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# Maghreb Regional Integration

CLAIRE BRUNEL

Many attempts have been made at regional integration in the Maghreb, but unfortunately, most have stalled. Table 3.1 gives a timeline of trade agreements and commitments for the five Maghreb nations. Figure 3.1 shows the regional agreements that the five Maghreb nations have signed: the Arab Maghreb Union (AMU), Greater Arab Free Trade Area (GAFTA), Euro-Mediterranean (Euro-Med) Partnership, Agadir Agreement, Community of Sahel-Saharan States (CEN-SAD), and Common Market for Eastern and Southern Africa (COMESA).

## Arab Maghreb Union

Established in 1989, the AMU is the only regional initiative that includes all five Maghreb countries. It originally aimed to strengthen economic cooperation and achieve regional economic integration while respecting each country's political, economic, and social interests. Member countries also aspired to reach a common stance in foreign affairs and national defense. A customs union was planned for 1995, and eventually an economic common market in 2000. Neither goal was accomplished, even in part. As AMU decisions are reserved for the annual meetings of its heads of state, two obstacles explain the AMU's failure to achieve meaningful progress. First, all decisions must be unanimously agreed upon and implemented. Second, political tensions among members halted the meetings in 1994.

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*Claire Brunel is a research assistant at the Peterson Institute for International Economics.*

**Table 3.1 Trade agreements and commitments of the five Maghreb nations**

Agreement/commitment	Algeria	Libya	Mauritania	Morocco	Tunisia
World Trade Organization membership	Applied in June 1987; in final phase of negotiations	Applied in June 2004; working group created in July 2004	Member since May 1995	Member since January 1995	Member since March 1995
Arab Maghreb Union <sup>a</sup>	Member since 1989	Member since 1989	Member since 1989	Member since 1989	Member since 1989
GAFTA <sup>b</sup>		Member since 1997		Member since 1997	Member since 1997
Agadir Agreement <sup>c</sup>				Signed in 2004	Signed in 2004
CEN-SAD <sup>d</sup>		Member since 1998		Member since 2001	Member since 2001
COMESA <sup>e</sup>		Member since 2005			
Euro-Med Partnership <sup>f</sup>	Association Agreement signed in April 2002 and entered into effect in September 2005; free trade area planned for 2017	Has observer status in the Euro-Med process since 1999	“Special guest” at foreign ministers’ meetings	Association Agreement signed in February 1996 and entered into effect in March 2000; free trade area planned for 2012	Member of the Euro-Med Free Trade Area for manufactured goods since January 1, 2008
Free trade agreement with the United States				Signed in March 2004 and entered into effect in January 2006	

a. The Arab Maghreb Union was signed in February 1989 between Algeria, Libya, Mauritania, Morocco, and Tunisia.

b. The Greater Arab Free Trade Area (GAFTA) was signed in 1997, and the area launched in 2005; current members are Jordan, Bahrain, United Arab Emirates, Tunisia, Saudi Arabia, Syria, Iraq, Oman, Qatar, Kuwait, Lebanon, Libya, Egypt, Morocco, Sudan, Yemen, and Palestine.

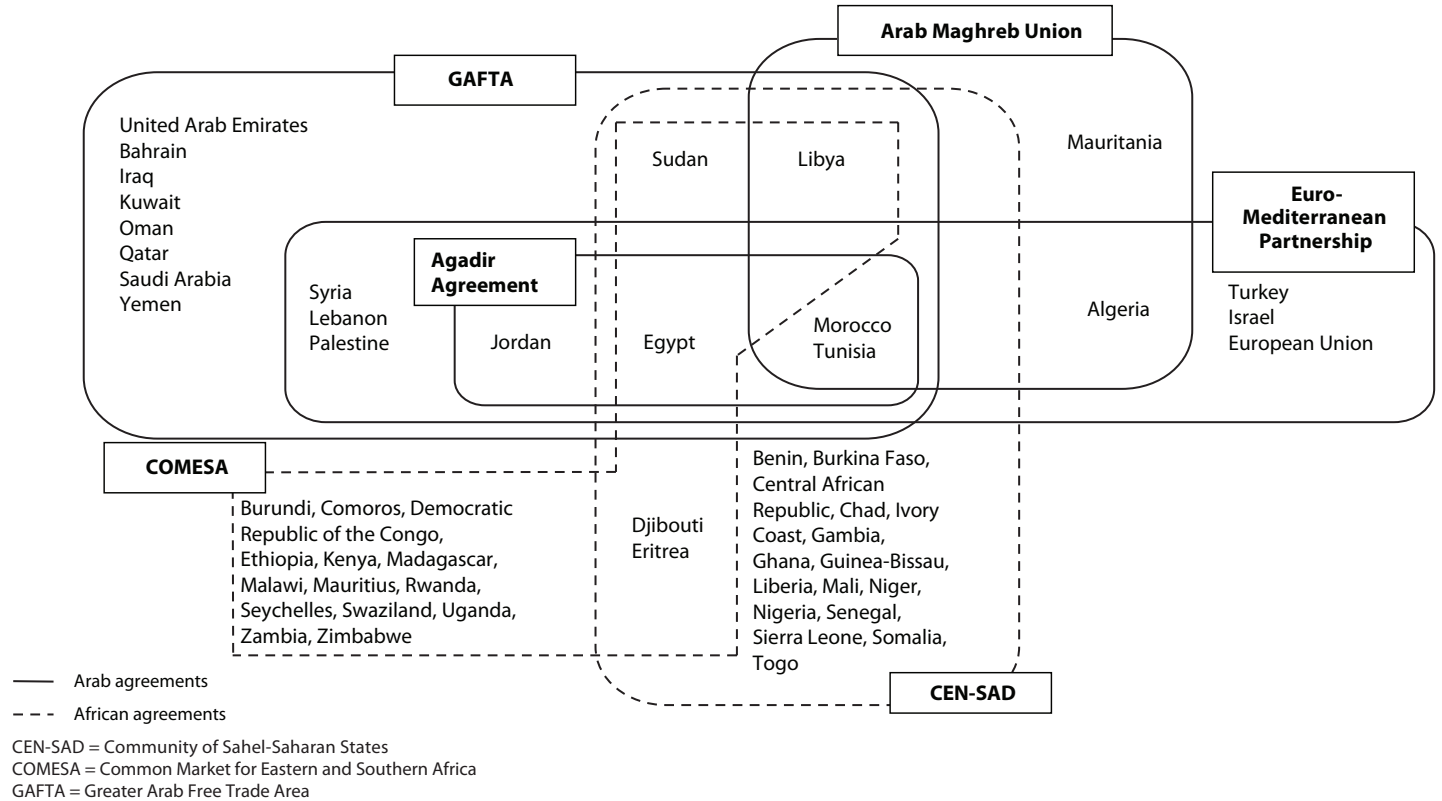
c. Signed in February 2004 between Morocco, Tunisia, Egypt, and Jordan, the agreement is considered a first step toward a Euro-Mediterranean Free Trade Area.

d. The Community of Sahel-Saharan States (CEN-SAD) was established in 1998; current members are Benin, Burkina Faso, Central African Republic, Chad, Ivory Coast, Djibouti, Egypt, Eritrea, Gambia, Ghana, Guinea Bissau, Liberia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo, and Tunisia.

e. The Common Market of Eastern and Southern Africa (COMESA) was established in December 1994; current members are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

f. Partnership between the European Union and 10 Mediterranean countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia, and Turkey. The partnership consists of association agreements at the bilateral level and of cooperation in the political, economic, and cultural fields at the regional level. Ultimately, the goal is to achieve a free trade area.

**Figure 3.1 Regional trading agreements of Maghreb countries**



The Western Sahara dispute between Algeria and Morocco is a key stumbling block. Since Spain withdrew its forces from the resource-rich region in 1975, control of the area has been claimed both by Morocco, on the basis of historic and cultural ties, and by the Polisario Front, a local independence movement supported by Algeria. Algeria's interest in Western Sahara is sparked by aspirations of a land route to the Atlantic and developing oil or gas reserves that might lie under the Saharan sands or offshore. Morocco simply wants to cement its historic claim to the area. The parties' failure to reach an agreement at UN-brokered talks led to the closing of the Algeria-Morocco border in 1994.<sup>1</sup> The border closing is particularly harmful for the region, as the combined population of the two countries represents 77 percent of the AMU total and the countries' combined GDP covers 66 percent of the AMU total. Morocco proposed a compromise on the territory in April 2007, calling for broad autonomy under Moroccan sovereignty, and encouraged the United Nations to launch a new round of negotiations to settle the conflict politically. After four rounds of talks resulted in a stalemate, the most recent UN Security Council report called for "realism" in reaching a solution.<sup>2</sup>

Political tensions hamper commercial relations between other AMU members as well. In 1992, the UN Security Council imposed an air and arms embargo on Libya to pressure Tripoli into delivering two suspects in the bombing of Pan Am Flight 103 in 1988. The other four AMU members decided to implement the Security Council resolution, leading Libya to boycott the AMU. Mauritania and Libya face additional troubles as Mauritania has accused the Libyan secret service of involvement in an attempted coup against President Maaouiya Ould Sid Ahmed Taya in June 2003. More recent attempts to revive the AMU also have failed. In May 1999 Algeria reconvened the meeting of AMU foreign ministers with no tangible results. In December 2003 Algeria attempted to hand over the AMU presidency to Libya to renew Libyan interest in the union, but Libya refused the office.

Opinions diverge as to how the AMU could be revitalized. Most Maghreb countries are torn between bonds to the rest of the Arab world, links to their continental African neighbors, and colonial ties to the European Union. Morocco and Algeria want to turn north to integrate the AMU into the Euro-Med Partnership (see below). Libya, however, is looking south; it would prefer to anchor the AMU initiative in the African Union. Tunisia and Morocco, the two best performing countries in the region, have shifted their focus toward bilateral relations with the European Union and the United States. This shift both arises from and contributes to the AMU's lack of progress.

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1. Nearly all shipments between Algeria and Morocco take place by sea.

2. Claudia Parsons, "UN Council Urges Realism in Western Sahara Dispute," Reuters, May 1, 2008.

Limited progress can be observed in the past few years. Since 2005 the five Maghreb countries have organized three ministerial conferences to foster regional integration. The first two conferences focused on financial integration and trade facilitation: harmonization of regulations, tariff and custom reforms, and transport infrastructure. The most recent conference put the spotlight on strengthening the business environment and fostering private investment. In March 2007 foreign ministers announced the establishment of a Maghreb Investment and Foreign Trade Bank (BMICE) owned by the central banks of the member countries, with initial capital of \$1 billion and a mandate to promote investment, trade, and cross-border economic cooperation. This step represents the long-delayed implementation of agreements made when the AMU began.

Table 3.2 compares the economic performance of AMU members and the region as a whole in 2007 and 1989, the year of the AMU's inception. Other than Libya, all countries reduced their rates of inflation. Expressed in US dollars at market exchange rates, GDP per capita doubled in nominal terms for the region as a whole. However, between 1989 and 2007, the US GDP price deflator increased from 79 to 120. Thus, in real terms, Maghreb GDP per capita has increased by only 30 percent, or about 1.6 percent a year. That said, as noted earlier, the past five years have been much better than the average over the entire 18 years, with per capita income growth of around 4.1 percent annually.

Intraregional trade as a share of total trade has remained very low at 1.3 percent. Total merchandise trade as a share of GDP in 2007 was 72.5 percent for the entire region, up from 41.7 percent in 1989. Inward FDI stock as a share of GDP for the Maghreb more than doubled between 1990 and 2006. However, the numbers vary widely across the region. In 2006 the figure for Libya stood at 7.4 percent, compared with 70.6 percent for Tunisia.

## Greater Arab Free Trade Area

Adopted in 1997, GAFTA was agreed upon by 17 of the 22 members of the Arab League, including Libya, Morocco, and Tunisia.<sup>3</sup> The largest regional initiative in the Middle East and North Africa region, its ultimate goal was to establish a free trade area by 2008. At the Arab Summit in 2001, countries advanced the deadline to 2005. Since then all industrial and agricultural goods have traveled through the region duty free (Abedini and Peridy 2007). The agreement covers merchandise trade only; services and investment are excluded.

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3. The League of Arab States, or Arab League, was started in 1945 and now counts 22 countries as members: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen. All but Algeria, Comoros, Djibouti, Mauritania, and Somalia participate in GAFTA.

**Table 3.2 Performance of the Arab Maghreb Union, 1989 and 2007**

Country	Population (millions)		GDP				Inflation (percent)		Bilateral merchandise trade (percent of total trade)						Total merchandise trade (percent of GDP)		Inward FDI stock (percent of GDP)	
	1989	2007 <sup>a</sup>	Billions of US dollars		Per capita (US dollars)		1989	2007 <sup>a</sup>	With Arab Maghreb Union		With European Union		With United States		1989	2007	1990	2006
			1989	2007 <sup>a</sup>	1989	2007 <sup>a</sup>			1989	2007 <sup>b</sup>	1989	2007 <sup>b</sup>	1989	2007 <sup>b</sup>				
Maghreb	63.1	84.1	114.4	301.5	1,813	3,586	6.7 <sup>d</sup>	6.4 <sup>d</sup>	1.3	1.3	69.7	59.4	7.8	11.3	41.8	72.6	10.6	25.5
Algeria	24.7	34.0	52.6	125.9	2,128	3,702	9.2	4.5	1.6	1.3	65.3	47.6	15.5	22.2	34.6	67.7	3.3	8.9
Libya <sup>c</sup>	4.6	6.1	25.1	66.0	5,457	10,840	4.5	16.2	2.2	3.1	81.5	71.0	0.5	6.6	51.8	20.9	2.3	7.4
Mauritania	1.9	3.0	1.1	2.7	574	928	9.0	7.6	1.2	6.0	56.1	33.9	3.7	5.1	72.0	118.3	4.9	60.6
Morocco	24.0	30.7	25.5	72.8	1,066	2,368	3.1	2.5	2.6	2.1	62.5	59.6	6.5	3.9	34.5	64.8	8.7	45.6
Tunisia	7.9	10.3	10.1	34.1	1,277	3,313	7.7	3.0	5.4	6.6	70.1	73.8	3.8	2.4	74.8	98.4	61.8	70.6

FDI = foreign direct investment

a. Estimates of the International Monetary Fund staff.

b. Estimates calculated based on figures for the first eight months of 2007.

c. Libya was under UN and US sanctions for a large portion of the time period studied.

d. Average inflation rate for the region weighted by GDP.

Sources: International Monetary Fund, *Direction of Trade Statistics*, January 2008, and *World Economic Outlook*, October 2007; United Nations Conference on Trade and Development (UNCTAD) foreign direct investment (FDISTAT) database, available at [www.unctad.org](http://www.unctad.org).

Strict rules of origin are a major obstacle to the smooth working of GAFTA with respect to covered products. Member countries follow an origination rule requiring that over 40 percent of value added be contributed in another GAFTA member country if the imported product is to qualify for tariff relief. Moreover, the approval process for certificates of origin in the importing country's embassy has proven cumbersome, acting as its own nontariff barrier (NTB) (Afifi 2005).

Sanitary and phytosanitary standards (SPSs) and technical barriers to trade (TBTs) are not covered by GAFTA, and several disputes have emerged under these headings. Combined with the absence of dispute settlement mechanisms, SPS and TBT issues constitute a serious hurdle to GAFTA's effective implementation. Likewise, a working group on NTBs has achieved only limited progress and these barriers remain high. Attempts to harmonize rules or adopt a mutual recognition approach quickly stalled. Consultations in issue areas such as competition policy, intellectual property rights, and government procurement were planned but never materialized. For trade remedies involving countervailing and antidumping duties as well as safeguards, the original GAFTA text sought to apply international rules. However, at the time of signing in 1997, only seven GAFTA members were also members of the World Trade Organization (WTO). Most countries did not have the institutional capacity to implement trade remedy rules in a reasonable way (Lawrence 2006).

## **Euro-Med Partnership**

The Euro-Med Partnership, or Barcelona Process, establishes a framework for economic, political, and social relations between the European Union and ten Mediterranean partners. The process has two complementary dimensions: a bilateral dimension, whereby each country has an association agreement (AA) with the European Union; and a regional dimension to promote strategic cooperation while emphasizing national complementarities. The partnership was launched in 1995 between the European Union and nine Mediterranean countries with a view to establishing a free trade area by 2010.<sup>4</sup> In this context, Algeria, Morocco, and Tunisia have all signed AAs with the European Union.<sup>5</sup>

Libya has enjoyed observer status in the Barcelona Process since the UN sanctions over Pan Am Flight 103 were lifted in 1999. Brussels is aiming toward Libyan accession, but Libya has not yet undertaken the necessary

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4. Syria, Lebanon, Palestine, Jordan, Egypt, Morocco, Tunisia, Israel, and Algeria.

5. The AA between the European Union and Algeria is in the process of being reviewed, possibly to include an energy deal. See "Benita Ferrero-Waldner visits Algeria to prepare for rehaul of Association Agreement," Agence Europe, March 4, 2008.

political and economic reforms. The release in July 2007 of Bulgarian medics accused of infecting Libyan children with human immunodeficiency virus (HIV) opened the door for further cooperation. In February 2007 the European Union proposed launching talks on closer collaboration, notably in the areas of energy and illegal immigration, eventually leading to a free trade agreement.<sup>6</sup> Mauritania attends foreign minister meetings as a special guest.

Since the launch of the Barcelona Process, there has been some progress in liberalizing merchandise trade. Mediterranean countries now enjoy duty-free access to the EU market for manufactured goods. The AAs also provide for a gradual dismantling of tariffs on EU exports to the Mediterranean. On the other hand, liberalization in the agricultural sector has been limited. Morocco, however, has a special agricultural agreement with the European Union to supplement its AA by further liberalizing agricultural trade between the parties. Finally, although the liberalization of services and investment is among the key objectives for the AAs, negotiations have not taken place.

The Euro-Med partners also agreed on a series of measures to facilitate trade, including the convergence of legislation on standards and conformity assessment.<sup>7</sup> For rules of origin, Algeria, Morocco, and Tunisia apply full cumulation<sup>8</sup> among themselves and diagonal cumulation<sup>9</sup> with other pan-European countries.

The European Union provides financial and technical assistance to its Euro-Med partners through various means. Its MEDA program is the main financial instrument of the Euro-Med process. It supports the implementation process of the AAs and the adoption of key social and eco-

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6. "Brussels Proposes First Ever Framework for EU-Libya Ties," Agence France Presse, February 27, 2008.

7. "Conformity assessment" covers self-testing or independent testing to ensure that the prescribed product and process standards are met.

8. Full cumulation allows the parties to an agreement to carry out the working or processing on nonoriginating products in the geographic area formed by the member countries. Full cumulation means that all operations carried out in the participating countries are given credit. Other forms of cumulation require that the goods originate in one party before being exported to another party to obtain credit for working or processing, but this is not the case with full cumulation. Full cumulation simply demands that all the working or processing on nonoriginating material be carried out within the geographic area for the final product to qualify under the rules of origin.

9. Diagonal cumulation operates between more than two countries, provided they have free trade agreements containing identical origin rules and provision for cumulation between them. As with bilateral cumulation, only originating products or materials can benefit from diagonal cumulation. Although more than two countries can be involved in the manufacture of a product, it will have the origin of the country where the last working or processing operation took place, provided that the activity was more than a minimal operation.

conomic reforms in the Mediterranean countries. The European Neighborhood and Partnership Instrument (ENPI) and European Investment Bank (EIB) are other important funding sources of the Euro-Med Partnership. In March 2002 the EIB's existing activities in the Mediterranean were enhanced through the creation of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), which focuses on the financial needs of the private sector.

## **Agadir Agreement**

The Agadir Agreement was signed in 2004 between Morocco, Tunisia, Egypt, and Jordan; implementation began in March 2007. The agreement remains open to other countries in the region, particularly those that enjoy AAs with the European Union and have implemented GAFTA. These tests exclude the AMU members that are not already in the Agadir Agreement: Algeria, Libya, and Mauritania.

The Agadir Agreement has been reasonably successful, as it builds heavily on existing regional and bilateral initiatives. Some of the temporary exceptions are taken from the liberalization schedules of the AAs that countries have with the European Union. The liberalization of agriculture follows GAFTA, although progress in this part of the GAFTA agenda has been limited. Service liberalization draws from WTO commitments (Lawrence 2006). Countries abide by pan-European rules of origin, even though this measure is potentially incompatible with GAFTA rules (Wipfel 2005). The countries benefit from technical assistance from the European Union.

## **CEN-SAD**

CEN-SAD was established in February 1998; Libya, Morocco, and Tunisia are members along with 20 other African countries.<sup>10</sup> The organization covers investment in the agricultural, industrial, social, cultural, and energy fields. Some accomplishments include the creation of the African Bank for Development and Trade in 1999 and the Special Program for Food Security (SPFS) in 1995.<sup>11</sup> However, progress in CEN-SAD, as in the initiatives above, has been limited, as the community essentially focuses on resolving large-scale political conflicts in Darfur and instability in Somalia.

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10. The others are Benin, Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Ivory Coast, Gambia, Ghana, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, and Togo.

11. The SPFS operates in all countries but Libya, Tunisia, and Somalia.

## COMESA

Libya is the only Maghreb country to participate in COMESA. Established in 1994, COMESA has 19 members.<sup>12</sup> On October 31, 2000, free trade was achieved between a subset of nine countries in agricultural and animal products, mineral and nonmineral ores, and manufactured goods—but Libya is not one of the nine.

## Conclusion

All these regional integration initiatives involving Maghreb countries have made limited progress, with the exception of the GAFTA, which achieved its goal of tariff liberalization, at least on paper. Despite failed attempts, the Maghreb countries understand that regional cooperation is essential for them to acquire more weight in global affairs, both in commercial and political terms. Obstacles springing from past political differences are not insurmountable. The next chapter relates the experiences of other regions in the world that were able to successfully integrate while facing similar hurdles as the Maghreb.

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12. Members are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Ethiopia, Eritrea, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.