Kingdom of Morocco
Ministry of Foreign Trade

Economic Commission for Africa
Office for North Africa

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North Africa Developement Forum

Trade for Growth and Job Creation

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Table of contents

Introduction

In the context of globalization and regionalism, the view that regional integration will be pivotal to the prosperity of North Africa's economies is certainly relevant. Indeed, regional integration constitutes the best way forward for these countries to increase the availability of resources for production, through increased productivity and an enhanced resource base. An advantage is to be gained also from the acquisition of a new knowledge base and new ideas, as well as the dissemination and sharing of technical know-how and indeed the opportunities for supplementing capital flows with foreign direct investment (FDI). The combined impact of these factors is expected to bolster economic growth, thus promoting poverty reduction and improved socio-economic conditions. This is all the more important as multinational firms in choosing a country, consider not so much its domestic market as how best it can serve as a gateway to the region. The creation of a North African market would therefore have a multiplier effect on the separate policies pursued by the various countries individually. Consequently, the region's attractiveness should be that much greater.

Most North African countries are conscious of the positive effects of successful integration, and hence the various integration agreements that have been concluded at both the bilateral and multilateral levels. Most of these agreements are primarily based on geographical proximity; however, some of them have been concluded with countries or groups of countries that are farther away geographically, in order to access larger markets. The Arab Maghreb Union (UMA), which comprises five North African countries (i.e. Algeria, Libya, Mauritania, Morocco and Tunisia) stands out as the foremost regional integration mechanism. Some countries, over and above their membership of UMA, also belong to other regional economic communities (RECs), such as the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahelo-Saharan States (CEN-SAD), the Greater Arab Free Trade Area (GAFTA), and various bilateral agreements, which link up the member countries inter se or with other Arab or African countries. Free trade agreements with the European Union (EU) represent an example of North-South integration which should provide further opportunities to the countries of the region in terms of the free movement of goods across various economic zones.

These agreements mostly incorporate very ambitious provisions in a broad range of areas, with a particular focus on trade liberalization. However, a number of empirical studies have highlighted slow progress towards North African integration. In particular, the composite index of regional integration produced by the United Nations Economic Commission for Africa (UNECA)[1] shows a 2 per cent annual progression among UMA member countries, which is below the level for other African regional economic communities such as the West African Economic and Monetary Community (UEMOA) (6 per cent), CEN-SAD (4 to 6 per cent) and the common Market for Eastern and Southern Africa (COMESA) (2 to 4 per cent). The progression for Africa as a whole is around 4.5 per cent. The main factor behind this situation is often linked to the lack of real political will on the part of member States or, where it exists, its non-realization on the ground. This is compounded by inadequate diversification coupled by low complementarity among the different economies. Other bottlenecks have to do with issues of management, implementation and harmonization of the various integration agreements.

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[1] ECA (2004) Assessment of Regional Integration in Africa (ARIA). Addis Ababa, Ethiopia.

It is with a view to addressing this situation that the United Nations Economic Commission for Africa (UN/ECA) has embarked upon a continuous assessment on the integration process which has led to a review of best practices and to an evaluation of the impacts of integration in Africa as a whole, and in North Africa in particular. The report on regional integration in Africa (ARIA 1, 2004)[2] is thus the first outcome of a series of studies devoted to integration which are produced by a team comprising ECA, the African Union (AU) and the African Development Bank (ADB), with the support of the EU and the World Bank. ECA has thus been able to develop innovative performance indicators which have more clearly highlighted the integration process in the various subregions and continent-wide. ARIA I (2004) embodies a qualitative analysis of the content and impact of various policies, plans and interventions. Apart from the institutional dimensions, the evaluation covers key sectors such as trade, currency and finance, infrastructure, natural resources, and cross-cutting issues.

ARIA 2 (2006) dwells on the needed rationalization of RECs. The report underscores firstly the problems arising from the multiplicity and overlap of the various RECs in Africa. It also provides a technical analysis through a comprehensive questionnaire which can serve as a tool for formulating rationalization policies to assist member States in optimizing the utilization of scarce resources.

ARIA 3 (which is in the course of preparation) is devoted to macroeconomic policy convergence for regional integration. Indeed, many of the RECs encourage their members to improve their macroeconomic frameworks in order to promote deeper integration. The main parameters for convergence include economic growth rate, interest rates, inflation, foreign direct investment (FDI) flows, budget deficit and the debt-to-GDP ratio. Nonetheless, convergence criteria differ from one REC to another, owing to their varying levels of development.

It is with a view to contributing to this assessment but principally the regional integration process in North Africa that the Subregional Office of UN/ECA, in conformity with its mandate, has undertaken a set of activities centred around the following aspects in order to be able to position itself as "regional integration observatory"[3]:

(i) Follow-up of trade aspects of regional integration;
(ii) Assessment of regional economic and trade partnership agreements;
(iii) Analysis of the potentialities for integration and the search for new areas of cooperation and trade among member States; and
(iv) Establishment of partnerships with member States and development partners.

A number of studies have been conducted in support of this process.[4] All of them highlight bottlenecks to the integration process, much as they recognize that the potentialities are there in North African economies for enhanced intra-regional trade that can foster the integration process. From that standpoint, a number of questions may be posed, such as:

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[2] ECA (2004). Assessment of Regional Integration in Africa (ARIA 2).

[3] See box 2

[4] See on this topic, (i) SRO-NA (2003), Report on the status of cooperation and integration in North Africa: trade dimension; (ii) SRO-NA (2005) Regional economic integration and intra-regional trade in North Africa. Expert Assessment by Jean Verdier Ehoussou Koffi, auditor GPE 6 ; L. Achy (2006), <u>Le commerce en Afrique du Nord: evaluation du potentiel de l'intégration régionale</u> (report for the SRO-NA).

(i) Given the existing potentialities, what could be the best approach toward promoting renewed regional integration process in a North African economic context characterized by lack of complimentarity between the various economies and inadequate diversification?
(ii) What products should be the focus of intra-regional trade relations?
(iii) What are the internal and external linkages that could lead to integration into the global economy?

This paper sets out to contribute points that can help address these various questions. The study revolves around four dimensions. The first part is a brief overview of the current status of the various regional integration initiatives. The second part is devoted to an assessment of the impact of regional integration agreements, particularly as regards intra-regional trade and investment flows. The obstacles to integration are considered in part three. Part four explores trade potentialities and products/sectors that can drive regional integration. Part five contains a discussion of two of keystones for effective integration of North African economies into the global economy. There follows, in the concluding part, some recommendations towards enhanced regional integration.

I. Current status of regional integration agreements: implementation constraints

(i) At the multilateral level: WTO, EU and the United States of America

All of the countries of the subregion are involved in the multilateral trade liberalization process within the World Trade Organization (WTO) frameworks. The four full members are Egypt, Morocco, Tunisia and latterly, Mauritania. The other three countries, namely, Algeria, Libya and Sudan, have an observer capacity and are all in the accession phase, although at quite different stages.
The basic principle is that of equal treatment of all WTO members, or in other words, non-discrimination, a principle which is enshrined in the most-favoured-nation (MFN) clause. However, article XXIV of the General Agreement on Tariffs and Trade (GATT) concluded in 1994 provides for an exception to this principle for WTO member States which have trade arrangements (such as customs unions and free trade areas) between them.

The association agreements reached bilaterally between Algeria, Egypt, Morocco and Tunisia with the EU reveal a different pattern of open regionalism and non-discriminatory liberalization. The main elements of these agreements are: (i) regular policy and economic dialogue; (ii) gradually putting in place a Euro-Mediterranean free trade area, in conformity with WTO rules; (iii) provisions pertaining to freedom of establishment, liberalization of services, free movement of capital and implementation of community-wide competition rules; (iv) provisions pertaining to legal and internal issues; (v) strengthening economic cooperation; (vi) putting in place of social and cultural cooperation; (vii) financial cooperation; (viii) establishing an association council and committee with decision-making powers.

It is noteworthy that the Euro-Mediterranean strategy envisages providing North African countries with a mechanism for integration into the globalizing economy, through the introduction of a free trade area (excluding agricultural products and the free movement of persons) by 2010. However, member countries will have to negotiate the agreements separately, and this reflects the preponderance of trade relations with the EU, as well as confirming the low density of intra-regional trade, as we shall see further on.

Many discursants within the region decry the limited scope of these agreements, at various levels. In the political and security sphere, the Middle East conflict involving Israel and Lebanon constitute so many bottlenecks, to which must be added illegal migration. On the economic front, many of the economic actors in North Africa, and in particular the small and medium-sized-enterprises and investors (SMEs/SMIs) point to the lack of resources to enable them to fully benefit from these agreements. The SMEs in particular are faced with unequal competition from large European enterprises and find it difficult to take advantage of the trading opportunities offered to them. Consequently, the achievements of these agreements a decade after the process which was launched in Barcelona in 1995 mostly fall short of the goals that were set at the time.

In terms of the process of integration into the world economy, the member countries have similarly initiated concrete actions aimed at establishing links with the United States. Morocco, for instance, has established a free trade area with the United States. This agreement deals exclusively with economic and trade matters and offers real and immediate opportunities for Morocco's exports to the US market, which at present account for hardly 0.03 per cent of total US imports. Other countries (i.e. Algeria, Egypt and Tunisia) are in the negotiation phase toward an agreement for promoting trade relations and investment.

(ii) At the regional level

Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia are also linked among themselves and/or with other Arab or African Sates, in the RECs, through regional integration agreements. Even though the attainment of total integration is perceived as the long-term objective in most of these agreements, the overall objective remains the development of trade and investment, and in particular the elimination of barriers to trade and investment. Accordingly, the various agreements that have been concluded focus primarily on the objectives of free movement of persons, services, goods and capital between member countries.

The major goal towards establishing an economic union among members countries that are the signatories to the various agreements are accordingly to be implemented in the following stages:

- Establishment of a free trade area with removal of all tariff and non-tariff barriers to trade between member States;
- Customs union towards establishing a single customs regime, coupled with the adoption of a common external tariff (CET) vis-à-vis the rest of the world;
- A common market which will be expected to underpin the free movement of factors of production across national borders of member States.

North African countries have associated themselves with a number of agreements, of which the main ones are:

1. The Arab Maghreb Union (UMA)

The Arab Maghreb Union (UMA), which was established in 1989, is the main REC in North Africa; it was designated by the New Partnership for Africa's Development (NEPAD) secretariat to play a key role in relation to transforming objectives, goals and strategies into programmes, projects and actions that can be realized at the regional level. UMA set itself the objective of achieving total economic union. In the trade arena, it has adopted the rules pertaining to the removal of customs duties, gradual reduction of non-tariff barriers, non-adherence to dumping and export subsidies and adoption of the principle of fair competition between member-country producers.

Nevertheless, the removal of tariffs is still awaited and trade relations are conducted predominantly through bilateral trade agreements between member States inter se, or between member States and the EU. That, coupled with the lack of complementarity of production and export structures, has resulted in a situation where intra-regional trade relation is just 2.7 per cent of total regional external trade volume.

The level of the protection applied by the Maghreb countries between themselves on cereals, agricultural commodities and petroleum products is generally quite high (Mohamed Hedi Bchir et al, 2006). Protection is particularly visible in regard to clothing and textiles; medium-level technologies; and, to a lesser extent, agro-industries. These issues regularly exercise the concerns of economic actors as well as decision-makers. This was the context in which the Council of Trade Ministers of the five UMA countries was held in Tunis, Tunisia, from 24 to 25 January 2007, to launch the principle of a Maghreb free trade area (FTA)[5] and economic community.

The main item on the agenda was the question of removal of tariff barriers, and participants were in favour of a gradual approach. It was suggested that a list of products to be immediately exempted in the first instance should be adopted, with a second list envisaged for exemption in the medium term, and a third in the long term. The meeting also approved the establishment of a Trade and Investment Bank which will be located in Tunis at the beginning of this year. Additionally, a union of entrepreneurs of the Maghreb region is to be launched in February 2007 in Marrakech on the occasion of the eighteenth anniversary of UMA.

2. The Greater Arab Free Trade Area (GAFTA)

Trade liberalization within the framework of GAFTA pertains to agricultural and animal products from the Arab world and other products the exemption of which had been decided upon by the Economic and Social Council of the Arab League before the entry into force of the agreement. The FTA which entered into force in 2005 embodies the abolition of customs duties between the 17 member States whose external trade accounts for 94 per cent of total trade within the Arab world. All North African

[5] The agreement on the establishment of an FTA envisages a single customs classification and coordination of trade policies with a view to safeguarding the interests of the Maghreb countries ahead of the entry into force of the Euro-Mediterranean FTA scheduled for 2010.

countries with the exception of Algeria[6] and Mauritania are officially or fully members of GAFTA along with other Arab States.

The establishment of this grouping aims at fostering trade relations and enhancing the negotiating position of member countries with powerful economic blocs such as the EU and the North American Free Trade Area (NAFTA). Various obstacles remain, however, including the non-application of specific rules of origin and disputes settlements.

3. The COMESA agreement

The Common Market for Eastern and Southern Africa (COMESA) comprises 21 African member States including Egypt, Libya and Sudan. Its main objective is the attainment of a comprehensive economic integration and the adoption of a single currency by 2025. Nine of the member States have put in place a free trade area among themselves since 2000. In addition, COMESA is headed for a customs union which is expected to become operational in 2008. The effect of customs union will be the definitive elimination of trade barriers between member States and the elimination of imbalances arising from differential treatment of imports among these States.

4. CEN-SAD

The Community of Sahelo-Saharan States (CEN-SAD) consists of Egypt, Libya, Morocco, Sudan and Tunisia along with 15 other African countries, and envisages a free trade area. The Community is not yet effective in regard to trade liberalization; nevertheless it represents a large market which could serve as a bridge for trade between North Africa and sub-Saharan Africa.

The various integration agreements are summarized in table[1] below, showing the strategic direction of the opening-up approach which is emerging both in the form of bilateral agreements between States and through the considerable number of intra- and inter-regional agreements, as well as accession to the WTO. However, the management and/or the implementation of all these agreements poses a number of problems and constitutes one of the main factors that have impeded the regional integration process.

[6] According to the Secretary-General of the Arab League, Algeria has already proffered the necessary documentation towards its accession. He has reportedly also expressed the desire to see Mauritania join.

Table 1.(Summary of various integration arrangements involving North African countries)

	Algeria	Egypt	Libya	Mauritania	Morocco	Sudan	Tunisia
Algeria			PT	TA (FT)	TA 1989/99 (FTA)		TA 1981/91 (FTA)
Egypt			TA 1990/91		Bilateral FTA		Bilateral FTA
Libya	PT	TA 1990/91		PT	TA 1990/90 (Rat. 1992) (FTA)		FTA 2001/02
Mauritania	TA (FT)		PT		TA 1986/93[a]		TA 1964/89-1988 (FT)
Morocco	TA 1989/99 (FTA)	Bilateral FTA	TA 1990/90 (Rat.1992) (FTA)	TA 1986/93		TA	Bilateral FTA
Sudan					TA		
Tunisia	TA 1981/91 (FTA)[a]	Bilateral FTA	FTA 2001/02	TA 1964/89 1988 (FT)	Bilateral FTA		
UMA	M1989	Association demanded	M1989	M1989	M1989		M1989
GAFTA	Negotiating	M1997	M1997		M1997		M1997
CEN-SAD		M2001	M1998		M2001		M2001
Other Arab countries	Iraq: FTA 2001 Syria: TA 1979 (&199 Jordan: CA/TA 1997/	Jordan: Agadir Iraq: FTA 2001/01 Lebanon: FTA 2002/I Syria: Palestine CA/T	Unilateral FT with Arab Countries		Jordan: Agadir Lebanon: CA/TA 1972/73 (PT) Syria: CA/TA 1972/IF UAE: FTA 2001/03[a] S. Arabia: TA 1966/68 Iraq: TA 1976 (FT)	Jordan: FTA 2003/IF	Jordan: Agadir Kuwait: Ca 1988/88 (FT) Iraq: FTA 2001 Yemen: Ca 1983/83 Lebanon: FTA 1972 1998/99 Palestine: FA 199 Syria: TA 1977/I

							(FT)
EU	Cooperation Agreement Euro-Mediterranean Association Agreement	Euro-Med Association Agreement		Partnership Agreement with ACP countries	Euro-Med Association Agreement		Euro-Med Association Agreement
Turkey		FTA neg.			FTA 2004		FTA 2004
USA	TIFA	TIFA 1999; FTA negotiation			FTA 2004		TIFA
WTO	Negotiating	M1995	Observer	M1995	M1995	Negotiating	M1995
COMESA		M1998 (FTZ 2000)				M	
UEMOA	Negotiating mandated	Association under negotiation			Association under negotiation		Association under negotiation

Source: Table derived from data and information provided by SRO-NA (2006); Achy (2006);Steffen Wippel (2005), "The Agadir Agreement and Open Regionalism", *EuroMeSCO paper 45*.

Note: CA: (economic, commercial, trade) cooperation agreement; IF: framework agreement; FT: Free Trade (with negative lists); PT: Preferential Trade (with positive lists); TA: Trade (and tariff) agreement; TIFA: Trade and Investment Framework Agreement.

II. Impact of integration agreements; low volume of trade and investment flows

(i) Trade

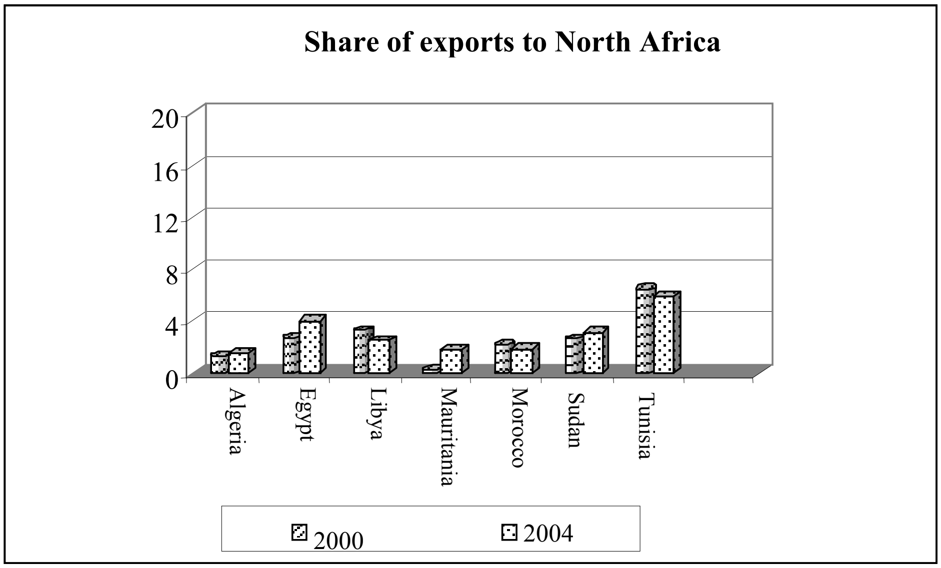
As with the rest of Africa, trade among North African countries has remained at a low level, i.e. around 8 to 13 per cent of total exports and imports of each REC (ECA, 2004). The sub-regional share in global trade has similarly diminished, from 1.15 per cent in 1990 to 0.86 per cent in 2001.

The trade structure of North African countries shows a preponderance of trade with the EU 2003; this accounted for nearly 60 per cent of their total trade transactions (ECA – SRO/ NA 2003). Conversely, trade within the subregion accounted for only 2.5 per cent, or around the same level as that realized with Asia and the Pacific (Australia, Japan and New Zealand) and with the newly industrialized countries (NICs) in East Asia (Hong Kong, Singapore, Republic of Korea and Taiwan).

The most recent computations (Lahcen Achy, 2006) indicate a structurally weak intra-regional trade profile, with
exports within the subregion stalling at around 2.7 per cent and a predominance of exports to the EU over the period 2000-2004. Similar proportions obtain in regard to imports from the EU (Egypt 38 per cent, Algeria 63 per cent, Libya 64 per cent, Morocco 65 per cent and Tunisia 75 per cent), which reflects the predominance of the EU as the subregion's main trading partner. There has at the same time been a surge in the volume of trade flows with the emerging economies in Asia, whereby imports represented between 30 per cent in 1990 and 55 per cent in 2004 in the case of Sudan, 12 to 23 per cent for Egypt, 12 to 19 per cent for Libya, 14 to 18 per cent Morocco, 9 to 17 per cent for Mauritania, 3 to 16 per cent for Algeria and 8 to 9 per cent in the case of Tunisia. On the other hand, exports to the North American market have increased noticeably, and especially in the case of Algeria (30 per cent) and Egypt (13 per cent).

As the graph below shows, the share of exports from each of the countries of the subregion to North African markets ranged from 1.5 per cent (Algeria), to 5.9 per cent (Tunisia), with, in between, Egypt (4 per cent), Sudan (3.2 per cent), Libya (2.5 per cent), and Morocco and Tunisia (1.8 per cent each).

The low level of the intra-regional trade is attributable to the lack of complementarity between the various economies, coupled with the lack of diversification of exports, and these represent the main constraints to trade, from the viewpoint of classical analytical models of international trade.



Source: Computations by Lahcen Achy (2006),
Évaluation du potentiel de l'intégration régionale en Afrique du Nord. ECA-SRO-NA.

(ii) <u>FDI flows</u>

In the choice of country, foreign investors consider above all the size and dynamism of the market. Other factors also influence the final decision as to invest. This relates particularly to political stability, macroeconomic stability, and a favourable regulatory institutional framework. The human factor is pivotal, in that it allows for full utilization of local labour force characteristics and for improving the absorption capacity of new technologies and the latest know-how. Consequently, investment in education and training that targets the active workforce is indispensable for a conducive investment environment.

In the case of North Africa, attractiveness to FDI rests on the stability of macroeconomic aggregates. First-generation structural reforms have been launched in most of the countries. The economies are on a path of opening-up by liberalizing external trade and acceding to the WTO --- there are ongoing negotiations in the case of Algeria, Libya and Sudan. In addition, simplified and harmonized customs regimes, as well as their alignment to international standards and the establishment of integration agreements with the EU attest to the will of North African countries to bring to an end the era of the exclusion from the global economy.

Data derived from the United Nations Conference on Trade and Development (UNCTAD, 2004 and 2006), as shown in table 2 below, indicate a doubling of FDI flows to North Africa in 2005 by reference to 2003, i.e. 13 billion dollars in 2005, which represents 42 per cent of total FDI flows to Africa. FDI flows to Egypt ($US 5.4 billion), Morocco ($US 2.9 billion), Sudan ($US 2.3 billion), Algeria ($US 1 billion) and Tunisia ($US 0.8 billion) generally increased in 2005 by reference to 2003. The increase in the case of Egypt and Sudan is attributable to higher investment in the petroleum sector. Accelerated privatization in Morocco and Tunisia has boosted the volume of FDI to these counties. The growth in FDI can be a catalyst to integration gains (Blomstrom, 1998).

Table 2. Foreign direct investment (FDI) flows by host country and economies (in millions of $US)

	1998	1999	2000	2001	2002	2003	2004	2005
Alegria	501	507	438	1196	1065	634	882	1081
Egypt	1076	1065	1235	510	647	237	2157	5376
Libya	-128	-128	-142	-101	-96	142	-354	261
Morocco	417	850	215	2825	481	2429	1070	2933
Mauritania	-	1	40	92	118	214	5	115
Sudan	371	371	392	574	713	1349	1511	2305
Tunisia	668	368	779	486	821	584	639	782
Developing countries	194055	231880	252459	219721	157612	175138	275032	334285
Africa	9114	11590	8728	19616	11780	18513	17199	30672
North Africa	2904	3032	2918	5490	3631	5376	5905	12738

Sources: World Investment Reports 2004 and 2006

III. Constraints to the regional integration process

(i) Structural constraints

It should be noted, firstly, that political tensions have played a large role in impeding the integration process in North Africa. In addition, transit zones and visa requirements have hampered the free flow of people and goods. To these major constraints must be added unsteady economic growth rates and the limited size of the stock exchange markets.

Trade within the subregion is concentrated in regional sub-groupings that are primarily characterized by the fact of having similar resources, or a low level of complementarity and diversification. A further bottleneck is the lack of coordination of policy and action plans among member countries.

(ii) Tariff and non-tariff barriers still in place

Various tariff and non-tariff barriers constitute an impediment to trade within the subregion, and by extension, to the integration process.

Firstly, achieving integration depends a great deal on the extent to which domestic industries are effectively protected. At present, the simple average non-preferential customs duties applied in the industrial sector across North Africa is 21 per cent, compared to 10.8 per cent in Asia, and 9.5 per cent in Latin America. The rate of protection applied by North African countries has diminished significantly over the past decade. However, the reduction has been uneven across the subregion. A report by the Euro-Mediterranean Forum of Economic Institutes (FEMISE) indicates that Morocco reduced its average tariffs by 57 per cent in 2005, and its maximum tariff by 65 per cent over the period 1993-2003. By comparison, Algeria, Egypt and Tunisia reduced their average tariff levels by between 20 and 30 per cent. In addition, there have been restrictive regulations in regard to some manufactures such as clothing and textiles (SRO – NA, 2006a).

Secondly, a multitude of non-tariff barriers has been observed. Some of these are in the nature of import permits that are tied to the application of safety and health standards. Customs and administrative procedures relating to imports, particularly in regard to product standards, certification procedures and various environmental standards also hamper trade.

Thirdly, transport modes constitute a major barrier to the expansion of trade in the subregion. The UMA member States for example, have signed an agreement to simplify the movement of people and goods. However, there remain many cross-border barriers to trade, such as closure of roads, delays in border checks and visas restrictions to certain nationalities.

IV. Trade potentialities and products/sectors that can drive regional integration

(i) Intra-regional trade potentialities in terms of complementarities and productivity

Traditional international – trade theory holds that the success of an integration agreement is linked to there being some degree of complementarity in the economies concerned. This hypothesis has served as a working tool in evaluating trade potentialities in the North African subregion. J.V. Ehoussou (2005) for a start, analyses trade potentialities by reference to complementarity indices. It has been shown that the indices between the economies are weak, which translates into low probability of success in implementing bilateral trade agreements. The same indices, computed at the level of the North African subregion, show a net increase by reference to bilateral indices. The conclusion has been that trade liberalization has to occur in a regional context if there is to be an improved intra-regional trade profile.

Similarly, a study conducted for the North Africa Subregional Office of ECA has carried out a simulation of the bilateral trade potential for North African economies on the basis of a gravitational model. The deduction has been firstly, that the exports taken in the simulation would be ten times higher by reference to their present level.

Secondly, a higher level of intra-regional trade is resultant upon both a reallocation of exports and an increase in total exports simulated by reference to the total exports observed.

Thus, the main projections of economic theory as well as empirical tests indicate that the utilization of comparative advantages and the need for complementary in terms of trade of production or both, contribute to the development of trade within the subregion.

Nevertheless, an SRO-NA study (2005) shows that it is also possible to base cooperation, on pivots considered at the outset as pivots of competitiveness.

(ii) Some key sectors

A recognition of the sectors that are intimately linked, upstream and downstream, is of primary importance to any kind of integration in the economic sphere. It is in this context that the ECA SRO-NA has attempted an assessment of the driving force of a number of sectors by firstly measuring the correlation between the value-added of the sectors vis-à-vis the economy as a whole. However, this approach only demonstrates the diversity of inter-sectoral linkages.

Other approaches that have been adopted are those that access multiplicators of value added (or employment) or carry out a detailed analysis of employment-versus-resources linkages of the various sectors with bias for the sectors that have shown robust growth over a fairly long period. On the basis of this analysis, the following sectors have been identified:

- the food-processing sector, in view of its importance in production and in generating export revenues;
- the petroleum sector, which is one of the driving sectors in terms of boosting regional integration;
- textiles, given their key role in the economies of Egypt, Morocco and Tunisia, but also in order to find solutions to the crisis besetting the sector in the wake of the Multifibre Agreement;
- services, and in particular, tourism and banking , given that the attractiveness of individual countries to FDIs is linked to the financial dimensions of their economies.
- electronics, and particularly in regard to the motor vehicles subsector, through subcontracting to local firms;
- information technology, because the existence of a knowledge- and skills-based economy allows for the development of strong research-and-development (R & D) capacities, which is propitious for penetrating high-demand markets, fostering productivity gains and realizing comparative advantages.

V. External linkages towards the effective integration of North African economies into the global economy

1. The European Union

In general terms, intra-regional trade is scanty in the case of North Africa, and this reflects both an inadequacy in the regional-integration process (coupled with the predominance of trade links with Europe) as well as the impact of a high level of specialization in the domestic sphere. In that context, the opportunity for a free-trade area, from 2010, between North African countries and the EU may be seen as a credible choice that would constitute an avenue for integration into the global economy.

The agreements with the EU are by no means homogeneous, but they nevertheless have some points in common, including the fact that the financial systems are all centred on banks, the currency environment is becoming more and more stable, and services are taking on an increasingly important role in most of the countries. Another characteristic of the subregion is its strong orientation to the EU, whilst intra-regional trade remains modest.

Enhanced integration rests on the creation of a conductive environment, and this can be achieved through a set of factors:

(i) Opening-up and competitiveness in the economic sphere

The imperatives for North African countries clearly revolve around equipping themselves to foster their economic growth through enhanced competitiveness. The economies, which for a long time have been shielded from competition, now face an entirely new context, and the imperatives relate to improving resource allocation, diversifying the factors of production, fostering communication technologies and developing the transport infrastructure. Progress in these areas can provide a stimulus to productivity in a global context on a basis of competitiveness and an ability to respond rapidly to demand fluctuations.

The pull factor of the work force in the subregion constitutes one of the determinants of competitiveness. In that regard, North African countries will need to put in place a uniform descriptive paradigm across the subregion, and one that is adapted to that of its partners. Structural rigidities in terms of the skills mix constitute an unfavourable factor to achieving full integration of the subregion's economies within the EU sphere.

Tying the subregion's various currencies to the euro has been mooted as a possible means by which North Africa can benefit from the positive impacts of the single currency. Defining a mechanism for parity of the subregion's currencies by reference to a basket of currencies substantially made up of European currencies would enable them to shield their trade from currency fluctuations.

In general terms, linkage of North African countries to the euro offers some advantages (Jaidi L., 2000), and in particular:
enhanced stability of export revenues and supply-side costs;
expanded geographical diversification of trade relations with Europe;
more favourable conditions of attractiveness to European FDI, to the extent that direct foreign-exchange convertibility is maintained. Achieving such a scenario presupposes harmonization of the economic policies pursued by the various countries of the subregion, coupled with the gradual establishment of consultative mechanisms and mechanisms for incentives that would provide favourable conditions for currency and exchange-rate stability.

(ii) The key role of education and training

There is a close correlation between economic growth and the level of education. This is a concept that has always exercised the attention of educational economists, who have indeed set it up as a factor of production in its own right. More recently, proponents of endogenous growth have treated the accumulation of human capital as one of the pillars of their model and have dealt with various aspects of the role of human capital in growth.

A cursory overview of the profile of the education systems in North African countries reveals a number of elements of inappropriateness to actual needs. Being essentially adapted to a socio-political context that was designed to meet the needs of the State, the system of education has not been able to respond to population pressure and to societal transformations. On the positive side, there has been a noticeable improvement in the average enrolment rates for each of the countries of the subregion, and particularly at the primary and secondary levels (ECA/SRO – NA, 2005). On the other hand, there are inadequacies in regard, for instance, to illiteracy rates in some cases, which are still among the highest in the world (Améziane et al, 2000) as well as some degree of deterioration in the quality of education whereby the young people trained are ill prepared for rapid integration into the labour market.

North African countries have mostly embarked on efforts to develop the science disciplines. However, striking a balance between education-and-training on the one hand and productivity on the other has proved quite problematic. Consequently, the countries of the subregion are still not able to provide the kind of training in science-and-technology skills that can stimulate innovativeness and technological progress and so facilitate structural transformation. European countries, which have an interesting experience in terms of striking a balance between science and technology for industry and creating synergies between research activities and production activities, can make a valuable contribution. The integration agreements with the EU will, as a bridge for the transfer of knowledge and experience, enable North African countries to move faster and more smoothly towards scientific and technological progress which is necessary for structural transformation.

(iii) R & D and technological property legislation

The SMEs across the subregion, which constitute a key segment of the industrial sector, are not fully converted to research and do not have a high level of innovativeness. They are mostly processing units of modest size, understaffed and undercapitalized, with a family-type management structure. There is a noticeable lack of interactive linkages between the universities and industry, with the result that the potential for technical assistance and appropriate technology available in the higher-education establishments are only partially utilized in the economic sphere. Consequently, the industrial sector still imports a large proportion of its investment consulting and engineering services, which accounts for a sizeable portion of GDP.

It is now recognized that imported technology cannot facilitate a country's economic growth. Institutions, intellectual property, industrial and technological legislation (trade marks and patents, quality standards, and monitoring of technological developments) as well as financial incentives have a key role to play in stimulating innovation and technology-transfer mechanisms, not to mention the approach whereby firms themselves manage research-and-development programmes.

The public sector can act as a catalyst through appropriate policies, and can put in place a propitious environment for wealth creation. For such an environment to come about, the public sector will need to take an active part in improving competitiveness in the industrial sector and provide more assistance to research laboratories and to the enterprises in order to give them access to the latest technological advances and so position themselves competitively in the global context.

2. Other regions

- West Africa

A number of cooperation initiatives and agreements are jointly being pursued by economic operators in North and West Africa with a view to making a breakthrough in the regional integration process. Three types of arrangements can be cited in that regard.

The first relates to energy and infrastructure projects with a large component of the scale economies. The second genre of arrangements consists in the organization of economic forums and promotional missions as well as participation in international trade fairs and business events at the regional level and continent-wide. The third type consists in the establishment of economic partnerships, which have been formed in particular with UEMOA. These are apt to lead to the emergence of high-value-added, economically-structuring regional blocs in a new context of south-south cooperation and partnership.

Tunisia for example, embarked on negotiations with UEMOA countries in 2000 towards signing a preferential trade agreement which would make it possible for Tunisian goods and those of the UEMOA countries to benefit from a 50 per cent reduction in customs duties. Similarly, Morocco embarked on negotiations with UEMOA in 2002 towards a trade and investment agreement.

<u>UEMOA – Morocco cooperation mechanisms</u>

The government of Morocco is progressively working towards enhanced cooperation with West African countries, and in particular, the West African Economic and Monetary Union (UEMOA). This cooperation reached a decisive stage with the holding last January of the first trade and business partnership forum in Dakar, Senegal, between Morocco and the eight UEMOA member States. The forum, which was attended by a high-level delegation representing Moroccan institutions and business establishments led by the Moroccan Prime Minister, considered a number of questions in various areas including trade and investment, financial services, transport and infrastructure, and the development of the cotton, energy and biofuel sectors. These proceedings should provide a basis for the signing of a free-trade agreement. Specifically, this is the trade and investment agreement between Morocco and UEMOA, which was drafted in 2002 in Rabat. What Morocco proposes on this occasion is free customs access for industrial commodities from the UEMOA countries with effect from the entry into force of the agreement, against gradual reduction of customs duties and taxes to the same effect from Moroccan industrial products, leading to a “0%” rate by the end of a period of time to be agreed upon. Agricultural products from UEMOA countries will have a 50 per cent reduction by reference to the Moroccan rates. In regard to energy and biofuel, the forum dwelt on ways of realizing various cooperation perspectives in refineries, distribution of petroleum products and rural electrification. Subsaharan African countries also see cooperation with Morocco as a way of addressing the maritime-transport crisis which is seriously impeding trade into and within the continent.

The occasion also doubled up as a meeting of the Morocco-Senegal Business Forum (established in 2002), held jointly by the Moroccan confederation of business associations (CGEM) and the Senegalese employers’ federation (CNP). The forum mainly dwelt on (i) strengthening business opportunities between Senegal and Morocco; (ii) prospects for joint ventures; and (iii) prospects for cooperation in a number of areas, including trade, energy, and infrastructure.

Other countries of subregion, and particularly Algeria and Libya, have also been active in West Africa, and all these initiatives should lead to an enhanced North African private-sector presence in African markets, which provides huge opportunities.

- <u>Asia</u>

The Asian continent, and in particular India and China, provide another promising axis of cooperation, particularly in areas such as agriculture, construction of infrastructure and human resources development. In addition, the large Chinese and Indian markets offer tremendous potentialities in terms of exports from North Africa.

The countries of the subregion are poised to take advantage of the new strategic partnership between China and Africa towards establishing and deepening mutually beneficial cooperation arrangements aimed at encouraging and reinforcing trade and investment linkages. Such partnership also aims at exploring new modes of cooperation with particular attention being given to cooperation in the areas of agriculture, infrastructure, industry, fishing, information technology, public health and skills development, through enhanced complementarity based on their respective assets.

- Latin America

It is equally important to remain attentive to the ongoing initiatives between Africa and South American countries, as evidenced by the first Africa-South America Summit of Heads of State and Government which was held in Nigeria, at the end of 2006. The South-South Development Bank which establishment was recommended in principle, can, once materialized, contribute to the reinforcement of the links between African and Latino-American countries.

The Summit adopted by acclamation three documents on cooperation and partnership between the two regions. The first document is a resolution on a cooperation forum between Africa and South America engaging Heads of State and Government to cooperate in the multilateral fora, in particular in the framework of the ongoing reforms within the United Nations System, and multilateral trade negotiations in the World Trade Organization (WTO). The second document is an Abuja Declaration and the third one, an action plan for the implementation of the Summit's recommendations.

3. The regional integration observatory

The regional integration observatory which is in the formative stages at the level of the North Africa Subregional Office of ECA, is a regional integration monitoring mechanism. It will serve as an interactive window between the SRO and its partners with a view to enhanced networking between the major development and integration actors at the regional level and globally.

In line with the mandate of ECA, which is the United Nations' regional executive body in Africa, a key mission of the SRO is to encourage and foster the economic integration of North African countries.

In order to effectively carry out its mandate, the SRO has deemed it appropriate to focus on a limited number of areas that are of vital importance for the subregion, and in respect of which it would have comparative advantages not only for responding to the needs of its member States, but also for supporting the ad hoc interventions of its partners.

This is the context in which a Regional Integration Observatory in North Africa (RIO) has been decided upon after consultations among member States, to highlight the progress which has been achieved in this area (and particularly the trade dimension) in order to encourage and foster the integration process and facilitate its monitoring.

A tool for monitoring regional integration

The Regional Integration Observatory, a platform for knowledge and interaction, will have the following main tasks:

Follow up and continuously assess the integration process in North Africa as well as the progress made in the realization of the Millennium Development Goals (MDGs) and the NEPAD Programme;

Serve as a platform for knowledge and exchange, and as the interactive window for partners and integration stakeholders at the regional level and globally, and for common practices in priority areas;

Facilitate information dissemination on the activities of the SRO, its publications, and thematic or sectoral studies and, as well as on research conducted every year of economic and social development;

Address the chronic lack of statistical data by developing and regularly updating a database on the main indicators of socio-economic development.

Conclusion

Regardless of the particular linkages they may opt for, the countries of the subregion will have to more resolutely proceed on the path to regional integration and put in place all the necessary conditions for its realization, in a context of globalization that is becoming more palpable. The formation of a greater North African market would support a new set of relationships and give more ample impetus to the world economy in general, but starting with the nearer markets in Europe, Africa and the Arab world as a whole. Achieving regional integration will largely depend both on the ability of individual countries, through a set of reforms necessary for a balanced and contextualized paradigm of enhanced trade liberalization, and on the convergence, rationalization and harmonization of their policies. The countries of the subregion must, in a context of political will, take care to consolidate their trade relations and strategic interests as well as conferring more credibility to the reforms they have embarked on, which will help portray a more positive image of the foreign investment community locally.

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