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## Maghreb Integration and the Four-Sided Development Squeeze

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### Article at a glance

- As a region, the Maghreb is facing challenges posed by:
  - demographic pressure
  - human development deficits
  - climate change
  - global competitiveness
- Regional integration would allow Maghreb states to share both their burdens and competitive advantages in governance reform and economic development.
- Maghreb leaders must commit to meaningful cooperation and put the interests of the region above their own.

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## Introduction

As the price of oil crossed the century mark, a debate was brewing about the effects of bloated hydrocarbon revenues on incentives for structural reforms in the Middle East and North Africa (MENA). MENA conformists point to large public works projects in the region as evidence for modernization and development. Reformists warn that hydrocarbon revenues are artificially masking the region's serious institutional deficits and giving a second lease on life to authoritarian governance and state planning.

While fluctuations in the oil market can provide a good correlative basis for political prognostics in MENA's eastern countries, the same association is less certain for those to the west, a region known as the Maghreb. Traveling westbound from Libya to Morocco, the modern political story of the Maghreb is as complex as it is mixed. With two distinct economic models – resource-rich (Libya and Algeria) and service-based (Morocco and Tunisia) – and a range of political systems spanning from a constitutional monarchy to a military regime, analysis of the region's fitness calls for nuanced diagnostics.

Despite this diversity, the Maghreb's development performance has been uniformly disappointing. In spite of its geographic advantage and natural fortunes, the region has uniformly failed at political development in its post-colonial history. Yet, the Maghreb can still emerge from its current condition to realize the aspirations of its people. The region can begin a full trajectory toward sustainable and meaningful development when its national leaders finally embrace the fundamental truths of globalization.

In 1989, when the Velvet Revolution and the Solidarity movement ended communist rule in Czechoslovakia and Poland, one could hardly find a citizen of the Maghreb who would consider a move to those two countries in search of economic opportunity. At that time, the Maghreb was exporting exotic fruits while hyperinflation was turning a basic omelet into a food delicacy in Poland. Today, the GDP of Poland exceeds the GDP of all Maghreb countries combined.

Based on purchasing power parity (PPP), a modern-day Czech is nearly four times better off than an average citizen of the Maghreb.<sup>1</sup>

To be sure, Maghreb countries have implemented promising reforms in the past decade, albeit with various degrees of competence, depth, and seriousness. These countries also appeared to seize the moment as the Berlin Wall came crashing down to announce the resurrection of a post-colonial project that had lain in hibernation for more than 30 years: the Arab Maghreb Union (AMU). Unfortunately, the AMU turned out to be no more than a regional fantasy.

Had Maghreb integration been implemented in a manner even halfway analogous to the EU, we could now be writing about a politician in Algiers campaigning for the full political integration of the AMU, about a local entrepreneur in Casablanca inventing just-in-time skill-matching technology for an AMU business entity, or a university professor in Tunis researching a tailored play on Game Theory<sup>2</sup> to optimize common funding schemes for development programs across the union.

Instead, since the short-lived promises of the 1989 AMU announcement, Maghreb countries have hobbled along on a do-it-alone track with mixed results and limited progress. Morocco has made good progress on political reform and infrastructure development, but continues to suffer from an acute human development deficit. Tunisia has had the most impressive economic performance in the region, but continues to falter on political reforms and human rights. Algeria has secured a strong external position due to enlarged receipts from hydrocarbons, but continues to operate a state-dominated economy riddled with corruption. Libya is finally emerging from the status of international pariah and has a long way to go in order to bring its institutions to standards conducive to meaningful development.

A cross-country comparison within the region shows that Morocco and Tunisia have a sizeable advantage over their oil-rich neighbors (Algeria and Libya) on private sector development and economic freedom. Still, the entire region lags behind other

emerging economies on a number of key economic, social, and political indicators, including per capita GDP, the Index of Economic Freedom,<sup>3</sup> and the Human Development Index (HDI).

In the face of these enormous challenges, can Maghreb countries afford not to integrate?

## Why Regional Integration Is Essential to Development in the Maghreb

More than ever, the Maghreb needs to anchor its development strategy in a cohesive union if it is to overcome its past and move confidently into the future. The Maghreb is squeezed inside a four-sided vice – demographic pressure, human development deficits, climate change, and global competitiveness – too great to be overcome with do-it-alone reforms. This squeeze is exacerbated by a lack of democratic institutions, which remains a principal impediment to regional integration.

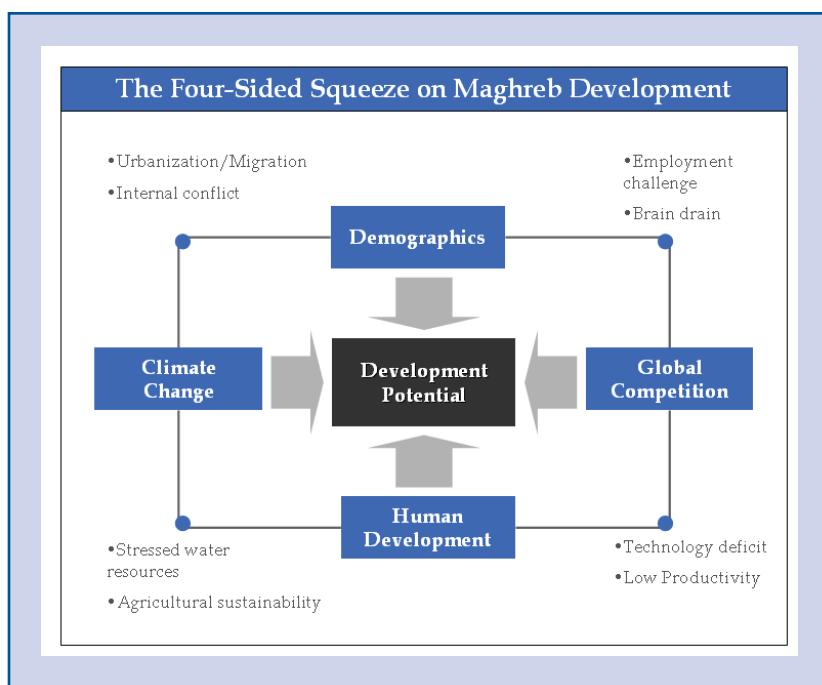
### Demographics

The Maghreb is home to a population of 81 million, the median age of which is 24 and a third of which is under the age of 15.<sup>4</sup> Future stability will ride on how well demographic pressures are handled within the region's economy and institutions. A key metric for this challenge is job creation. The region must create 20 to 25 million new jobs by 2020 just to keep up with population growth<sup>5</sup> – compounded by local labor market rigidity and tough global competition.

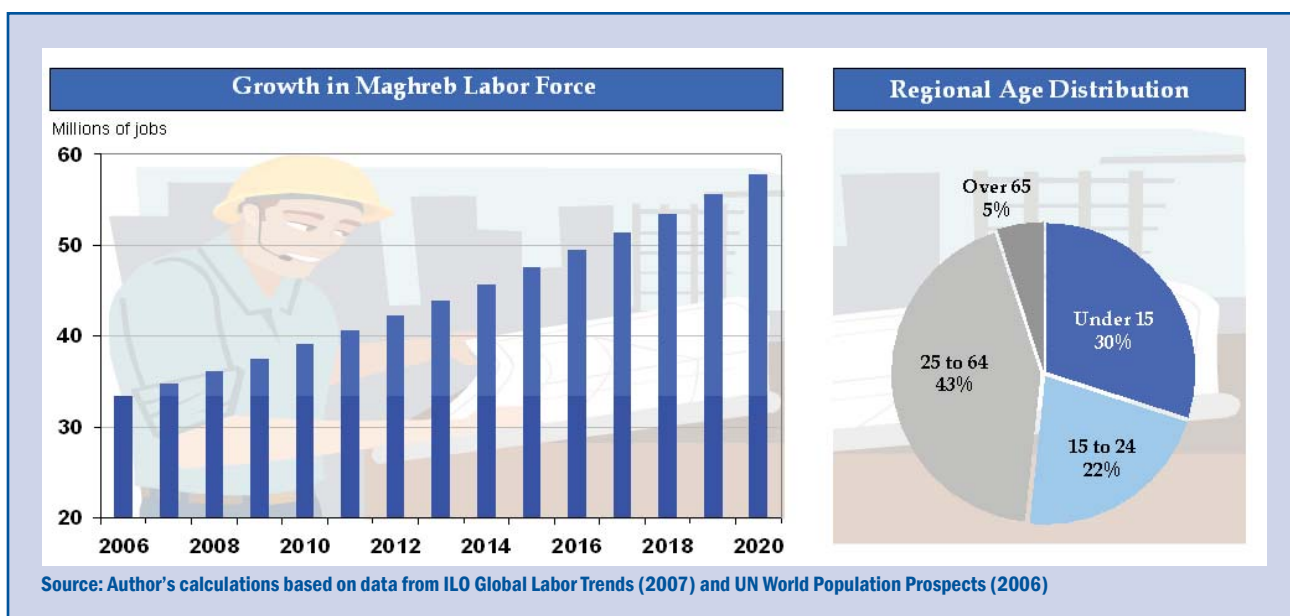
Data from both the United Nations Development Program (UNDP) and the International Monetary Fund (IMF) put the aggregate unemployment rate for the region at about 16 percent. These official estimates usually include temporary employment and often overestimate employment among women in rural farming. In fact, the 2007 Global Labor Trends published by the International Labour Organization (ILO) show the region to have the lowest labor force participation rates in the world. Local labor surveys<sup>6</sup>

report even higher rates of unemployment (25-30 percent), particularly among urban women and young college graduates.

Urban unemployment is particularly problematic for the region because two thirds of the Maghreb's population now resides in and around cities. The region has undergone a transformation in the last three decades, with internal migratory flows reversing the population dynamics of the region to become primarily urban rather than rural. This internal migration has been precipitated by the drought that ravaged the agricultural sector during most of the 1990s. The drought pushed high numbers of low-skilled and often unschooled job-seekers to cities and their periphery.



This migration pattern has created large concentrations of poor, disenfranchised, urban youth, often leading to informal sector activity and illegal immigration to the Euro zone – a situation that poses a risk to internal stability and international security. Furthermore, poor economic performance in burdened social structures creates a strong incentive for young graduates and professionals to seek economic opportunities elsewhere, creating a brain drain that limits the region's development prospects. Worker remittances cannot compensate for the losses in investment and economic activity due to poor total factor productivity and employment absorption.



Regional integration would create the market dynamics and economies of scale for a more effective absorption of the total labor force. The youthfulness and urbanization of the Maghreb's population can either be leveraged as a unique opportunity or suffered as a major liability, the consequences of which would extend to neighboring Europe and the world at large.

### Human Development Deficits

The region's human development deficit threatens to tip this liability scenario in the wrong direction. According to the UNDP,<sup>7</sup> approximately 40 percent of the region's adult population is illiterate, and nearly a third of the young urban population is unemployed. This problem is particularly acute in Morocco and Mauritania, where nearly half the population is illiterate.<sup>8</sup>

Furthermore, the region suffers from a real deficit in the institutional quality of its education system and in technology creation and diffusion. The highest-ranked Maghreb university (in terms of international awards, research publications, journal articles, etc.), Morocco's Cadi Ayyad University, is ranked 3,951 in the world behind 41 other universities in MENA. In the 2003 International Mathematics and Science Study, fourth- and eighth-graders in Morocco scored well below the international average in both mathematics and science. In fact, the 95th percentile of performance

for Morocco on both topics barely matched the fifth percentile of performance for Estonia and Latvia.<sup>9</sup>

Despite the measurable progress that has been made by the region on health and human services since the 1960s, human development deficits remain a major impediment to Maghreb development. In 2006, Morocco launched a national initiative for human development under the personal oversight of the King, and Algeria is investing some of its surplus hydrocarbon revenues in human development initiatives. While these efforts are laudable, a cohesive regional program within a common economic development strategy for the whole of the Maghreb is the best possible chance these countries have to overcome the negligence of the past.

Synergizing regional resources and matching skill development to real opportunities within the frameworks of regional specialization and global competitiveness is the best way to overcome these human development deficits. This is particularly urgent as climate change threatens the long-term productivity of one of the most labor-intensive sectors of the Maghreb economy.

### Climate Change

The Maghreb relies on agriculture for a large portion of its employment. This is particularly the

case in Morocco, where 45 percent of the workforce is employed in agriculture.<sup>10</sup> Adverse weather conditions have led to low agricultural output, reducing opportunities for employment and growth. Drought in Morocco reduced the GDP growth rate by four percentage points, despite pick-ups in the non-agricultural sectors of the economy.

The region already records temperatures above what is considered to be optimal levels for agriculture.<sup>11</sup> Worse, the Intergovernmental Panel on Climate Change estimates that annual average temperatures in the region will rise by more than five degrees before 2100, with the implication being a median reduction in agricultural output of over 30 percent, according to a recent study conducted by the Peterson Institute for International Economics. This study also points out that despite the severity of those estimates, productivity losses could be even greater than predicted if compounded by the insect pests, severe drought, and water scarcity likely to accompany climate change.<sup>12</sup>

Furthermore, agriculture in the Maghreb suffers from a large productivity gap in comparison to the Euro zone. Agricultural output per worker in Spain, for example, is 10 times higher than in the Maghreb. This is due to the Maghreb's slow adoption of technology, stressed underground water resources, soil erosion, and lagging infrastructure.<sup>13</sup>

Climate change is not the only force working against development in the Maghreb; changing social dynamics and weak productive capacity are compelling the region to restructure its economy in order to play a more meaningful role in global markets.

### Global Competitiveness

If the region's agricultural sector is constrained and its social structures increasingly urbanized, then the key to meaningful economic development must lie in the creation of competitive capacity for indigenous industry. Yet, excluding hydrocarbons, the region remains a net importer of goods and services. Its combined share of world trade, including hydrocarbons, is only equal to that of the Czech Republic, and less than 3 percent of its total exports

are in high technology.<sup>14</sup> Algeria, for example, would essentially be bankrupt if not for hydrocarbons, which account for 98 percent of its exports. If not for worker remittances, Morocco would consistently have current account deficits on top of an economy that is constrained by low productivity and high susceptibility to externality.

A glaring statistical illustration of the region's non-competitive posture is its negative total factor productivity (TFP)<sup>15</sup> and its negative growth in output per worker in the past decade.<sup>16</sup> Encompassing technology growth and efficiency, TFP is a good measure of economic growth. Low TFP performance reveals how human development deficits, labor market rigidity, and autocratic governance have conspired to restrain creativity, innovation, and entrepreneurship in the Maghreb.

The economic woes of the region lie beyond its lack of trade liberalization. Morocco, for instance, has successfully concluded a trade association agreement with the EU and a free trade agreement with the U.S.<sup>17</sup> Nonetheless, indigenous industries, such as textiles, are struggling under trade liberalization because they simply cannot compete with other emerging economies on the basis of either labor productivity or technology.

The real challenge here is creating capacity for competitive exports that match demand in the global market. In an inter-connected high-tech world, a meager rating in technology creation and diffusion, coupled with mediocre cultivation of engineering talent, is a sure pass to the gallows of globalization. Every emerging economy in the past few decades – from Japan to current-day China – has led its growth with exports by emphasizing innovation and productivity in manufacturing. India is the one exception, choosing instead to grow through exports of global high-tech services.

Regional integration could lend itself to the realization of a hybrid export-growth strategy that (a) places strategic investments in the service-based economies (Morocco and Tunisia) to promote global high-tech services and (b) leverages energy resources to promote globally-competitive manufacturing in

the rest of the region. Integration would create market incentives for intraregional trade complementarity, which the Maghreb lacks. It would provide a basis for mapping skill development to employment creation. Integration could also result in economic diversification to mitigate the risk of Dutch disease for the region's resource-rich countries. In fact, an empirical study conducted by the World Bank's Social and Economic Development Group in 2006 found that the Maghreb could, in comparison to status quo trends, increase its per capita real GDP by an additional 50 percent by 2015 through deeper integration and reform.<sup>18</sup>

## What Stands in the Way of Genuine Maghreb Integration?

### Territorial Disputes

The possibilities of a Maghreb union are real, but so are its divisions. For over three decades, Morocco and Algeria have engaged in a low-intensity conflict over the territory known as Western Sahara. This marks a fundamental contradiction between the expressed intent of the Maghreb states to achieve integration and the region's tendency toward the politics of division. The territorial conflict between these two countries – together accounting for over 80 percent of the region's population and 70 percent of its economic activity – will continue to effectively arrest any serious effort towards a comprehensive union.

A fundamental cause of the region's internal conflicts is a collective preference for nationalist ideals over a globalist imagination. State leaders must convince their populations that the region is bound by common values and a common destiny, and that only integration can give the Maghreb a fighting chance on global markets.

There is currently an opening in the dispute between Morocco and Algeria that can be incorporated into the framework of a Maghreb Union: Morocco has put forth a proposal to grant autonomy (under Moroccan sovereignty) to the disputed territories. If Maghreb states look seriously towards a comprehensive union, then the issue of sovereignty will ultimately be one that is cast in terms of the union. This proposal

appears to be compatible with a long-term vision of a Maghreb union of decentralized structures.

### Governance and Corruption

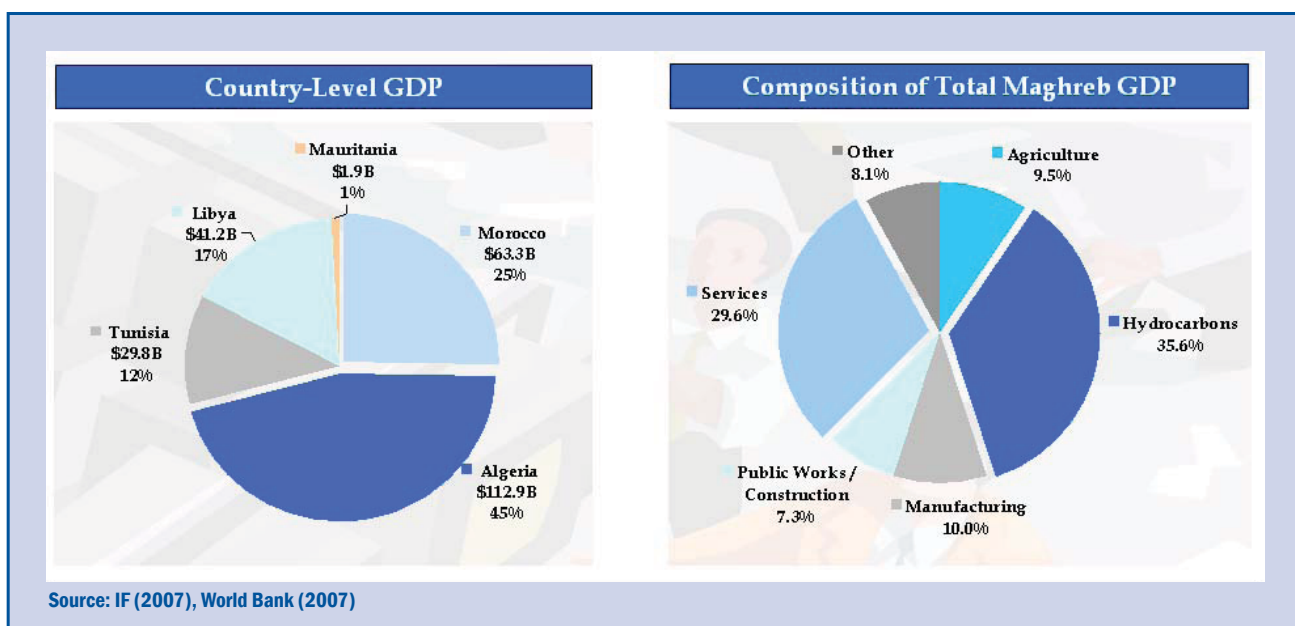
Democratic societies are able to resolve internal conflicts through transparent dialogue and accountable decision-making. The lack of democratic institutions in the Maghreb region entrenches the causes of conflict and discourages the kind of political imagination required to form a union. According to the U.S.-based Freedom House, Morocco is the only country in the region to achieve a rating of 'partially free,' with all others rated as 'not free.' One major casualty of authoritarian rule is the degradation over time of an important lever of both democratic governance and market capitalism: trust.

The Maghreb also scores significantly below average on the Corruption Perception Index published by Transparency International. Corruption has unfortunately become an instrument of governance in the Maghreb. The dominant position of the state, its closed decision-making structures, and autocratic style has institutionalized corrupt practices, particularly within the public sector. Through the concerted efforts of civil society and with the help of new technology,<sup>19</sup> corruption can be abated and eventually eliminated. The Moroccan Government, for example, has recently taken disciplinary action against police officers who were exposed on YouTube® collecting bribes from passing vehicles.

The prevalence of authoritarianism and corruption will continue to reduce the space available for Maghreb states to conclude a comprehensive agreement for a regional union. The idea of a Maghreb union will be relegated to marginal negotiations so long that democratic governance continues to evade the region. For a union to be possible, national governments must cede power and shed their nationalist cloaks in the interest of regional cooperation.

### Political Culture

The intellectual impetus that shaped the contours of the modern states of the Maghreb was



largely borrowed from the traditions of European socialism. Following independence, local political forces sold authoritarian welfare institutions to their constituencies by packaging the revolutionary notions of economic populism with the moral tenants of Islamic jurisprudence.

The presumptions of private property and private transaction that are fundamental to free markets are ingrained in both the historical practice and theological doctrine of the Maghreb. Modern institutions, however, have rooted the region's political culture in a popular dependence on the state for employment and welfare – the direct result of post-colonial failures in local governance. Morocco, for example, has recently traversed a difficult process to downsize its civil service workforce, setting off a national debate that highlighted the extent of the region's reliance on state entitlements.

It is disappointing that the Maghreb is still largely dominated by state controls when state planning has clearly been discounted. In Algeria, the government remains the largest source of employment. Resistance to market reforms in that country continues to ride on false premises.

The region cannot possibly succeed in forming an effective union around bloated government structures and rigid state controls. The success of the EU, for

example, is based on the freedom and preponderance of its private sector and on the transparent and democratic nature of its decision-making institutions. A Maghreb union that succeeds in promoting meaningful development will be one that empowers individual creativity and initiative, and one that restrains the region's tendency toward state control.

## Conclusion

The region must maximize its ability to produce meaningful development for its citizens in the face of demographic pressures and global climate change. These challenges cannot be met by Maghreb countries through do-it-alone reforms; they require a concerted regional effort over an extended period of time. Failure to aggressively meet these challenges will result in a huge liability for the region, its neighbors, and beyond.

The Maghreb can synergize its economies, synchronize its trade regimes, and optimize its resources to create an export-led development strategy in both services and industry. The region can, for example, invest in strategic human and infrastructure development programs to absorb the economic capacity that Europe cannot accommodate due to congestion or environmental concerns. The transportation industry and high-tech medical care for Europe's aging population are prime opportunities. The region should

invest current hydrocarbon revenues in global research on environmental sustainability, biotechnology, water management technologies, and renewable energy.

The Maghreb cannot afford another 15 years of self-exclusion from full integration with the global economy. Furthermore, each Maghreb country has much to gain from a regional union. On one hand, the resource-rich countries (Algeria and Libya) would gain from a diversified regional economy that mitigates the risk of Dutch disease and delivers access to the free trade agreements that the service-based economies (Morocco and Tunisia) have concluded. Countries with service-based economies would in turn benefit from economies of scale of expanded market access, by which they might leverage the strong external position of their neighbors to spur investment and strengthen local competitiveness.

To be sure, a union would not deliver instantaneous prosperity to the people of the Maghreb. There are serious deficits in intraregional trade (e.g., lack of trade complementarity) and investment pull (e.g., institutionalized corruption) that will require a bold and courageous reform strategy. To put it simply, the region needs to leverage all of its regional capacity in order to execute the deep reforms that are required for its sustainability before any meaningful development can take place.

However, for a genuine Maghreb union to even be possible, the territorial dispute between Morocco and Algeria must be resolved in the spirit of integration. The region's national leaders must embrace a new approach to governance and they must implement meaningful market and democratic reforms. While there has been some recent movement to revive the Arab Maghreb Union, for the region to move beyond marginal negotiations, there must be a strong political commitment by national leaders to put the interests of the union above their own.

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## Notes

<sup>1</sup> Data from the IMF World Economic Outlook 2007: per capita GDP PPP: Czech Republic = \$25,346; Poland = \$16,599; Maghreb = \$6,547. GDP: Poland = \$341 billion; Maghreb (includes hydrocarbons) = \$254 billion

<sup>2</sup> Game theory is a branch of applied mathematics often used in economics. In 1994, the Nobel Prize was awarded to three game theorists, including John Nash.

<sup>3</sup> An index published annually by the U.S.-based Heritage Foundation and the Wall Street Journal. Tunisia is the only Maghreb country on this index to be 'moderately free.'

<sup>4</sup> Population data derived from UN World Population Database: 2006 Revision. These data were verified against World Bank data.

<sup>5</sup> Labor force data from the International Labour Organization (ILO). The active labor force in the Maghreb is estimated at 33.4 million. The IMF and World Bank estimate that the Maghreb needs 4 percent net employment growth to absorb its growing workforce.

<sup>6</sup> Achy, 2002.

<sup>7</sup> Data derived from Human Development Report (2006) and Arab Human Development Report (2004). Regional unemployment rate derived from individual country rates applied to active labor force.

<sup>8</sup> Data derived from the 2006 UNDP Human Development Report. Illiteracy rates in Tunisia and Algeria are 25.7 percent and 30.1 percent, respectively.

<sup>9</sup> Boston College, 2003.

<sup>10</sup> World Bank, 2007.

<sup>11</sup> Mendelsohn, 2000.

<sup>12</sup> Cline, 2007.

<sup>13</sup> World Bank, 2007.

<sup>14</sup> World Bank, 2007.

<sup>15</sup> Tunisia is the only Maghreb country showing positive, [low] TFP growth in the past 10 years.

<sup>16</sup> Noland and Pack, 2007

<sup>17</sup> Algeria and Tunisia have also concluded association agreements with the EU, but Morocco's free trade agreement with the U.S. is the only one in the region.

<sup>18</sup> World Bank, 2006.

<sup>19</sup> Local activists and NGOs increasingly use portable media devices and web services such as YouTube® to expose corruption among security forces and public service employees.

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