among the countries of the subregion, to remedy the current situation which is still marked by the low volume of trade, as the following section shows.

3.2 Development in North Africa

The low diversification of export products and the difficulties of implementing the trade agreements among North African countries make for very limited intra-regional trade. Achy (2006) presents a trade matrix for North Africa.¹⁰ Intra-regional trade is very modest (less than 3 per cent), especially in comparison to other regions of the world (at least 10 per cent). However, some of the countries have seen increased trade with their partners in the subregion.

The value of Egyptian exports and imports in terms of the rest of North Africa increased threefold between 2000 and 2004, reaching about \$500 million.

The most important bilateral trade is that operating between Libya and Tunisia, to the order of \$732 million in 2004, comprising mainly food and manufactured products from Tunisia, valued at \$347 million, and oil from Libya valued at \$385 million. The trade flows between Algeria and Egypt is in second position with a value of around \$326 million, consisting for the most part of exports from Egypt totalling around \$250 million.

Achy observes that by removing certain logistical and tariff barriers, intra-regional trade in North Africa could multiply tenfold. Again, Achy, going further than the study by conducting a simulation of the growth potential for intra-regional trade, shows that removal of barriers would result in a 33 per cent increase in the total exports of the region. While decision makers might ignore this potential, the chance of increasing exports from these countries by 33 per cent is a real incentive for fostering intra-regional trade.

Delayed openness to trade and weak economic performance characterize the Middle East-North Africa (MENA) region. Since the end of the 1990s, the region has lagged behind most of the other regions of the world in terms of regional integration and economic performance.¹¹ Delays of the same nature are also noted at the African continental level.

This integration process has been monitored closely at the level of ECA in the Assessing Regional Integration in Africa (ARIA) report, which is in its third edition.¹² ARIA I presents sectoral analyses that emphasize trade, money and finance, infrastructure

¹⁰ Achy, op cit.

¹¹ Harnessing Trade for Development and Growth in the Middle East, Council on Foreign Relations, Study Group on Middle East Trade Options, 2002.

¹² Assessing Regional Integration in Africa, United Nations Economic Commission for Africa (2004, 2005 et 2006).

and natural resources. ARIA II makes recommendations on ways to rationalize the numerous African RECs in terms of their overlaps and actual interface. ARIA III emphasizes the macroeconomic policies that African States need for improved regional integration, through increased economic growth rates and controlled inflation and budget deficits.

The International Monetary Fund (IMF) and the World Bank are promoting, for the Maghreb region, a trade strategy that places trade expansion at the centre of integrated policy stances aimed at growth and sustainability as well as fostering employment opportunities¹³.

A recent study assesses the major internal and external drawbacks to integration into regional and global markets and discusses the context to which weaknesses at the outset and at the level of implementation of trade agreements between the countries of the subregion have limited their impact.¹⁴ The study makes the point that these countries can derive tangible benefits from enhanced integration with regional partners, as well as with the EU and international markets. This calls for a comprehensive trade policy formulation that guarantees complementarity in three areas, namely, unilateral actions, regional trade agreements, and multilateral agenda. Integration has to be broadened to include services, such that productivity throughout the economy is enhanced, as the scope of trading opportunities and employment generation develops. Integration should also be “deep” enough to take in the main elements of competitiveness which are linked to issues of standards, conformity evaluation, transport and logistics. Such trade policy initiatives are all the more effective when they form an integral part of a wider, coherent reform process and are backed by stakeholders who bear the brunt of the adjustment costs of a new, more open environment.

A study conducted by UNECA confirms this analysis.¹⁵ It shows that the overall gains of liberalized trade in goods between the subregion’s economies (particularly through the removal of non-tariff barriers) could reach at least \$US 350 million. The higher income flowing from economic growth, coupled with improved wages, should have a significant impact on the economic welfare of consumers - as a result, especially, of productivity gains. The authors draw the conclusion that the best and most effective answer for the Maghreb is perhaps to for a market common. The study is notable also because it provides some statistical data dealing with the choice between customs union and a free trade area of the Maghreb countries.

Recognizing the growth potential of integration, civil society actors have also been active in looking for ways of helping stimulate integration in the subregion. Hardly a month goes by these days without an event that focuses on this topic. The private sector is poised to play an increasingly important role in this area as well. The

¹³ The Maghreb, in this context, refers interchangeably to the Arab Maghreb Union (which was created in 1989 and comprises Algeria, Libya, Mauritania, Morocco and Tunisia) as well as to a more restricted group of countries comprising Algeria, Morocco and Tunisia.

¹⁴ Trade and Investment Integration of the Maghreb Paul Breton, Eugenia Baroncelli, and Mariem Malouche. The World Bank May 2006.

¹⁵ The cost of Non-Maghreb: Achieving the Gains from Economic Integration. Mohamed Hedi Bchir, Hakim Ben Hammouda, Nassim Oulmane and Mustapha Sadni-Jallab. African Trade Policy Centre, United Nations Economic Commission for Africa.

Arab Business Leaders Institute (IACE) hosted the twenty-first edition of the Journées de l'entreprise (Business Forum), on the theme "Business in the Maghreb: towards competitiveness and complementarity." The enthusiastic participation of private-sector operators in this event was a pointer to their interest in the subject of integration.

To mention just one aspect of numerous studies and events on this theme, it has been shown that the loss attributable to non-integration of the subregion represents around 2 per cent each year. This loss results from bottlenecks of a political nature as well as lack of information or analysis on the subregion's economic profile, and barriers to trade which are not always linked to politics.

The expectation now goes beyond recognizing the simple fact that the potential is there. The situation calls for concrete actions towards attaining integration as a tangible reality. The countries of the subregion have embarked on various steps in that direction, such as declaring 2006 as the 'Year of Trade' in order to demonstrate the considerable potential of North Africa in terms of more robust trade relations and investment, within the subregion globally. Accordingly, North African countries have sought support from the North Africa Subregional Office of ECA for the initiative, and for the implementation of pro-integration policies aimed at meeting the challenges of economic growth and social development.

A round table on the profile of the subregion's economic structures reiterated the need for diversification and recommended that North African countries, which are seven in number, should devote more efforts towards developing the service sector, with a focus on know-how and information technologies, through the implementation of research and capacity-building networks in the UMA area and other RECs in which these countries are involved.¹⁶

A meeting of experts, on rules of origin, highlighted the relevance of this topic for trade promotion. Their recommendation to member States was to coordinate their interventions and harmonize their approaches in this area, with a view to ensuring the success of trade negotiations.¹⁷

Thus, there was no shortage of initiatives in 2006 as far as trade promotion in the subregion is concerned. A number of drawbacks remain, however, and it is imperative for all stakeholders --- the public sector, the private sector and civil society to address them in line with their different approaches. This dimension is discussed further in section four of this paper.

3.3 Regional integration and globalization

Apart from the economic advantages, regional integration enables developing countries that subscribe to it to have a better negotiating position on the international scene. In this regard, 2007 will be decisive. The last round of World Trade Organization (WTO) negotiations, which began in 2001 with the Doha round is expected to be concluded. The

¹⁶ United Nations Economic Commission for Africa. North Africa Subregional Office: Évolution des structures économiques en Afrique du Nord. (CEA-AN/Rabat/CIE/XXI/4) - 2006

¹⁷ United Nations Economic Commission for Africa. North Africa Subregional Office: Les règles d'origine : note introductive (CEA-NA/Rabat/CIE/XXI/3/11) - 2006

subject matter of this round relates to pursuing more open developing-country markets through reduced agricultural subsidies in the United States of America (i.e. \$US 5 million less), and a 50 per cent reduction of customs duties on agricultural products from the EU.

Should the talks fail, this will not signal the end of globalization, but the WTO would be weakened, if not dead, according to some experts.¹⁸ It would spell the end of the dream of global trade regulation on equal terms. There will then be a flurry towards more and more bilateral agreements and regional re-groupings, whereby, even more than ever before, the will of the strong prevails.

Each country has its own specificities. It is quite legitimate that these should feature at the top of decision makers' agenda. However, experience has shown that they often find it easier to tackle "in-country" challenges when the actions of a given country ties in with a context of globalization that is anchored on the country's membership of a strong regional grouping. During a meeting in January 2007 with Mr. Abdoulie Janneh (the Executive Secretary of ECA), the WTO Director – General, Mr. Pascal Lamy pointed out that as in other areas, unity is strength, and the WTO is one of the international organizations where the African continent wields some clout: it so happens that they have much to gain from the negotiations, at little cost.

Within the subregion, there are bilateral arrangements between, for example, Mauritania, Morocco and Tunisia; Libya and Tunisia; and Egypt and Sudan, whilst there are also arrangements linking the subregion to the rest of the world (and in particular, the association agreements with the EU and FTA agreements with the United States. Analysts appear to agree that the bilateral agreements within the subregion are a good start and indeed presage a larger regional economic community (REC) when political conditions permit. It is important to encourage and deepen this process in order to take in as many sectors as possible. In regard to the bilateral agreements between the countries of the subregion and farther afield, with other countries or RECs, analysts see some duplication of effort and a weaker negotiating position *vis-à-vis* the rest of the world.

4. Creating more employment

4.1. Research, innovation and competitiveness

As shown in section 3, there is a close correlation between export promotion and "behind the border" policies. The size, geographical continuity and linguistic-cum-cultural similarities across the subregion are indubitably assets, but they do not in themselves suffice for implementing integration. They cannot stand in for the economic and social policies which the individual countries can put in place in this area.

In general terms, the countries of the subregion have embarked on an ambitious set of policies aimed at bringing their industrial sectors into line, and these efforts are beginning to bear fruit in terms of growth. It remains now to backstop this trend, with a view to broadening its impact and ensuring that the steps taken are fully in line with wealth-and-job-creation objectives.

¹⁸ Le Monde, 20 January 2007

It will be essential to look into ways of integrating the subregion's economies in order to reach new heights of growth by boosting productive capacities and maximizing export opportunities quantitatively and qualitatively – services, including financial services, as well as industry and agriculture – such that the whole spectrum of economic sectors is devoted to job creation, in the context of partnership whereby economics stands alongside research, innovation and competitiveness.

Industrial development and its correlation with both agriculture and services are of key importance to growth. Industrial policy is primarily focused on creating favourable conditions for entrepreneurial development and innovation.

Businesses are expected to develop their products and manufacturing processes in order to build capacities with a view to making breakthroughs into new markets and identifying new opportunities offered by the latest technologies and by globalization.

From the standpoint of industrial policy, the role of governments is to act only where necessary, i.e. when certain market defects call for State intervention, or to boost structural transformation. To that end, governments can apply policy instruments that are mainly focused on better regulation and the political will for innovation and research. This may presuppose that accompanying measures be put in place in order to reduce the social costs of these structural transformations in some of the sectors, but generally it is more a question of devising policies which bring out the whole spectrum of capacities, without picking and choosing specific sectors or businesses.

The industrial sector faces many policy challenges at the subregional level, because the individual countries cannot, by acting alone, successfully address issues such as competition, regulation of FTAs, or bolstering the relative negotiating leverage vis-à-vis other regions on the international scene.

Effective skills building and higher education, which are both linked with research establishments that are adapted to the needs of the economies of the subregion, are indispensable for the success of the ambitious aims of harmonizing the various North African economies.

International competition in research – and – development (R & D) expenditure is becoming increasingly evident. The re-orientations in global markets and factors such as human resources, the quality of local research and innovation capacities, and the presence of business clusters and poles of excellence are becoming increasingly important in determining the location of R & D expenditure. It is clear that the subregion's competitiveness as an ideal location for research is bound to increase. EU as well as Japan and the United States up by far the major portion of global R & D investment. China and India have embarked on very energetic policies aimed at attracting this category of investment. It must be noted, however, that much ground remains to be covered in the case of North Africa.

The policies to be pursued towards improving the environment in which industry operates fall into three broad categories:

- fostering the attractiveness for investment of the individual countries and the subregion;
- adapting know-how and innovation to the growth imperatives; and
- devising policies that enable enterprises to create more jobs.

In this context, industrial and intellectual property rights (IIPR) have a key role to play in boosting competitiveness for a large number of industrial sectors. Enterprises, and their clientele, must be able to apply these rights because they stimulate innovation, provide a stable environment for investment decisions and encourage the development of new, efficient business models. There is, moreover, a particular need to have the IIPR applied judiciously so as to combat counterfeiting and pirating which occur in a number of sectors, because disregarding IIPR poses a danger to businesses, hampers innovation and engenders health and public safety risks.

4.2 Strengthening public – private partnerships

A great deal of attention has thus far been given to FDI as an avenue of financing growth. However, public – private – partnerships (PPP) also constitute a key source of financing, whereby governments call on the private sector to finance a project or public – service activity. The private – sector partner in turn receives compensation in the form of a concession, for example. The financial scope of some of the projects has made it necessary in some cases for a country to rely more on public – private – partnerships.

While it is true that the North African countries are increasingly recognizing infrastructure development as a means to consolidate external – trade liberalization and ensure the streamlining of logistics and trade facilitation, there is still a need for continuity of ongoing projects in addition to new ones within a framework of regional cooperation that fosters continuity but also guarantees their coherence with the development objectives at the subregional level.

Infrastructure development provides impetus to intra – regional trade and ensures its continuity. It is thus essential to capitalize on existing initiatives, such as pipelines, electric power networks and airlines, in order to make some headway with “open sky” agreements, the trans – Maghreb highway, railway links, and a permanent way linking Morocco to Europe.

4.3 Establishing FTAs and associative agreements

Regional integration agreements offer a number of advantages for North African countries. They supplement the multilateral agreements and are also a means of enhancing them. They can serve as a link in the chain of “apprenticeship” and as preliminary testing ground toward concrete multilateral commitments. They can be a source of enhanced negotiating clout to member States *vis-à-vis* other regional groupings, apart from making it possible for individual countries to work towards a common position and thus significantly strengthen their position in multilateral negotiations.

The fact remains, however, that the various agreements overlap, which makes it difficult even for those who are well – versed to understand them -- the “spaghetti – bowl” situation as it is commonly described. Successful implementation of FTAs and of association agreements will necessitate a rationalization of the long list of existing agreements.

The significant volume of informal trade relations among North African countries underpins the potential for growth of intra – regional trade. Free trade can only become a reality with the implementation of simple but effective auxiliary measures such as simplified visa processing procedures, or their elimination, increasing the frequency of airline connections, and reducing the cost of telephone and Internet communications. Without an enabling environment, a large portion of trade is bound to remain in the informal sphere, with all the harmful implications particularly for consumer safety and revenue losses to governments. There are many examples which show that the countries of the subregion have faith in enhanced “South – South” trade. Provided that governments put in place the necessary mechanisms, there will no doubt be a positive from private – sector entities. The example of Morocco’s relations with a number of countries in West Africa demonstrates that trade relations and investment between developing countries can grow significantly when governments and the private sector harmonize their strategies.

4.4 Deeper involvement of financial institutions

Effective banking services and credit facilities are a prerequisite to the development of trade relations, particularly in regard to the conditions attached to credit from banks. Optimizing the use of banking resources in the trade sector is closely linked to the modalities of access to bank credit for trading and to streamlining financial instruments, through for example, harmonization, and risk so that they meet the needs of SMEs and young entrepreneurs.

In addition, ensuring the mobility of capital and pursuing trade policies that are in harmony with market liberalization efforts are essential elements of trade promotion and facilitation of the role of financial institutions in the integration of subregional markets.

4.5 Encouraging entrepreneurship

There are some legitimate fears in regard to liberalization. A number of challenges have to be addressed by governments as well as by the private sector and civil society. It is essential that the policies pursued by member States and the programmes put in place by international institutions take into consideration seven elements that are specific to the “opening – up” process:

- (i) fears pertaining to job security, arising from enhanced openness and restructuring in the industrial sector;
- (ii) fears pertaining to uncontrolled rural – to – urban migration through enhanced openness and modernization in the agricultural sector;
- (iii) fears pertaining to reduced tax revenue -- as a result, again, of openness and lowering of tariffs;

- (iv) inability of some of the sectors to modernize or to meet the quality standards necessitated by globalization;
- (v) the specific case of vulnerable groups such as the SMEs, the youth, and women;
- (vi) the question of non – tariff barriers and intellectual property rights; and
- (vii) linkages between trade and environmental issues in regard to implementing and enhancing the mechanisms for adherence to technical, environmental and ethical standards as well as registration of enterprise.

Specific actions are called for when a given sector is in crisis or possesses unutilized growth potential. However, it is equally important at the outset to have in the individual countries a socio – economic and cultural environment -- particularly in relation to training and research policies -- that allows for the whole spectrum of competencies to emerge and to develop into productive activities. Such an approach will foster diversification and enable private – sector initiatives to grow and prosper such that the development process ties in with a diversification economic base that is shielded from fluctuations in the various sectors.

Consequently, certain categories deserve particular attention in view of the specificities of the region:

- Women, who should be further encouraged to enter into business, and particularly those possessing skills and know – how that is in most cases unique. Their traditional labour and services holds considerable economic potential. This potential can, if properly utilized, help fight poverty, stabilize rural populations, generate employment, diversify the food – processing and agroforestry sectors, highlight the cultural heritage, improve the utilization of local resources and conserve the environment.¹⁹
- The youth, who constitute a major segment of the population across the subregion. Enhancing their role in the development process should start with adequate training policies, then with the creation of a climate of enhanced capacity – building opportunities which constitute an essential element for the youth to contribute for the socioeconomic development, so that they do not end up being unproductive or spread out to thinly in the informal sector. At present, the number of youths looking for employment is reaching alarming proportions. It is therefore essential for this group to have the full attention of decision – makers at the level of policy formulation that marks a clean break with the past.
- Rural populations, who can provide a wealth of agricultural know-how that North African countries can draw on, through innovative agro-industrial policies aimed at accelerated integration of agricultural activities into the modern industrial and services sectors.

¹⁹ United Nations Economic Commission for Africa. North Africa Subregional Office: Participation économique des femmes en Afrique du nord (CEA-AN/TNG/CIE/XX/3/III/Rev.1) – 2005.

Information and communication technologies (ICTs), combined with adequate financing mechanisms, can also effectively contribute to capacity-building for this category and facilitate their integration into the socioeconomic development process across the subregion.

5. Making headway into knowledge-based economy

Entrepreneurs should be able to respond to the burgeoning internationalization of the economy which is resultant upon improved transport links, a sizeable reduction of communication costs, and scaling down barriers to trade and investment, with more intensified competition. A knowledge-based economy and the modern technologies flowing from it can engender, for all sectors, efficient manufacturing processes and faster, more efficient effective marketing tools. The fact remains, however, that the trade sphere in North Africa is largely concentrated in low- or medium- technology sectors requiring a low level of skills. The productivity growth differential between North Africa and other regions is attributable in part to the fact that the share of information technology production in the industrial sector is smaller in the case of North Africa.

In a global economic setting that is increasingly knowledge-based, innovative utilization of ICTs can conduce to regional initiatives and significantly contribute to socioeconomic development. ICTs generate high-value-added services thus contribution directly and significantly to economic growth and job creation. With proper knowledge management, the countries of the subregion can rapidly and more cheaply put in place regional networks and sectoral linkages that stimulate knowledge generation, strengthen capacities and boost trade relations. The emergency of a commonality of practices at the subregional level could just be the needed catalyst for economic integration. This could bring together not only the decision makers, but civil society in all its components including the private sector, the youth, academia, and the research community.

The knowledge-based economy is therefore distinctly not “pre-packaged” because its role is cross-cutting. It facilitates modernization in all sectors of the economy. It enables the faster flow of information, which is an indispensable characteristic of any liberal economy. ICTs also constitute in area of activity with a high potential in terms of attracting investment and generating jobs that can attract particularly young people. The World Summit on the Information Society (WSIS), the second round of which was held in Tunis in November 2005, demonstrated the need for the countries of the subregion to accelerate their integration into the new economy in order to more effectively confront their development challenges.

Establishing a North African trade platform would provide private-sector entities with a source of the sort of information they will need in their development agenda and in identifying trading opportunities. It can, indeed, be the precursor to e-commerce solutions as soon as the trade volume is big enough and the technological environment allows. The recommendation to develop such an information system was reiterated during the WSIS follow-up session held in Hammamet, Tunisia in October 2006.

6. Conclusion

The regional integration process holds many advantages for the populations of the countries that subscribe to it. Despite a lack of statistical data on the impacts of a North African regional grouping, all the indications are that North Africa stands to benefit from economic integration, in order to put in place a sustainable and beneficent economic growth profile for the peoples of the subregion, in terms of employment and income.

Successful trade liberalization and regional integration presupposes a set of properly-managed economic policies. Section 3.2 contains a summary of the efforts made by the North Africa Subregional Office of ECA in that connection and highlights to the importance the member states attach to this topic, such as by identifying trade as the theme for 2006. The North African Development Forum thus focuses on trade, under the theme, towards employment-generating growth. It encompasses the events organized by the Subregional Office during 2006 on the subject of trade with a view to highlighting the subregion for enhancing trade and investment relations at the subregional level and globally.

This meeting, at ministerial level, brings together decision makers, experts, private-sector entities and representatives of civil society, to assess the current situation and look into ways of promoting inter-and intra-regional trade within a context of sustainable development that brings about better living standards for the peoples of the subregion. In order to stimulate the discussions and gather knowledge and skills from economic-integration experiences worldwide, the forum has brought together representatives of governments from other regions and of international organizations.

This information and introductory note is intended to provide participants at the forum with some underlying perspectives and is also a summary of the available information for the purposes of stimulating the discussions and ensuring that the forum can lead to dialogue at the ministerial level on the basis of which a plan of action can emerge as a means of providing a conducive environment for increasing the volume of trade which can translate into wealth creation and social development across the subregion.

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