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Middle East and Central Asia Department

# Economic Integration in the Maghreb

An Untapped Source of Growth

*An IMF staff team led by Alexei Kireyev,  
with Boaz Nandwa, Lorraine Ocampos,  
Babacar Sarr, Ramzy Al Amine,  
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## Executive Summary

Individual countries of the Maghreb have achieved substantial progress on trade but, as a region, they remain the least integrated in the world. The share of intraregional trade is less than 5 percent of Maghreb countries' total trade, substantially lower than in all other regional trading blocs around the world.

Geopolitical considerations and restrictive economic policies have stifled regional integration. Economic policies have been guided by country-level considerations, with little attention to the region, and are not coordinated. Restrictions on trade and capital flows remain substantial and constrain regional integration for the private sector.

Greater integration among Maghreb countries makes sense on economic grounds. Integration would create a regional market of almost 100 million people with an average income of about \$4,000 per capita in nominal terms and about \$12,000 in purchasing-power-parity terms. This would make the region more attractive for foreign direct investment; reduce the costs of intraregional trade, capital, and labor movement; and increase efficiency of resource allocation. It would also make the Maghreb more resilient to exogenous shocks and market volatility.

Maghreb integration can play an important role in a strategy to promote higher growth in the region. Various estimates suggest that regional integration could contribute to raising growth in each Maghreb country by 1 percentage point on average in the long term. While strong domestic policies remain the main economic driver, intraregional trade may double as a result of integration and would support growth, increasing employment. Greater



integration may lead to winners and losers within each country. Public policy would need to address potential dislocations.

To integrate, Maghreb countries would need to lower trade and investment barriers, and connect their infrastructure networks. Their efforts should focus on goods, services, and capital and labor market liberalization. Gradually eliminating barriers to intraregional trade, building regional infrastructure, and improving the business environment would boost trade within the Maghreb and help further integrate global value chains. Greater regional integration should be complementary to Maghreb countries' global integration.

To advance faster from cooperation to integration, Maghreb governments need to set **JOINT** policy objectives:

- **Job** creation through higher growth;
- **Openness** of each country's economic model;
- **Inclusiveness** in the distribution of growth benefits;
- **Negotiation** of a new regional integration agreement;
- **Trade** regionally on a much larger scale as a means to achieve those objectives.

# 1 Introduction

The Maghreb, “the land of the setting sun” in Arabic, is a vast region of northwestern Africa, comprising almost 6 million square kilometers and 100 million people. Its five countries—Algeria, Libya, Mauritania, Morocco, and Tunisia—share a common history, culture, and language to a large extent. All Maghreb countries are maritime economies strategically located between the advanced economies of Europe across the Mediterranean Sea to the north, and the high-potential, developing economies of sub-Saharan Africa to the south.

The countries in the Maghreb are geographically close but economically diverse. *Algeria* is the largest economy in the region and is an important gas- and oil-exporting upper-middle-income country. Highly dependent on hydrocarbon, it faces important macroeconomic challenges posed by the fall in oil prices in 2014. *Libya*, also a major oil and gas exporter and an upper-middle-income country, has been in civil war since 2011. The war has led to a power vacuum and instability with serious economic and social consequences. *Mauritania* is a lower-middle-income country. An important iron ore producer, the country has been growing relatively fast but faces the challenge of volatile metal prices. *Morocco*, the second largest economy in the region, is undergoing a gradual transformation. It is a relatively well diversified middle-income country. An important regional producer of agricultural products, cars, and fertilizers, the country remains vulnerable to volatile agricultural output and external demand. Finally, *Tunisia* is a small middle-income country in transition. An important regional producer of electrical components, light machinery and equipment parts, olive oil, and garments, the country is seeking to resume broad-based growth and restore macroeconomic stability following a number of domestic and external shocks. The World Bank Doing Business environment and the World Economic Forum quality of institutions index vary substantially, with Morocco

**Table 1. Maghreb Region: Selected Economic Indicators**

	Unit	Year	Algeria	Libya	Mauritania	Morocco	Tunisia	Maghreb Region
<b>Region</b>								
Area	Million sq. km.	2017	2.4	1.8	1.0	0.4	0.2	<b>5.8</b>
Population	Million	2017	41.5	6.4	3.9	34.9	11.3	<b>98.1</b>
Unemployment	Percent	Latest	10.4	18.7	22.8	10.6	16.0	<b>11.7</b>
Youth unemployment	Percent	Latest	24.9	45.2	16.7	29.3	36.8	<b>25.2</b>
Poverty	Percent	Latest	...	...	22.1	...	8.4	...
Gini inequality	Index	Latest	...	...	32.4	...	35.8	...
<b>Economy</b>								
Nominal GDP	\$ billion	2017	175.5	33.3	5.0	110.7	39.9	<b>364.4</b>
GDP per capita	\$	2017	4,292	4,859	1,318	3,151	3,496	<b>3,714</b>
Real growth	Percent	2013–17	3.1	–7.9	3.5	3.4	1.7	<b>2.4</b>
GDP per capita growth	Percent	2013–17	1.0	–8.5	1.1	2.3	0.4	<b>0.7</b>
Inflation	Percent	2013–17	4.6	15.0	2.4	1.3	4.8	<b>5.6</b>
Fiscal deficit	Percent of GDP	2013–17	–7.9	–70.2	–1.9	–4.3	–5.6	<b>–7.4</b>
Current account	Percent of GDP	2013–17	–10.0	–30.3	–19.6	–4.8	–8.8	<b>–9.1</b>
Public debt	Percent of GDP	2013–17	12.5	n.a.	85.2	63.3	57.6	<b>23.3</b>
Exports	Percent of GDP	2013–17	25.5	n.a.	38.7	32.6	43.2	<b>30.2</b>
<b>Policies</b>								
Doing Business	Rank (1–190)	2018	166	185	150	69	88	<b>n.a.</b>
Institutions (WEF)	Rank 1–7 (best)	2017	3.6	...	2.9	4.2	3.8	<b>n.a.</b>
Number of IMF arrangements	Since membership	2018	4	...	15	19	10	<b>48</b>
Current IMF arrangement		2018	None	None	ECF	PLL	EFF	<b>n.a.</b>

Sources: IMF, 2018d; World Bank; and World Economic Forum. Note: WEF = World Economic Forum, Sq. km = Square Kilometer, ECF = Extended Credit Facility, PLL = Precautionary Liquidity Line, EFF = Extended Fund Facility.

and Tunisia scoring relatively well, while the other countries are close to the bottom on both scales.<sup>1</sup>

Maghreb countries have made important strides in economic reforms in recent years, but providing opportunities for everyone remains a common policy priority. With a young and fast-growing population, the Maghreb region needs to grow faster by tapping traditional and unexploited sources of growth. Growth in the region has been too low for too long and has not contributed sufficiently to job creation and poverty reduction. The average growth rate in the past five years has been below 2.4 percent and the region is projected to grow at only 2.7 percent in the medium term. Average GDP per capita growth has been hovering around zero (Table 1). The population-weighted unemployment rate remains high, even in comparison to other parts of the Middle East and North Africa (MENA) region, at 12 percent overall and 25 percent for youth (15–24 yo). Data on poverty and inequality are scant, but evidence suggests that both have improved little since the Arab Spring.

<sup>1</sup>Caution is needed when comparing survey-based structural indicators across countries. Although these indicators are updated yearly and survey methodologies are revised frequently, they are perception indicators and partly constrained by the data that can realistically be collected.

### Box 1. Marrakesh Call to ACT NOW

This call for reforms across the MENA region promotes the following elements of inclusive growth (IMF 2018c):

- **Accountability:** Increase transparency and strengthen institutions to control corruption and ensure shared responsibility for inclusive policies.
- **Competition:** Promote the private sector through better regulation to build a vibrant economy.
- **Trade and technology:** Leverage technology and innovation, nurture trade, and attract foreign investment to diversify and develop new sources of growth and job creation.
- **No one left behind:** Build strong safety nets and empower disadvantaged groups, including youth, women, rural populations, and refugees.
- **Opportunity:** Create a level playing field for all people through equitable and growth-supporting government spending, fair taxation, and structural reform.
- **Work:** Invest in people and equip workers for the new economy through education to foster greater equality and prosperity.

The issues of inclusive growth, trade, and integration have been forcefully raised in a broader MENA context by regional stakeholders. In January 2018, representatives from more than 20 countries in the MENA region, including all Maghreb countries, met in Marrakesh for a regional conference titled “Opportunity for All: Promoting Growth, Jobs, and Inclusiveness in the Arab World,” cohosted by the Morocco government, the IMF, the Arab Fund for Economic and Social Development, and the Arab Monetary Fund (IMF 2018c). The conference provided a forum for public officials, private sector representatives, and civil society members to share their views about low growth, inequality, trade, and government accountability and corruption. The policy priorities that emerged from these discussions can be summarized as ACT NOW (Box 1). Trade—the “T” in ACT NOW—was an important component in a strategy to promote higher and more inclusive growth—that is, growth in which the benefits are shared and that enables equitable access to economic opportunity, including for disadvantaged groups.

Furthermore, recognizing the importance of trade for growth, African countries, including all Maghreb countries, recently signed an agreement to establish the African Continental Free Trade Area (AfCFTA). Launched in March 2018 by 44 African countries, the AfCFTA would be the largest free trade agreement aimed at liberalizing intra-African trade goods and services once implemented. Its signature sends a powerful signal about the benefits

of intraregional cooperation. In the medium-term, the agreement aims to cut tariffs to zero on 90 percent of imports among African countries and to liberalize trade in services. Trade integration within the Maghreb could be a stepping stone on the path to a fully implemented AfCFTA.

In addition, stronger integration within the Maghreb could buffer the possible impact of rising global trade tensions. If protectionism in traditional markets were to escalate, Maghreb countries could offset part of the losses to their exports and growth with additional intraregional trade.

Against this background, this paper discusses the potential for economic integration among Maghreb countries as an untapped source of growth. It argues that greater regional and global economic integration would create favorable dynamics to transition to higher sustainable growth. Opening to more intraregional trade and investment would increase access to goods and services at lower prices, spur competition, promote innovation and diversification, increase transparency, reduce rents, and ultimately increase productivity and growth in all countries. Such regional integration could be a powerful tool, complementary to domestic policies, to raise Maghreb's growth potential, create jobs, and reduce poverty. Specifically, the paper does the following:

- Examines the underlying reasons for the sparse regional integration;
- Makes an economic argument in favor of greater regional integration;
- Assesses the potential impact of integration on growth and employment;
- Suggests a set of JOINT objectives to achieve greater regional integration.

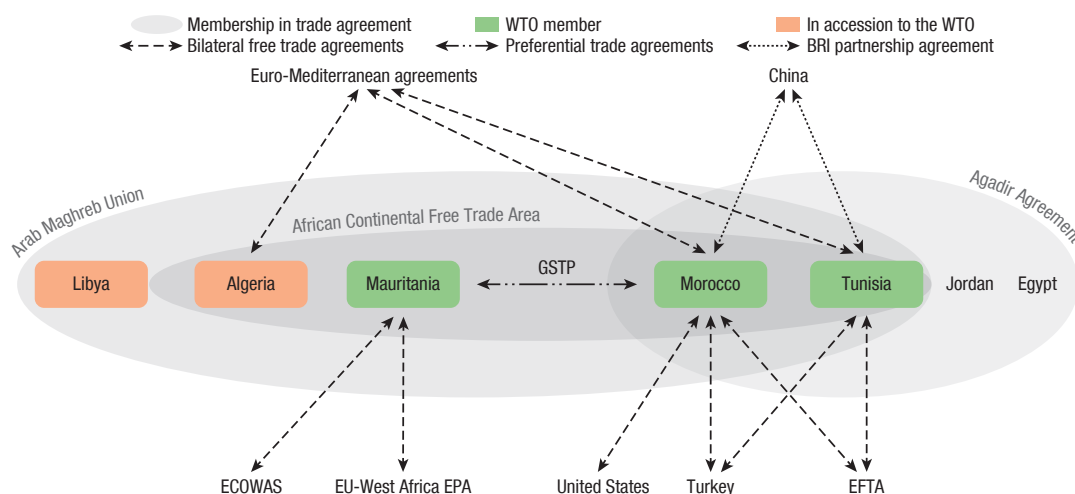
## Facts about the Maghreb's Economic Relations

### Trade Liberalization Initiatives

Maghreb countries have long recognized the benefits of greater economic integration, but the steps taken in this direction have been only partly successful. To promote intra-Maghreb trade, countries concluded a number of free trade agreements (Figure 1). In 1989, all five Maghreb countries established the Arab Maghreb Union (AMU) to promote cooperation and integration among the Arab states of North Africa. In this context, member countries negotiated the establishment of a Maghreb Free Trade Area for integration in all areas of economic activity. An agreement was initiated by trade ministers in 2010, but was never ratified. In addition to being members of the AMU, Libya, Morocco, and Tunisia signed the Pan-Arab Free Trade Area agreement in 1997. Morocco and Tunisia are also founders of the Agadir Agreement, signed in 2004, for the establishment of a free trade zone. While past initiatives have been useful to promote the spirit of integration, in practice they have had only limited impact on regional trade. For example, the AMU has put forward solid integration objectives but has been inactive for many years.

The Maghreb's integration arrangements with partners from outside the region, some of which include provisions for intraregional trade, have had more impact. Leveraging traditional trade links with Europe, Maghreb countries participate in several trade agreements. For example, Algeria, Morocco, and Tunisia, among other countries, are part of the Euro-Mediterranean Agreement establishing an association with the European Union and its members. It aims to remove barriers to trade and investment between both the European Union (EU) and Southern Mediterranean countries, and between the Southern Mediterranean countries themselves. Mauritania is part of the Economic Partnership Agreement between the EU and West African

**Figure 1. Main Trade Agreements**  
(Bilateral and preferential)



Source: Compiled based on WTO, 2018.  
 Note: WTO = World Trade Organization; GSTP = Global System of Trade Preference; EFTA = European Free Trade Association; ECOWAS = Economic Community of West African States; EPA = Economic Partnership Agreement; BRI = Belt and Road Initiative.

countries aimed at liberalizing bilateral trade and providing development support to this group of countries. Mauritania also has a free trade agreement with the Economic Community of West African States. Morocco and Tunisia have signed trade liberalization agreements with the European Free Trade Association, whose members are Iceland, Liechtenstein, Norway, and Switzerland. Morocco and Tunisia have concluded bilateral free trade agreements with Turkey; Morocco has also reached an agreement with the United States.

Maghreb countries participate in international organizations aimed at promoting international and regional cooperation. For example, all Maghreb countries are members of the League of Arab States, founded in 1945, which has historically taken the lead on integration efforts in the MENA region. All are also members of the African Union, a political organization of all African countries, which principally aims to facilitate cooperation. In addition, all Maghreb countries participate in the Agreement on the Global System of Trade Preferences among Developing Countries, a framework established in 1988 by the United Nations Conference on Trade and Development for the exchange of trade preferences among developing countries to promote intra-developing country trade. Although Maghreb countries have concluded a number of preferential trade agreements based on this framework, there is only one such agreement among Maghreb countries, between Morocco and Mauritania. Finally, Mauritania, Morocco, and Tunisia are members of the World Trade Organization (WTO) and use it as a negotiating and dispute

settlement platform. Algeria applied to the WTO in 1987, but negotiations have not yet concluded. Libya applied to the WTO in 2004 but has not taken any further actions to negotiate its accession. Therefore, both countries remain outside the scope of WTO rules.

China's recent Belt-and-Road Initiative (BRI) involves the Maghreb. Algeria, Libya, Morocco, and Tunisia have already signed BRI partnership agreements with China. Similar agreements may be considered by Mauritania. While the focus has been on strengthening economic cooperation through infrastructure investment, including roads, railways, and power grids, the BRI also covers broader cooperation, such as trade facilitation and technical assistance.

## **Trends in Maghreb Countries' Global Trade**

In recent years, trade openness has declined across all Maghreb countries, except Morocco (Figure 2). This decline has been consistent with international trends, including the overall weakness in international economic activity, particularly in investment; the waning pace of trade liberalization; the decline in commodity prices, including for oil; and slower growth of global value chains (GVCs). Lower commodity prices and insufficient diversification explain the decline in trade openness in Algeria, Libya, and Mauritania.

Maghreb countries, like many other emerging markets, import increasingly from China. China's exports to the Maghreb have increased dramatically since the early 2000s, reaching about \$14 billion in 2016 (12 percent of the Maghreb's total imports), compared with less than \$5 billion a decade earlier (8 percent of total imports). China supplies agricultural machinery, tractors, motor vehicles, and many other commodities. The increasing competition from China and other emerging market and developing economies in Asia could be another challenge for regional integration. China and other Asian countries have also emerged as a major export market for all Maghreb countries, particularly Mauritania.

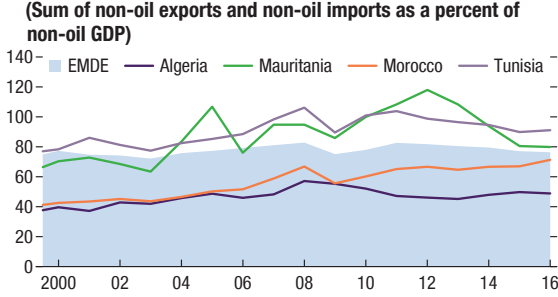
Product quality and export diversification have improved in recent years in Morocco and Tunisia, but have been broadly static in Mauritania and deteriorated in Algeria. As a result, export market penetration in Morocco and Tunisia is substantially higher than in emerging market and developing economies and than regional averages. Yet, except for minerals, fuels, animals, and vegetable oils, the overall quality of export products of Maghreb countries remains lower than in other emerging market and developing economies, especially in manufactured, machinery, and transport goods.

The Maghreb region shows significant country variation in market concentration. Except for Morocco and Tunisia, Maghreb countries export a low range



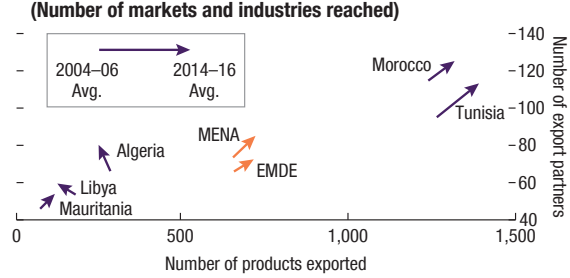
Figure 2. Trade Indicators

1. Trade Openness



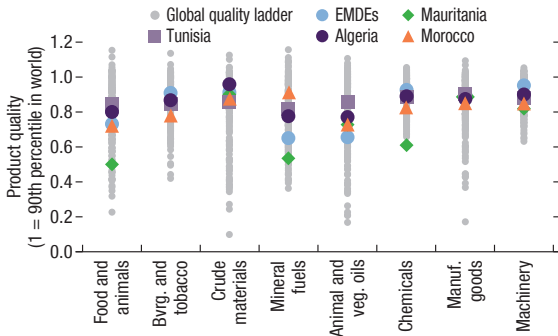
Sources: IMF October 2017 *World Economic Outlook*; and IMF staff calculations. Note: EMDE = Emerging Markets and Developing Economies.

2. Export Diversification, 2004–16



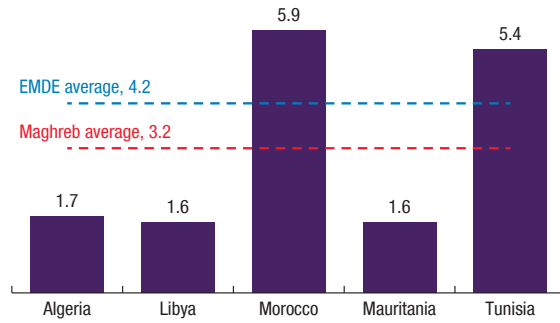
Sources: World Integrated Trade Solutions database; and IMF staff calculations. Note: EMDE = Emerging Markets and Developing Economies; MENA = Middle East and North Africa; Avg. = Average.

3. Export Quality Ladders, 2014



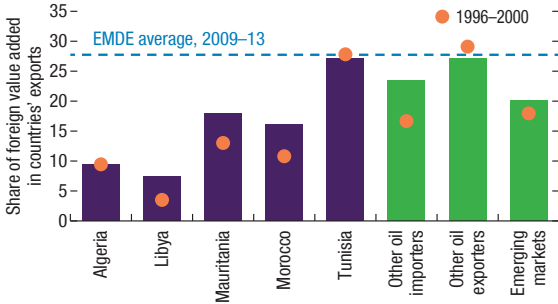
Source: IMF Export Quality database. Note: Excluded are the categories "Miscellaneous manufactured articles" and "Other," representing a non-essential share of country exports. EMDE = Emerging Markets and Developing Economies; Bvrg. = Beverage; Veg. = Vegetable; Manuf. = Manufacturing.

4. Export Penetration Index, 2015

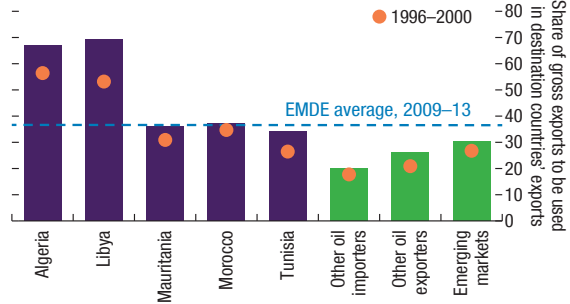


Sources: World Integrated Trade Solutions database; and IMF staff calculations. Note: EMDE = Emerging Markets and Developing Economies. This indicator measures the extent to which a country's exports reach already proven markets. It is calculated as the number of countries to which the reporter exports a particular product divided by the number of countries that report importing the product that year.

5. Backward GVC Integration, 2009–13



6. Forward GVC Integration, 2009–13



Sources: Eora MRIO; and IMF staff calculations. Note: GVC = Global Value Chain; EMDE = Emerging and developing economies; MRIO = Multi-Region Input-Output; other oil importers include Bangladesh, Cambodia, Vietnam; other oil exporters include Malaysia, Mexico, and Indonesia. <sup>1</sup>Due to concerns about the quality of Eora MRIO data, countries are displayed only after having been validated with intermediate product exports data from UN Comtrade.

of products. Exports of Algeria, Libya, and Mauritania are highly concentrated. In Algeria and Libya, fuels account for 90 percent and 98 percent of total exports, respectively. Mauritania's exports are dominated by primary commodities such as minerals, metals, and fisheries. On the other hand, Morocco and Tunisia have a more diversified export base: manufacturing (chemicals, machinery, equipment parts), agriculture, and services (tourism, financial, medical).

Maghreb countries have achieved progress in integration into global value chains. The backward GVCs integration—that is, the share of foreign value added, imported, and used in the production of exports—is comparable to the average for emerging market and developing economies only in Tunisia. It is still low, albeit improving, in Mauritania and Morocco, and very low and stagnating in Algeria and Libya. The forward GVCs integration, which is the share of value added used in a destination country's production, is very high in Algeria and Libya, reflecting their supplier role in the downstream oil product output. All other Maghreb countries seem relatively well integrated in forward GVCs but almost exclusively with their economic partners outside the region. At the same time, regional GVCs among Maghreb countries remain weak. Baldwin (2012) points out that in well-integrated groups, intermediate inputs embodied in exports are usually sourced within the same region—a phenomenon often described as *Factory Asia* and *Factory Europe*. A goal would be the emergence of *Factory Maghreb*.

Trade in commercial services, in particular tourism, is growing, but slowly. While detailed information about trade in services in Maghreb countries is not available, anecdotal evidence suggests that multinational firms have increased investments in foreign traded services, especially in Morocco and Tunisia, mainly as part of global logistics serving the European markets (World Bank 2010). Morocco and Tunisia are popular destinations for tourists from Europe, Arab countries in the Persian Gulf, and Russia. In 2017, Morocco reported investment of about \$4.6 billion in the travel and tourism sector, directly contributing 8.2 percent to its GDP from about 10 million foreign tourists. During the same period, Tunisia invested about \$0.8 billion, with the sector directly contributing 6.9 percent to its GDP from 7 million tourists (WTTC 2018). In contrast, there is little tourism in Algeria and Mauritania. While most of the tourist arrivals are from outside the region, intraregion travel and tourism are limited.

## **Intra-Maghreb Trade, Investment, Financial, and Labor Integration**

### **Trade**

Despite existing institutional arrangements, intra-Maghreb trade remains thin. Maghreb trades far less within itself than with the rest of the world. Intra-Maghreb trade is less than 5 percent of its total trade, compared with intra-regional trade in Africa at about 16 percent, Latin America at 19 percent, Asia at 51 percent, North America at 54 percent, and Europe at 70 percent.

None of the five countries has one of its Maghreb neighbors as a major trading partner. The bulk of Maghreb trade is with Europe, which partly reflects historical conditions, the nature of trade commodities, and, more recently, efforts on the part of individual countries to liberalize trade with Europe. In all Maghreb countries except Mauritania, over half of exports goes to countries in the European Union, mainly France, Italy, and Spain, which are geographically the closest advanced economies to the Maghreb (Figure 3). Only Tunisia and Algeria export much within the Maghreb as a share of their total trade (about 10 percent and 4 percent of exports, respectively).

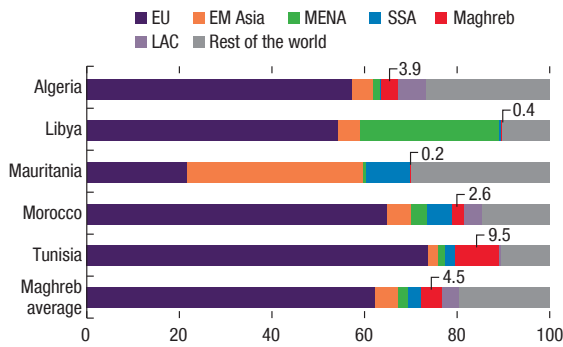
Intraregional trade within the Maghreb consists of only a few main flows. In 2016, intraregional trade was dominated by a few flows of goods: gas and oil exports from Algeria to Morocco and Tunisia; iron, steel, and clothing from Morocco to Algeria; iron and steel from Tunisia to Algeria; and animal and vegetable oil from Tunisia to Libya (Figure 4). All other trade flows are insignificant. Some important exportable commodities do not enter the intraregional trade flow at all. For example, cars and their parts from Morocco, fertilizers from Algeria, seafood from Mauritania, and electric semiconductors from Tunisia are not traded regionally on a meaningful scale. Overall, only a quarter out of 20 possible bilateral trade flows are meaningfully present in intraregional trade among Maghreb countries.

### **Foreign Direct Investment (FDI)**

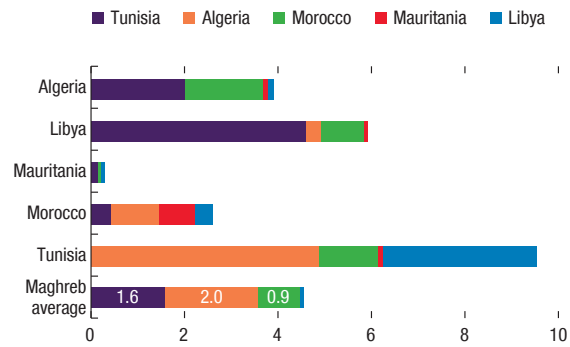
Available information points to limited bilateral FDIs in the region. Previous studies have shown that bilateral flows within the region are largely below flows observed in other regional blocs (World Bank 2010). Little current reliable data on bilateral capital flows are available, but the case of Morocco, for which data exist, suggests that capital flows with the Maghreb are very low (Figure 3). Morocco's direct investment in the Maghreb, both inward and outward, is insignificant compared with flows from and to other regions. About half of both inflows and outflows of FDIs are with Europe and other parts of the world. Also, Morocco has developed an ambitious external eco-

Figure 3. Directions of Trade and Investment

1. Interregional Trade by Destination  
(Percent of total exports)

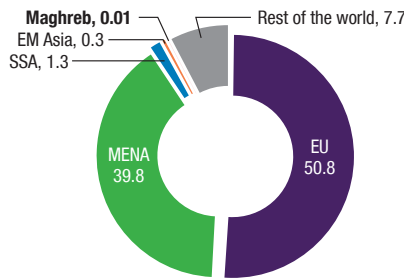


2. Intra-regional Trade by Destination  
(Percent of total exports)

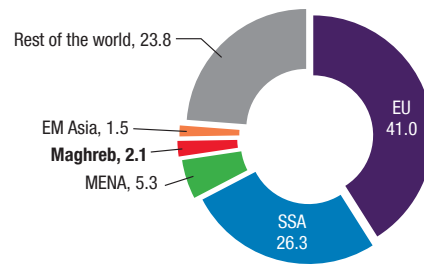


Sources: UN Comtrade 2018; and IMF staff calculations.  
Note: Exports are in US Dollars. EU = European Union; EM = Emerging Markets; MENA = Middle East and North Africa; SSA = Sub-Saharan African; LAC = Latin America and the Caribbean.

3. Morocco FDI Inflows, 2016  
(Percent of total inflows)



4. Morocco FDI Outflows, 2016  
(Percent of total outflows)



Source: Coordinated FDI Survey, 2018.  
Note: FDI = Foreign Direct Investment; EU = European Union; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa.

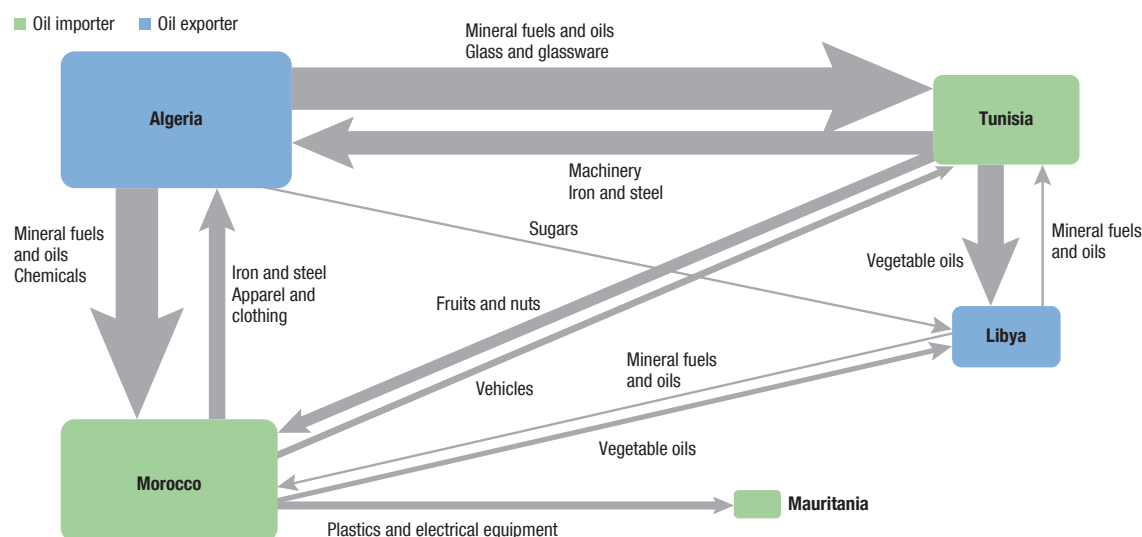
conomic policy toward sub-Saharan Africa. While trade levels with sub-Saharan Africa remain low, the region is an important destination for Moroccan investment, in particular in the financial sector. Most Maghreb countries have characteristics that deter FDI—for instance, limitations on FDIs in different sectors, such as the requirement that foreign firms work with local partners and use local inputs.

### Financial Integration

Cross-border financial integration remains limited, reflecting the state of regional economic cooperation. Cross-border Moroccan banks have been the most active to penetrate the region, with Attijariwafa Bank, the largest Moroccan bank and seventh largest bank in Africa, having a presence in Tunisia and Mauritania. However, Moroccan banks' expansion to Algeria and

**Figure 4. Intra-regional Trade Flows**

(Size of the nodes is proportional to total exports; width of the arrows is proportional to the size of the flow)



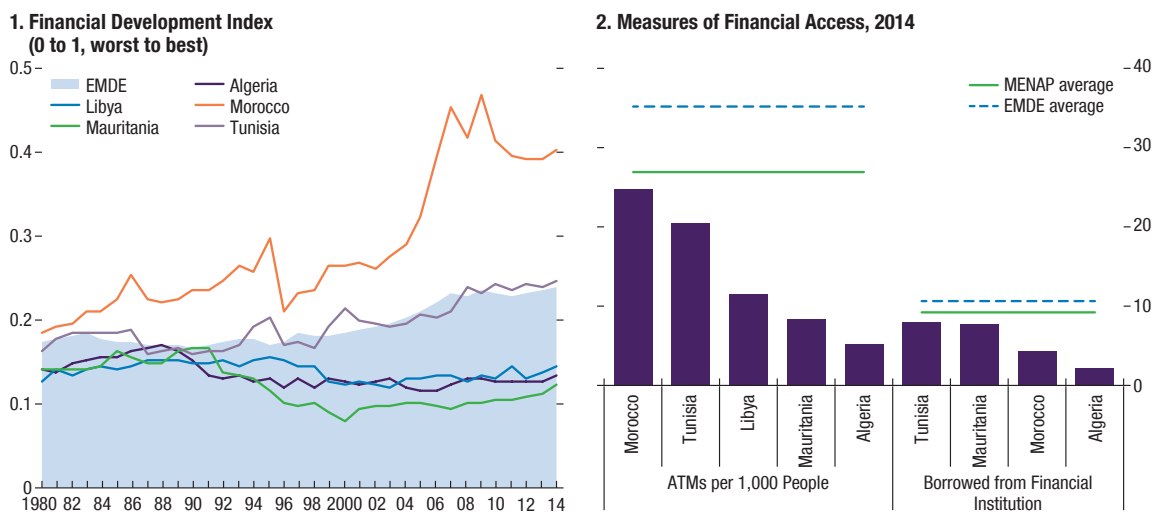
Sources: UN Comtrade, 2018; and IMF staff calculations.

Libya has been limited. As a result, cross-border financial institutions in the Maghreb are almost nonexistent.

The financial sectors in individual Maghreb countries differ in development levels, but access to finance is a common challenge (Figure 5). Morocco is at the forefront of financial development with a vibrant financial system dominated by dynamic private banks. The Moroccan banking system has expanded cross-border operations and is currently present in 22 African countries, including in sub-Saharan Africa (Benin, Burundi, Ghana). Tunisia, with a level of financial development comparable to emerging market and developing economies, continues to struggle with the restructuring of weak public banks and a large burden of nonperforming loans (NPLs), despite having relatively sound private banks. Algeria and Libya still have financial systems dominated by state-owned banks. In most countries, access to finance is a challenge, especially for small and medium enterprises, despite substantial progress over the past decade. Access to financial services is relatively high in Morocco and Tunisia, although below the emerging market and developing economy average, but it is even lower in the other countries.

Financial technology has been growing across the region, creating the basis for deeper financial integration. Financial technology startups are increasing in Morocco, Tunisia, and Algeria. Morocco and Tunisia have developed regulatory frameworks for digital financial services and mobile money, which is

Figure 5. Financial Integration



Source: IMF 2018a.  
Note: EMDE = Emerging Markets and Developing Economies.

Sources: IMF Financial Access Survey; World Bank, Findex; and IMF staff calculations.  
Note: EMDE = Emerging Markets and Developing Economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan. Data on Libya are from 2012.

helping reduce the share of the population that is unbanked. The penetration of information and communication technologies has increased significantly in recent years in Morocco and Tunisia, but to a lesser extent in Algeria and Mauritania. On the regulatory side, Algeria, Morocco, and Tunisia have adopted cybercriminal and cybersecurity legislation. Removing trade barriers as well as regulatory harmonization could help spread and speed up the adoption of new financial technologies and foster greater financial integration.

The new Maghreb Bank for Investment and Foreign Trade aims to accelerate financial integration. This regional bank was established in 2017 with capital of \$500 million equally shared among the five countries. It aims to catalyze financial integration and promote trade and investment within the region by removing regulatory and institutional barriers that hamper the development of intra-Maghreb financing. Financial integration would also benefit from a revamping of the 1991 payment system agreement among the five central banks by making them operational in all countries. While financial integration would benefit growth, risks associated with potentially higher financial volatility would need to be managed carefully.

## **Labor**

Intra-Maghreb official migration seems marginal, although freedom of movement was one of the objectives of the AMU. While knowledge of intra-Maghreb migrations remains approximative because of data limitations, existing information suggests that intra-Maghreb migration remains marginal. For instance, in 2013 the share of migrants in the total population of the region was just 1 percent, and the share of migrant workers among all workers was even lower (0.5 percent) compared with other regions (ILO 2015). Rather, the Maghreb is a source of emigration, with Morocco and Algeria being among the top emigration countries in the world. Emigration from the Maghreb has been and remains strongly oriented toward European Union countries.

## **Factors That May Explain the Shallow Intra-Maghreb Integration**

The reasons for insufficient integration in the Maghreb are complex and numerous. They include restrictive trade and investment policies, tariff and nontariff trade barriers, insufficient regional infrastructure, and geopolitical considerations. Also, the traditional trade orientation toward Europe, recent attempts to diversify to sub-Saharan Africa, and, most recently, the emergence of China as an export market for the Maghreb have diverted Maghreb countries' focus from intraregional integration.

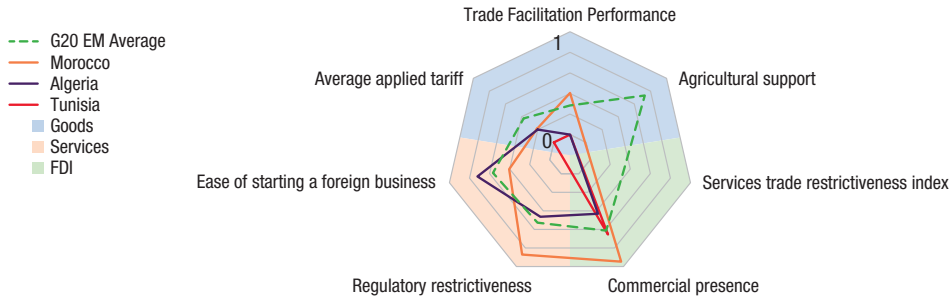
Geopolitical factors have impeded regional integration. The underlying causes of tensions are complex and differ across countries. The AMU has been dormant for years due to disagreements between member countries, especially between Algeria and Morocco. Threats of terrorism have also prompted tighter border controls. Since 1994, the 1,000-mile border between Algeria and Morocco has been closed. Moreover, many countries face their own political economy, which may at times have further delayed progress toward regional integration. Recently, however, there have been calls to revive the AMU from different quarters.

Trade within the Maghreb suffers because of restrictive trade policies. Maghreb countries face lower tariffs with Europe than when trading among themselves. In general, the simple average of applied tariffs in Maghreb countries is significantly higher than in the Group of Twenty countries or emerging market and developing economies (Figure 6). For example, the simple average tariff duty in Maghreb countries was about 14 percent in 2016, compared with 5 percent in the European Union, 4 percent in the United States, and 10 percent in China. Algeria is the most protected market, with an average tariff rate of 19 percent, while in other countries the rates are about 12 percent. Furthermore, selected sectors are heavily protected even in

Figure 6. Trade Policy Indicators

1. Trade Policy Indicators

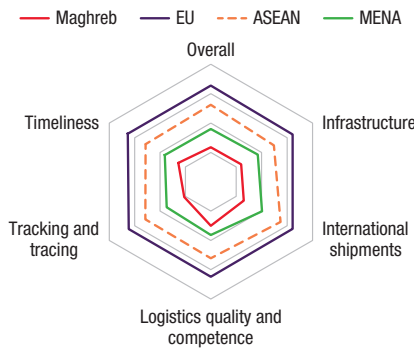
(0 = least open country in G20; 1 = most open country in G20)



Sources: World Trade Organization (WTO), World Tariff Profiles 2015–16; Organisation for Economic Co-operation and Development (OECD) 2015–16, World Bank 2008–11; International Finance Corporation (IFC) 2008–11.  
Note: FDI = Foreign Direct Investment.

2. Logistic Performance, 2016

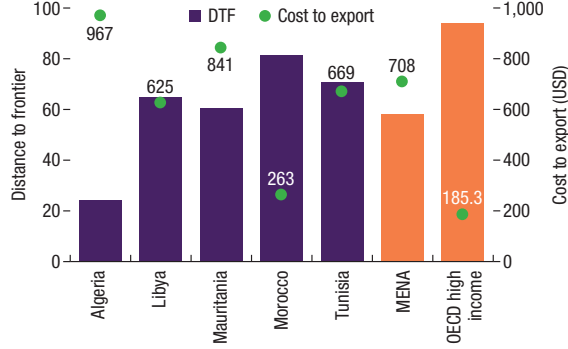
(Average country ranking; inside is worse)



Source: World Bank, 2018.  
Note: EU = European Union; ASEAN = The Association of Southeast Asian Nations; MENA = Middle East and North Africa.

3. Trading Across Borders, 2016

(Distance to frontier; 0 to 100, worst to best)



Source: World Bank, 2018.  
Note: DTF = Distance to Frontier; OECD = Organization for Economic Co-operation and Development; MENA = Middle East and North Africa.

countries relatively open for trade. For example, the import duty on agricultural products is 28 percent in Morocco and 31 percent in Tunisia. Algeria tariff and nontariff barriers were hardened in early 2018 with a temporary ban on the import of about 850 categories of goods, the extension of the list of goods subject to a 30 percent excise tax, and significantly increased customs duties (up to 60 percent) for some other products.

In addition to tariff barriers, intraregional trade also faces multiple nontariff impediments. For example, the average cost to export is one of the highest in the world and varies substantially across the region, between the most efficient exporters (Morocco and Tunisia) and the least efficient (Algeria, Libya, Mauritania). The time to export is broadly comparable to other emerging market and developing economies but substantially higher than in advanced economies. The World Bank Doing Business logistics performance index for



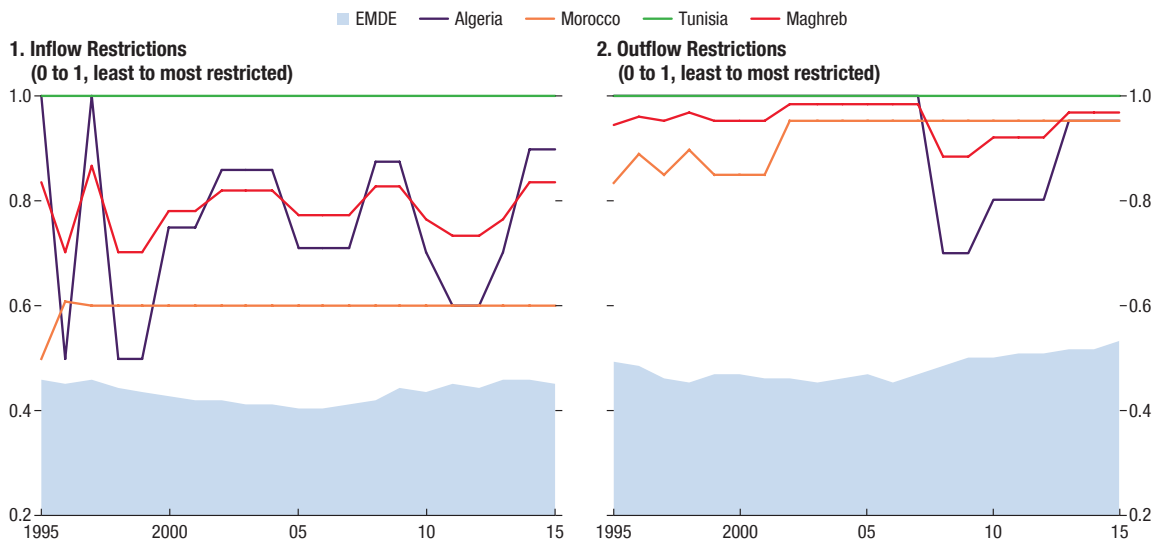
the Maghreb suggests that traders face significant hurdles in the region. Similarly, the Doing Business indicator for trading across borders indicates that the costs associated with export or import transactions remain high in the region. Additional impediments include numerous roadblocks, delays at border crossings, and the length and shortage of customs clearance procedures. Border restrictions have often been tightened rather than relaxed to protect domestic interests, creating further opportunities for rent seeking.

The weak regional land and air transportation network in the Maghreb is also a significant barrier to trade integration. There are four means of transportation between Maghreb countries: sea, air, road, and rail. Except for maritime transport, all of them are insufficiently developed. The only commercial highway that could link all Maghreb countries is the Cairo–Dakar Highway, but the closing of the Morocco–Algeria border makes it impossible to transport goods from Libya, Tunisia, and Algeria to Morocco or Mauritania by road. Also, parts of this highway remain unfinished, and there is no bridge crossing the river between Mauritania and Senegal. Crossings occur by ferry, thereby severely limiting trade. While there are domestic railroads in Algeria, Morocco, and Tunisia, the rail tracks also stop at the borders, failing to connect in an east–west railroad network. Several countries have oil and gas pipelines going to Spain and Italy, but these bypass routes through regional neighbors that may be more efficient. Although there are flights between some Maghreb countries, most regional airlines remain small and service mainly domestic destinations.

Maritime transport, the main vehicle for intra-Maghreb trade, serves mainly trade with Europe. While all Maghreb countries have ports, there are no commercially significant shipping lines among them. Each country has developed its own port infrastructure aimed at Europe, while the interests of regional trade are considered secondary. Only a few ports are competitive by international standards, with Morocco leading the way with its Tangier port, which became a logistical hub for the region. As a result, most trans-Maghreb maritime traffic has shifted from other regional ports to Morocco. There are very few direct lines of sea transport among Maghreb countries, which transport their intraregional goods through third-country ports, such as Marseille in France, Almeria in Spain, and even Rotterdam in the Netherlands. These locations generate additional costs and limit the price competitiveness of traded products.

There are significant restrictions to capital flows in all the countries, above the average for comparators. Of all Maghreb countries, Morocco's capital account is one of the most open for capital inflows (Figure 7). It has no requirement for prior approval of FDI, and formalities related to investing in Morocco do not pose significant barriers to investment. Restrictions to

Figure 7. Capital Flow Restrictions



Source: Fernandez and others, 2016.  
 Note: EMDE = Emerging Markets and Developing Economies.

capital inflows to Algeria are significant. Its legal framework requires a majority Algerian partner for any foreign investment. Tunisia had a relatively closed capital account until 2015. Under the 2016 investment law, foreign investors now enjoy national treatment, like Tunisian investors, for their rights and obligations. Capital outflow restrictions are broadly similar across the region. In Morocco, under its investment code, repatriation may be performed using only convertible Moroccan dirham accounts. Thus, capital controls limit the ability of the residents to convert dirham balances into foreign currency to move funds regionally or abroad for investment. Algeria requires a “plowing back of profits” inside the country to restrict capital flights. In Tunisia, capital transfers abroad are still tightly controlled by the central bank.

The limited extent of intra-Maghreb migration can be explained by several economic and noneconomic factors. Job growth remains anemic in Maghreb countries, which limits employment opportunities for prospective migrants. Maghreb migrants often prefer to seek opportunities in more mature markets (especially in Europe). There is also increasing competition from nationals of non-Maghreb countries from the south as well as laborers from China and Europe, who are often recruited under contractual arrangements in the context of investment projects. Difficulties in obtaining a residence card and a work permit further limit labor movement.

Many Maghreb countries require visas for nationals from other Maghreb countries and from the rest of world. In addition to visa requirements, the

duration of stay is often limited to 90 days. Morocco, Algeria, and Libya are ranked very low compared with other African countries on the Africa Visa Openness Index (ADB 2017), which tracks changes that support free movement of people across Africa. In the Maghreb, only Tunisia has made progress recently in opening its borders for travel, moving up 13 places in the ranking since 2015. Mauritania is the most open country for travel, as it extends visas on arrival to all other African nationals.

Low intraregional integration is not unique to the Maghreb. In fact, since the 1990s, intraregional trade has been flat or declining in a number of regions, with notable exceptions in East Asia and the Pacific and Europe and Central Asia (Bown and others 2017). For example, the experience of regional integration in Latin America suggests that the factors that have inhibited further development of intraregional trade have been broadly similar to those of the Maghreb. Among them are unexploited complementarities between regional and global integration efforts, insufficient regional infrastructure that increases trade costs, and high export volatility due to the absence of economic reforms in key regional partners.

## The Benefits of Greater Integration

### Why Greater Integration Would Make Sense

Deeper integration among Maghreb countries makes economic sense. Maghreb is a fragmented group of neighbors. Together, Maghreb countries form a single geographical area, and many countries share common borders. They are strategically located between Europe and sub-Saharan Africa, and they share cultural and language proximity. If integrated, they could leverage economies of scale, better attract foreign investment, create regional value chains and better integrate into GVCs, and strengthen their joint negotiating capacity—which would result in more trade with each other and faster growth.

Greater integration would bring substantial benefits to the region through economies of scale. It would create a large integrated market of almost 100 million consumers, a block of countries comparable in number to some of the most populous countries in the world, such as the Philippines, Egypt, and Ethiopia. The joint Maghreb 2017 GDP would exceed \$360 billion, which would be comparable to the GDP of South Africa, United Arab Emirates, or Norway. Regional per capita GDP would be about \$4,000 in nominal terms, comparable to South Africa, Indonesia, and Peru, and about \$12,000 per capita in purchasing-power-parity terms. Such an integrated region, with common trade and investment rules, would also be more resilient to the possible impact of escalating global trade conflicts.

An integrated market would create strong incentives for inward FDIs, innovation, and technology transfer. An earlier IMF study (2013) found that market size, the accumulated stock of FDI, sound economic policies, strong growth, a stable exchange rate, good human capital, good infrastructure, political stability, and regulatory quality all appear to be important and robust determinants of FDIs. The Maghreb region already scores relatively

favorably on some, but not all, of these counts. The size of the integrated Maghreb market and the purchasing power of its consumers may become an attractive factor for FDIs if investment regulations are simplified and harmonized across the region. Sound macroeconomic policies, including fiscal and monetary policies, have been broadly maintained in most Maghreb countries, in some cases supported by IMF programs. Most countries already have a substantial stock of FDIs, and some have achieved progress in human capital. However, the level of development of the interregional infrastructure is insufficient, and the *Global Competitiveness Report 2017/2018* ranks all Maghreb countries except Tunisia below the global average in the overall quality of their domestic infrastructure (WEF 2017). With a few exceptions, the region underperforms on political stability and regulatory quality.

Integration would allow development of regional value chains and their better integration with global value chains. For the Maghreb, creating a body of common trade and investment rules would provide a better investment environment not only for investors interested in the region's domestic market but also for those willing to export production to nearby markets, such as the EU. It would also help local firms better integrate into global production chains, by allowing the free movement of parts and components through and between regional partners. Only through greater integration would the Maghreb reach the necessary scale to attract market-seeking FDI on a sustained basis. Moreover, GVCs can also act as channels for knowledge diffusion both from advanced economies and among Maghreb countries, in the same way as the traditional trade and investment channels do.

The Maghreb could become a trade and investment hub between sub-Saharan Africa and the EU. In 2010, the Boston Consulting Group report on the new African Multinationals (BCG 2010) pointed to the emergence of strong transnational companies in the Maghreb, with 10 of the 40 African companies studied in the report from the Maghreb (six from Morocco, two from Algeria, and two from Tunisia). In fact, Moroccan and Tunisian companies have been investing across the Maghreb, becoming important players in the host countries. Governments should support this growing source of FDI by pushing for greater regional integration in the Maghreb. Such a strategy would make Maghreb countries less dependent on Europe while better able to leverage their position between Europe and sub-Saharan Africa.

Greater integration would raise the region's negotiating capacity in areas of common interest. Currently, each Maghreb country negotiates individually, often with much larger trading partners and their blocs. For example, each Maghreb country has already negotiated cooperation agreements with the EU bilaterally. While most other regions negotiate in groups, the option of joint negotiations has not been used in the ongoing negotiations on the

Extended Partnership Agreement with the EU, which aims to formalize EU trade preferences and align them with WTO rules. In a plurilateral context, all Maghreb countries, except for Libya, signed the agreement to form an African Continental Free Trade Area. Again, as most other African trade blocs represented their respective members in the negotiations of this major liberalization agreement, Maghreb countries have negotiated separately, as the AMU, their trade bloc, has remained inactive. In the multilateral context, Maghreb countries rarely table joint proposals in the WTO, thus weakening their negotiating power.

For Maghreb countries, greater regional integration should be viewed as complementary to their global integration efforts. Empirical results show that the gains from pursuing regional integration appear to be small if it happens at the expense of global integration (Bown and others 2017). In contrast, the Maghreb region can benefit most from an integration strategy that exploits the complementarities between regional and global integrations. Regional integration in the Maghreb should be viewed in a broader strategy aimed at opening up more generally to all trading partners, including in the context of the AfCFTA.

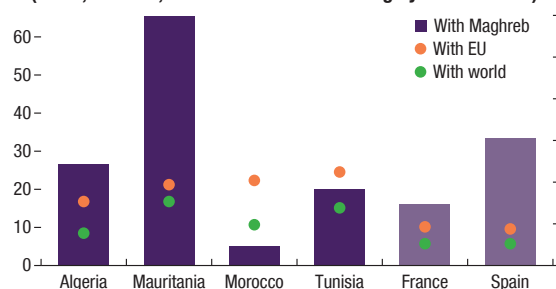
## Regional Trade Potential

The characteristics of existing trade flows confirm the substantial regional trade potential. Market concentration, trade intensity, and product survival rates point to a substantial potential for integration and the need to better leverage the comparative advantages of individual countries (Figure 8). The *market concentration index*, a measure of the dispersion of exports across trading partners, points to an important potential for the diversification of trading partners, including through regional integration, as at least half of potential bilateral trade flows among Maghreb countries are either very small or nonexistent. The *trade intensity index* suggests that all Maghreb countries, except Mauritania, are more important as trade destinations for each other than they are for the rest of the world. The share of each country's exports to other Maghreb partners is already higher than the share of the world's exports to the Maghreb. Another common feature of all Maghreb countries is the low survival rate of their export products. The *product survival index*, which measures the persistence of trading relationships, shows that a substantial share of new export products in all value categories becomes defunct as they do not reach a sufficiently high number of external markets. This also points to a significant untapped potential of integration that would create new external markets for individual products and might improve their survival rate.

Figure 8. Trade Diagnostics

Algeria and Mauritania export to fewer markets than do other Maghreb countries.

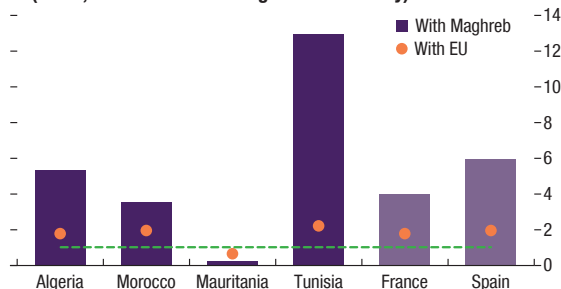
**1. Market Concentration, 2016**  
(Index; 0 to 100, from well-diversified to highly concentrated)



Sources: World Integrated Trade Solutions database; and UN Comtrade, 2018. Note: EU = European Union. Market concentration index measures a country's export dispersion across trading partners. Calculations are based on Harmonized System 2012.

Most Maghreb countries are already relatively important markets for each other.

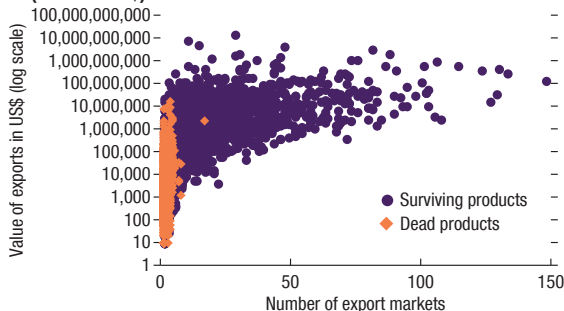
**2. Trade Intensity, 2016**  
(Index; above 1 indicates high trade intensity)



Source: World Integrated Trade Solutions database; and UN Comtrade, 2018. Note: EU = European Union. Trade intensity index is calculated by dividing the share of country exports going to the partner by the share of world exports going to the partner. Calculations are based on Harmonized System 2012.

Many export products of Maghreb countries do not survive long in foreign markets.

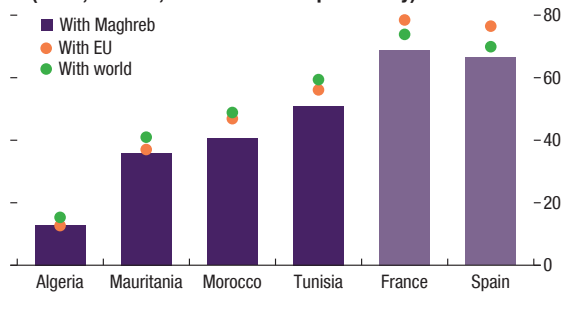
**3. Product Death and Survival, 2015–16**  
(Value in US\$)



Source: World Integrated Trade Solutions database. Note: Data includes Algeria, Morocco, and Tunisia.

Maghreb's intraregional trade is at least as complementary as its trade with the EU.

**4. Trade Complementarity, 2016**  
(Index; 0 to 100, least to most complementary)

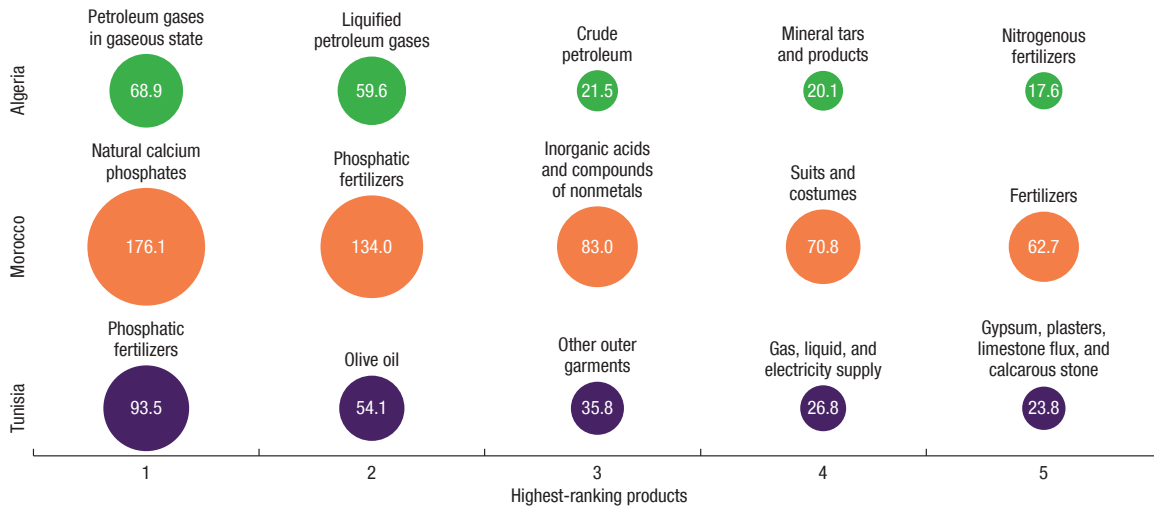


Sources: World Integrated Trade Solutions database; and UN Comtrade, 2018. Note: EU = European Union. Trade complementarity index matches the export profile of the country with the import profile of the region. Calculations are based on Harmonized System 2012.

Intra-Maghreb trade is highly complementary. The Maghreb's export structure corresponds to the region's import content, which is also similar to the import composition of its countries' major trading partners outside the region. Data on Algeria, Mauritania, Morocco, and Tunisia suggest that their exports are at least as complementary to imports of other Maghreb countries as to the EU's imports. Their *trade complementarity index*, the overlap between export and imports structures, suggests that the product composition of Maghreb exports matches, or complements well, the product compositions of imports in the Maghreb region.<sup>1</sup> For example, in the case of Algeria and

<sup>1</sup>Trade complementarity index (on a 0 to 100 scale) indicates to what extent the export profile of the reporting country matches, or complements, the import profile of the partner country. A high index may indicate that the two countries would stand to gain from increased trade.

**Figure 9. Revealed Comparative Advantage, 2016**  
 (Size of the nodes is proportional to the RCA index)



Sources: UN Comtrade, 2018; and IMF staff calculations.  
 Note: RCA = Revealed Comparative Advantage vis-a-vis world exports. Calculations use Harmonized System 2012 at the four-digit level and methodology follows World Integrated Trade Solutions, 2013.

Mauritania, the trade complementarity indices with the Maghreb and the EU are virtually identical.

Some Maghreb countries are more complementary with each other than with their main export partners. For example, Algeria's trade complementarity index with Mauritania and Morocco is superior to its index with Italy, its main export partner, yet its share of exports going to Italy is substantially larger (Table 2). For Mauritania, Morocco, and Tunisia, complementarity between them is much higher than their observed bilateral trade. Therefore, a case can be made that, while European countries are natural trading partners, intra-Maghreb trade offers a substantial source of untapped trade potential for Maghreb countries.

Maghreb countries have substantial revealed comparative advantages to trade among themselves (Figure 9).<sup>2</sup> Clearly, Morocco has a strong comparative advantage in phosphates and its derivatives, Tunisia in fertilizers, and Algeria in liquified natural gas. The countries with revealed comparative advantages in similar product groups, such as fertilizers and garments in the case of

<sup>2</sup>The *revealed comparative advantage (RCA) index* measures how competitive a product is in countries' exports compared with the product's share in world trade. Products with a high RCA are competitive and can be exported to countries with a low RCA. If estimated at high levels of product disaggregation, the RCA can focus attention on nontraditional products that might be successfully traded.



**Table 2. Trade Complementarity Index, 2016**

Exporter	Algeria		Mauritania		Morocco		Tunisia		Main Export Partner <sup>1</sup>	
	TC	%	TC	%	TC	%	TC	%	TC	%
Algeria	–		10.3	0.1	11.4	1.7	8.7	2.0	10.1	17.4
Mauritania	0.2	0.0	–		0.6	0.0	0.2	0.1	4.0	36.9
Morocco	12.9	1.0	10.8	0.8	–		14.8	0.4	23.8	23.3
Tunisia	17.3	4.9	13.8	0.1	21.1	1.2	–		29.3	32.0

Source: IMF staff calculations.

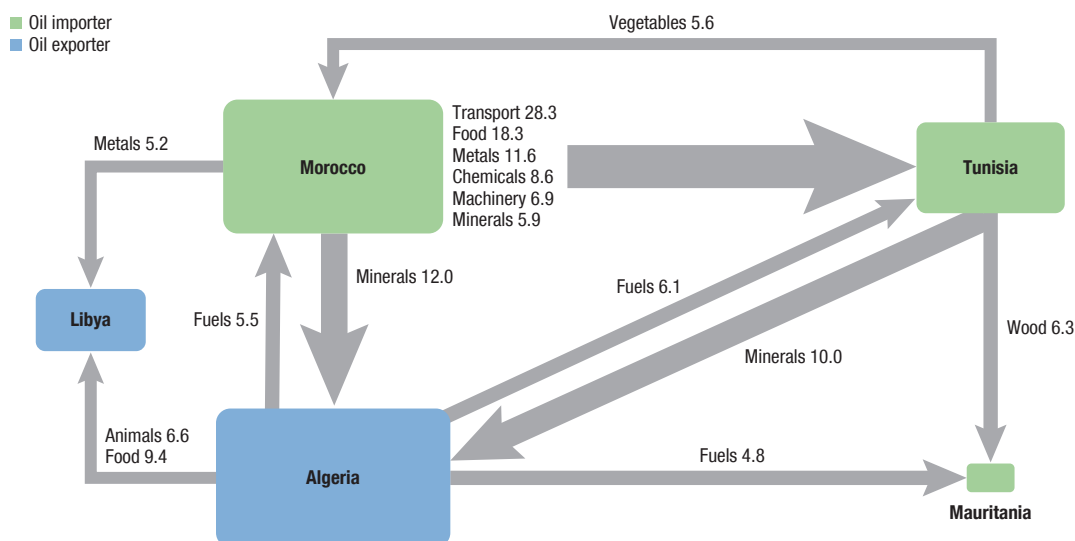
Note: Calculations are for products at the six-digit level using Harmonized System 2012 data published by UN Comtrade 2018 and based on the methodology published by World Integrated Trade Solutions (WITS) 2018. % = share of exports going to importer; TC = trade complementarity index. <sup>1</sup>The main export partners for Algeria, Mauritania, Morocco, and Tunisia are Italy, China, Spain, and France, respectively, based on 2016 data.

Morocco and Tunisia, can still have high intraindustry bilateral trade in differentiated products of the same product group.

Intra-Maghreb trade could be increased in a broad range of product categories. The RCA calculations show product groups and specific products for which additional intra-Maghreb trade is possible. There are RCA indices substantially above one, which indicates that a country’s share of exports of a commodity exceeds the partners’ export share of the same commodity. Virtually each Maghreb country with available data can identify additional products and whole product groups that it could potentially export to its regional neighbors (Figure 10). For example, based on the 2012 Harmonized System

**Figure 10. Potential for Intra-regional Trade**

(Size of the nodes is proportional to 2016 exports; numbers indicate revealed comparative advantage index)



Sources: UN Comtrade, 2018; and IMF staff calculations.

Note: Products shown are based on a cutoff of 5. Calculations are based on a two-digit Harmonized System 2012 nomenclature. Methodology is based on WITS, 2013.

classification at the two-digit level of disaggregation, Morocco has strong comparative advantage over Tunisia in a broad range of product groups, such as transportation services, food, metals, and chemicals; over Algeria in minerals; and over Libya in metals. That suggests Morocco could potentially export more of these products to each of these countries. At the same time, Tunisia could export more minerals to Algeria, more vegetables to Morocco, and more wood to Mauritania.

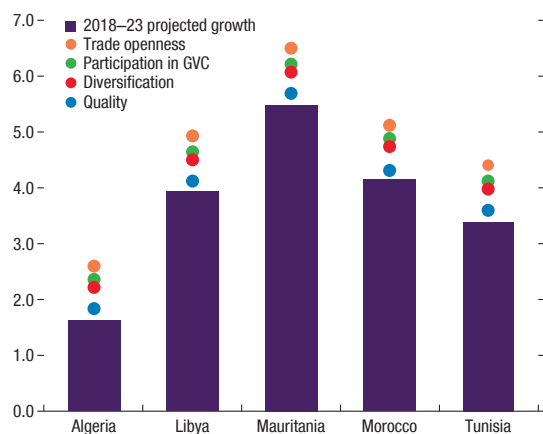
The analysis provides guidance on specific products for which trade within the Maghreb could be increased. Further disaggregation of RCA at the four-digit Harmonized System level suggests that Morocco is the most competitive in the region, with a substantial potential to increase exports to other Maghreb countries, in addition to its current exports to the rest of the world (Annex 1). For example, Morocco can raise its exports to Algeria in at least 36 products, to Tunisia in 22 products, to Mauritania in 10 products, and to Libya in eight products. Tunisia can also raise its regional exports in up to 30 products, depending on the country. The country with the least additional trade potential is Mauritania, which can increase its regional exports to Morocco and Tunisia in four products, to Algeria in two products, and to Libya in only one product. Algeria could increase exports in up to six products, depending on the country. Therefore, substantial additional trade flows are possible among all Maghreb countries.

## **Potential Impact of Greater Integration on Growth**

Multiple quantitative estimates point to substantial welfare benefits of regional integration within the Maghreb. The potential impact of regional integration in the Maghreb on growth and trade cannot be estimated with precision because of data limitation and a rapidly changing world environment, but various estimates point to the possibility of substantial welfare benefits. Overall, trade integration has been found to raise growth and improve living standards (see IMF, World Bank, and WTO 2017 for literature review).

The impact on growth of trade liberalization has generally been found positive. For example, illustrative panel-based calculations (IMF 2017b) suggest that achieving greater trade openness, coupled with increased GVC participation, export diversification, or product quality, could raise the level of income by some 5 percent to 10 percent within five to 10 years in an average emerging market and developing economy (Figure 11). Greater integration within the Maghreb, along with broader structural reforms, could be a powerful way to achieve those objectives and thereby increase the medium-term growth rates of Maghreb countries. The 2018–23 average annual growth in

**Figure 11. Growth Gains from Trade Integration**  
(Percent)



Sources: IMF 2017b; and staff calculations.  
Note: GVC = Global Value Chain. The growth increase is conditional on an increase in the given trade measure equal to the best historical period-over-period improvement observed in the Middle East and North Africa region in the past 20 years. For trade openness: 7.7 percentage points; for global value chain: 4 percentage points; for diversification: 2.4 percentage points; for quality: 1.5 percentage points.

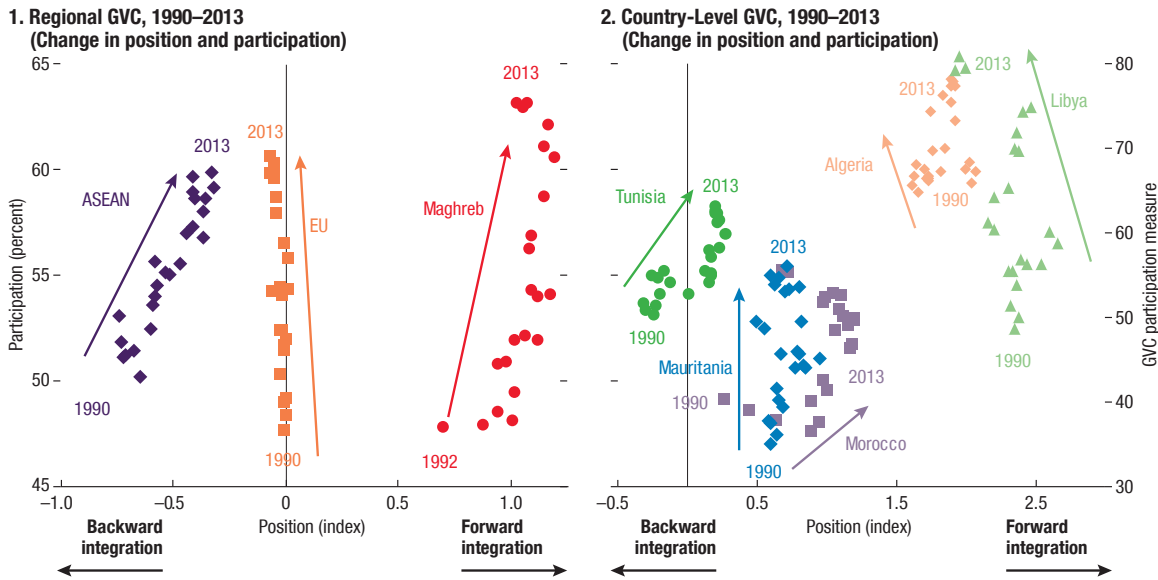
Algeria is projected at 1.6 percent, Libya at 3.9 percent, Tunisia at 3.4 percent, Morocco at 4.1 percent, and Mauritania at 5.5 percent (IMF 2017b). These growth rates could be 1 percentage point higher, on average, if Maghreb countries were to improve openness, 0.7 percentage point higher if they enhanced their participation in GVCs, 0.6 percentage point higher if they diversified their economies, and 0.2 percentage point higher if they improved their product quality. Potential benefits of Maghreb integration would become greater when Libyan reconstruction starts.

Other estimates of a possible impact of integration on growth, which could be applied to the Maghreb, have similar results. For example, the Global Trade Analysis Project computable general equilibrium model used to project the impact of the AfCFTA

includes all Maghreb countries (Saygili, Peters, and Knebel 2018). Under the assumption that all tariffs on regional trade would be eliminated, long-term growth is expected to increase by almost 1 percent, employment by 1.2 percent, and intraregional trade by 33 percent. Another computable general equilibrium model, MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis, built specifically for assessing trade policies, also points to substantial gains for trade from regional integration. According to that model, implementing the AfCFTA would result in a 52 percent increase in trade in goods and 32 percent in services (Karingi and Mevel 2012). Separately, Chauvin, Ramos, and Porto (2016) find that the short-term welfare impact of trade integration is generally small but with larger and more positive long-term impacts.

Greater integration could strengthen growth by fostering deeper participation in GVCs and the development of regional value chains. Earlier research showed that becoming part of GVCs, especially their middle segments, is associated with positive effects for growth (Didier and Pinat 2017). Without integration, in the past two decades, Maghreb countries have moved asynchronously and in different directions along GVCs (Figure 12). While Morocco and Tunisia have increased their forward participation as contributors of intermediate inputs to other countries, Algeria and Libya have moved marginally backward, toward using more foreign inputs in their exports. Mauritania’s position has remained broadly unchanged. Experience of inte-

Figure 12. Global Value Chains



Sources: Aslam, Novta, and Rodrigues-Bastos 2017; Eora Multi-Region Input-Output (MRIO) database and IMF staff calculations. Lenzen et al, 2013. Note: GVC = Global Value Chain; EU = European Union; ASEAN = Association of Southeast Asian Nations.

gration in the EU and the Association of Southeast Asian Nations points to potentially untapped benefits for the Maghreb. If the Maghreb region had been more integrated, each individual country could have moved up GVCs, as EU countries have, and closer to the center, as Association of Southeast Asian Nations countries have, using equally the advantages of both backward and forward GVC participation.

Trade integration has been generally found to reduce poverty. A joint IMF–World Bank–WTO study (2017) showed that openness is associated with accelerated growth in average incomes and with poverty reduction. For example, the income growth of the poorest 20 percent increased almost in parallel with average income growth in developing countries in 1993–2008. The change in real income of the lowest quintile of the population in developing countries is strongly correlated with the change in openness over the same period. This fact suggests that openness promotes poverty reduction by accelerating growth. Also, removal or reduction of import tariffs on imported goods reduces their prices to consumers. Because in the Maghreb a substantial part of intraregional trade consists of staples consumed mainly by the poor, the impact of regional integration on the poor’s well-being from tariff elimination should be largely positive.

Greater trade integration in the Maghreb may, however, affect some groups of workers and some communities. Potential dislocations would depend on the depth and pace of trade liberalization measures and on broader circumstances, such as the health of the economy, labor market rigidities and other impediments to resource reallocation, the strength of institutions, and the adequacy of social protection policies. Recent findings (reviewed in IMF, World Bank, and WTO 2017) highlight that when dislocation is costly, adverse effects on certain individuals and communities can be large and long-lasting if not addressed properly and promptly. These costs are lower when growth is strong and labor markets are functioning smoothly. Understanding trade-related adjustment costs is vital to formulate effective policies to mitigate them. Accompanying public policies, designed and coordinated at the regional level, can help Maghreb countries ease the costs of adjustment to greater integration for those affected.

The reduction or elimination of tariffs on trade among Maghreb countries would likely not lead to substantial revenue losses. The amount of potential revenue losses depends on the share of trade taxes in the fiscal revenue of each country, the tariff structure, the agreed tariff reduction method, and the value of trade subject to the tariff being reduced. As the value of intra-regional trade tends to be very low, the revenue loss is expected to be minimal in most cases. Furthermore, part of the possible revenue losses from lower tariffs would be offset by an increase in the taxable base due to trade creation among Maghreb countries. Any impact of trade integration on customs revenue losses should be ideally addressed through a holistic tax reform.

## Joint Policy Objectives for the Maghreb

To integrate, Maghreb countries should use the momentum generated by the current trends in the global economy, trade, and investment. Demand from their traditional trading partners in Europe would generate additional revenue, part of which can be used to offset initial costs of a broader intra-Maghreb integration. Greater capital account liberalization would help promote FDI and build regional value-added chains and their integration into GVCs. New investors, including China through its Belt-Road Initiative, may bring additional investment to the Maghreb over the next decade. If Maghreb countries coordinate their engagement with China under the BRI, part of this investment could be used for the benefit of intraregional integration. The risks to the outlook associated with raising protectionism globally, financial market volatility, and geopolitical instability in the region are also important. Finally, to reap the benefits of the global economy and reduce negative implications of global trade tensions, Maghreb countries should collaborate on trade within the region and on the broader rules-based multilateral system. In this relatively dynamic, yet fragile, external environment, the important question facing Maghreb countries is how to use regional integration as an additional tool to raise growth, create jobs, and reduce inequality.

To ACT NOW across all these directions more efficiently, Maghreb governments would benefit from JOINT policy objectives. Maghreb integration of goods, services, capital, and labor markets at the institutional level should be complemented by integration of people by investing jointly in human capital, connecting people through regional infrastructure, and regional civic initiatives. Such integration should not be viewed as a goal in itself, but rather as an instrument to achieve JOINT policy objectives, which are important for each Maghreb country and the region as a whole (Box 2).

To create jobs, Maghreb governments could focus on several policy priorities. The 2018 Marrakesh Conference identified three policy priorities for

### Box 2. Maghreb: JOINT Policy Objectives

- **Jobs:** The ultimate goal of regional integration is job creation and improvement of the livelihood of citizens through high and sustainable growth. Job creation should be fostered by regional value chains and more private sector regional integration.
- **Openness:** A new and more open economic model is needed in all Maghreb countries. They should seek to open their economies to each other through new trade and investment opportunities in the region and greater regional labor and capital mobility.
- **Inclusiveness:** Additional growth from regional integration should create opportunities for all, including youth, women, rural populations, and migrants.
- **Negotiations:** Maghreb countries should negotiate a deep regional economic agreement, create a dispute resolution system and policy monitoring mechanisms, and resolve their differences at a negotiating table.
- **Trade:** All Maghreb countries should pay more attention to their intraregional trade. While the public sector coordinates policies, the private sector should more actively explore new regional markets.

the MENA region, which are also applicable to Maghreb countries (IMF 2018c): level the regulatory playing field so private sector firms and small and medium-size enterprises can grow and create the jobs necessary to employ the region's youth, when the public sector no longer has the capacity to be the employer of first resort; leverage trade and technology to generate a large internal regional market to be better positioned to compete internationally in the face of rapid technological progress that is fundamentally changing markets; and adopt comprehensive policies to improve the skills, flexibility, and employability of workers in the face of technological advances. To create jobs, Maghreb countries could target investment in tradables sectors with high employment multipliers. A World Bank study (Ianchovichina and others 2013) suggests that in the MENA region and Pakistan, one job created in the infrastructural sector can generate of up to four additional jobs, directly and indirectly.

To increase openness, Maghreb countries could take additional trade and investment liberalization measures—unilateral, regional, and multilateral. Further reforms of their trade policy regimes could be guided by the recommendations of WTO members in the context of regular trade policy reviews for Morocco, Tunisia, and Mauritania. For Algeria and Libya, the directions of trade policy reforms could be inferred from their negotiations on the conditions of accession to the WTO. The World Bank's Doing Business, World Economic Forum international competitiveness indices, and the United Nations Conference on Trade and Development UNCTAD invest-

ment policy reviews may point to the areas where additional reform of the trade and investment environment is needed. Data availability and openness should also be strengthened, in particular on intraregional investment, labor movements, and financial flows. Obviously, such reforms should fit in a broader context of macroeconomic reforms, as regularly discussed by IMF staff with the authorities of each Maghreb country in the context of annual Article IV consultations.

To improve inclusiveness, the potential from regional integration is also substantial. The authorities in the region need to focus on the following priorities: improve governance and accountability by setting joint rules on intraregional trade and investment supported by a credible monitoring mechanism, such as regular peer reviews of policies and their application; enhance financial access and regional financial integration, including joint regional financial institutions, as a means to serve deeper integration of the goods, services, capital, and labor markets; step up and improve social safety nets in each country to offset possible side effects of deeper regional integration on individuals workers and businesses; provide better access to trade, including regional trade, for small and medium-sized enterprises and rural communities, and create through trade additional opportunities for youth, women, migrants, and other disadvantaged groups. The results of additional growth boosted by regional integration should be broadly shared among different groups of the population—no one should be left behind.

To leverage negotiations, Maghreb countries should focus on a deep regional economic agreement. Such an agreement would ideally include all the areas already covered in the AMU, such as liberalization of trade in goods and services and free capital and labor mobility, and would also extend to new areas, such as joint competition policies, an investment regime, and enforcement of intellectual property rights. Such vertical and horizontal depth would put Maghreb countries at the forefront of the liberalization efforts in Africa in a broader context of the AfCFTA. Such a regional economic agreement should include the mechanisms for dispute resolution and policy monitoring. In addition to the regional effort, Algeria (and Libya when feasible) should reinvigorate its negotiations on its accession to the WTO to be able to trade based on multilaterally accepted rules. Finally, to leverage their joint strength, Maghreb countries could negotiate as a single region with their larger trading partners, such as the EU, the United States, and China—a strategy used by other regional groups but largely untapped in the Maghreb.

To increase trade, intra-Maghreb integration should be viewed as a shared responsibility among all stakeholders. While governments should lead the way by resolving differences, negotiating the regional agreement, coordinating policies, liberalizing markets, and improving the business environment,



the private sector and civil society also have roles to play by actively seeking engagement within the region. Product complementarity among Maghreb countries points to substantial untapped business opportunities. A sense of shared responsibility is essential because no one stakeholder has the necessary breadth of insight, expertise, or experience to tackle all aspects of the complex regional integration agenda. Collaboration and partnership would be key to designing effective country-tailored policy solutions and creating comparative advantages in new areas.

While the reform agenda may seem long, the 1989 Treaty Establishing the AMU points to specific first steps that already have buy-in from all Maghreb countries. Article 2 of the treaty calls on Maghreb governments to work gradually toward achieving free movement of people and transfer of services, goods, and capital among them. Also, the AMU aims to pursue common policies in different domains. Common trade and investment policies may be good initial steps to achieve the goal of deeper regional integration.

The IMF stands ready to support Maghreb countries' integration efforts. The IMF is already deeply engaged with all countries in the region. Policy advice is provided in the context of surveillance and aims to preserve macroeconomic stability—a key condition for successfully achieving these JOINT policy objectives. The IMF has also been providing support in the context of financial arrangements in Mauritania (through its Extended Credit Facility), Tunisia (Extended Fund Facility), and Morocco (Precautionary and Liquidity Line). The IMF is also providing technical assistance and training in all macroeconomic areas. Should Maghreb governments decide to advance their regional integration, the Trade Integration Mechanism and technical assistance on tax and customs policy and administration are instruments to support their efforts.<sup>1</sup>

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<sup>1</sup>The Trade Integration Mechanism was introduced in 2004 to assist member countries to meet balance of payments shortfalls that might result from trade liberalization measures implemented by other countries. The Trade Integration Mechanism is not a special lending facility, but rather a policy designed to make resources more predictably available under existing IMF lending facilities (IMF 2018b).

## Annex 1. Intra-Maghreb Trade: Revealed Comparative Advantages

(Index, HS 2012, four-digit level, cut-off value = 10)

Algeria												
#	Libya			Mauritania			Morocco			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA
1	1507	Soya-bean oil	79.0	1701	Cane or beet sugar	14.3	2711	Petroleum gases and hydrocarbons	35.9	2711	Petroleum gases and hydrocarbons	24.3
2	1701	Cane or beet sugar	62.7	0804	Dates, figs, and other fruits	9.9	2716	Electrical energy	23.9	2904	Derivatives of hydrocarbons	19.2
3	6809	Plaster	48.6	1902	Pasta	8.3	6809	Plaster	19.4	7005	Glass	13.9
4	1512	Sun-flower seed or cotton-seed oil	25.3	4818	Household, sanitary articles of paper	1.3	2814	Ammonia	14.1	6809	Plaster	13.4
5	0403	Milk or cream	11.4							2009	Fruit and vegetable juices	13.3
6										4707	Waste and scrap of paper	11.3
Mauritania												
#	Algeria			Libya			Morocco			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Description	RCA
1	2827	Chlorides	8385	2402	Cigars, cheroots, and cigarettes	74.4	5901	Textile fabrics	5095	2301	Flours, meal and pellets	4270
2	0302	Fish; fresh or chilled	225.4				0302	Fish; fresh or chilled	359.5	0303	Fish; frozen	160.6
3							2505	Sands	37.8	0302	Fish; fresh or chilled	90.9
4							0409	Honey	36.2	0307	Molluscs	13.2
Morocco												
#	Algeria			Libya			Mauritania			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Description	RCA
1	2101	Coffee, tea or mate	137.5	7612	Aluminium casks, drums, cans, boxes	97.9	0702	Tomatoes; fresh or chilled	14.7	2511	Natural barium sulphate and carbonate	175.7
2	2809	Phosphoric acids	77.9	1517	Margarine	41.6	1507	Soya-bean oil and its fractions	14.7	2102	Yeasts	122.5
3	2511	Natural barium sulphate and carbonate	58.6	8309	Stoppers, caps, lids	25.4	0807	Melons and papaws (papayas); fresh	14.6	2811	Inorganic acids	112.7
4	6211	Track suits, swimwear and garments	53.9	2101	Coffee, tea or mate	17.8	0704	Cabbages, and similar edible brassicas	14.6	2101	Coffee, tea or mate	106.7
5	6210	Garments made up of fabrics	51.3	1701	Cane or beet sugar	14.1	0805	Citrus fruit; fresh or dried	14.6	1703	Molasses from sugar	105.6
6	6217	Clothing accessories	51.2	8544	Insulated wire, and electric conductors	13.4	0709	Vegetables	14.4	7612	Aluminium casks, drums, cans, boxes	92.1
7	0303	Fish; frozen	43.5	1515	Fixed vegetable fats and oils	12.0	3602	Prepared explosives	13.1	2301	Flours	57.7
8	7612	Aluminium casks, drums, cans, boxes	42.5	1507	Soya-bean oil and its fractions	12.0	0403	Milk or cream	12.9	6813	Friction material and articles thereof	52.4
9	2403	Manufactured tobacco and substitutes	40.4				1604	Prepared or preserved fish	12.8	1211	Plants and parts of plants	45.5
10	3905	Polymers of vinyl acetate	40.0				2309	Animal food	12.5	2507	Kaolin and other clays	45.3
11	2507	Kaolin and other kaolinic clays	37.1							2008	Fruit and nuts	39.2
12	7210	Iron or non-alloy steel	36.6							2202	Waters, including mineral and aerated	36.0

(Continued)

Morocco												
#	Algeria			Libya			Mauritania			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Description	RCA
13	2005	Vegetable preparations	35.7							4707	Waste and scrap of paper	31.1
14	5808	Braids in the piece	34.9							0713	Vegetables, dried leguminous;	30.6
15	1212	Locust beans, seaweeds and algae	29.2							0511	Animal products	23.2
16	6813	Friction material	29.0							5204	Cotton sewing thread	17.5
17	0813	Fruit, dried	27.7							3305	Hair preparations	13.0
18	3209	Paints and varnishes	26.5							7801	Lead; unwrought	12.3
19	3204	Synthetic organic colouring matter	25.2							5402	Synthetic filament yarn	10.9
20	3105	Fertilizers; mineral or chemical	24.0							0303	Fish; frozen	10.4
21	2505	Sands	23.2							6910	Ceramic sinks and sanitary fixtures	10.2
22	2008	Fruit, nuts and edible parts of plants	18.1							8524	Records, tapes and recorded media	10.2
23	2104	Soups and broths	17.8									
24	5408	Woven fabrics	16.3									
25	6405	Footwear	15.8									
26	6805	Abrasive powder or grain	15.1									
27	1704	Sugar confectionery	14.6									
28	7209	Iron or non-alloy steel	14.4									
29	0904	Pepper of the genus piper	14.0									
30	1509	Olive oil and its fractions	12.3									
31	4911	Printed matter	11.4									
32	7208	Iron or non-alloy steel	10.8									
33	6910	Ceramic sinks and sanitary fixtures	10.8									
34	7614	Aluminium	10.8									
35	7010	Containers of glass	10.5									
36	6101	Coats	10.2									
Tunisia												
#	Algeria			Libya			Mauritania			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Description	RCA
1	6914	Ceramic articles	59.8	0807	Melons and papaws (papayas); fresh	21.9	3909	Phenolic resins and polyurethanes	138.5	2835	Phosphates and polyphosphates	120.4
2	2522	Quicklime and hydraulic lime	55.9	0805	Citrus fruit; fresh or dried	21.9	2836	Carbonates; peroxocarbonates	80.0	4820	Registers, account books, diaries;	108.2
3	2835	Phosphates and polyphosphates	44.8	0809	Apricots, cherries, peaches	21.6	0804	Dates, figs, and other fruits	55.4	0804	Dates, figs, and other fruits	102.4
4	2809	Phosphoric and polyphosphoric acids	39.2	1509	Olive oil and its fractions	21.6	1517	Margarine	37.6	9608	Pens;	66.4
5	2511	Natural barium sulphate and carbonate	34.8	2835	Phosphates and polyphosphates	21.4	3907	Polyacetals and other polyethers	25.9	7217	Wire of iron or non-alloy steel	61.5

(Continued)

Tunisia												
#	Algeria			Libya			Mauritania			Tunisia		
	HS	Product	RCA	HS	Product	RCA	HS	Product	RCA	HS	Description	RCA
6	8716	Trailers and semi-trailers	32.4	3905	Polymers of vinyl acetate	19.6	7210	Iron or non-alloy steel	22.2	3915	Waste, parings and scrap, of plastics	43.7
7	2828	Commercial calcium hypochlorite	30.6	0804	Dates, figs, and other fruits	19.5	3208	Paints, varnishes;	21.6	3819	Hydraulic brake fluids	43.3
8	2836	Carbonates; peroxocarbonates	29.1	2520	Gypsum; anhydrite; plasters	19.2	7318	Screws, bolts, nuts, and coach screws	14.0	0207	Meat and edible offal of poultry	41.7
9	3905	Polymers of vinyl acetate	27.5	2501	Salt	17.4	4818	Household, sanitary articles of paper	12.8	3806	Rosin and resin acids	39.0
10	7309	Reservoirs, tanks, and containers;	26.0	2828	Hypochlorites	17.1	9028	Gas, liquid or electricity supply	10.1	1516	Animal or vegetable fats and oils	31.7
11	2001	Vegetables, fruit prepared by vinegar	23.4	4804	Uncoated kraft paper and paperboard	16.6				1509	Olive oil and its fractions;	29.7
12	9028	Gas, liquid or electricity supply	22.7	0702	Tomatoes; fresh or chilled	16.4				3905	Polymers of vinyl acetate	23.2
13	8548	Electrical parts; of machinery	22.2	3105	Fertilizers; mineral or chemical	15.6				3812	Prepared rubber accelerators	22.2
14	1207	Oil seeds and oleaginous fruits	19.6	0709	Vegetables; fresh or chilled	15.5				4803	Tissue, towel, napkin stock or similar	21.1
15	2523	Portland and other cement	18.0	4810	Paper coated with kaolin	15.4				8430	Moving, grading, levelling machinery	18.3
16	0910	Ginger, saffron, and other spices	17.3	4803	Tissue, towel, napkin stock or similar	15.1				3305	Hair preparations	16.7
17	3812	Prepared rubber accelerators	15.2	0403	Milk or cream	14.8				0910	Ginger, saffron, and other spices	15.5
18	7010	Containers of glass	15.1	3912	Cellulose and its chemical derivatives	14.8				7312	Stranded wire, ropes, cables, plaited bands, slings and the like, of iron or steel, not electrically insulated	15.1
19	8609	Containers	15.1	0904	Pepper of the genus piper	13.4				5604	Rubber thread and cord	13.9
20	4803	Tissue, towel, napkin stock or similar	13.9	1516	Animal or vegetable fats and oils	13.1				6901	Bricks, blocks, and other ceramic goods	13.8
21	6807	Asphalt or similar material	13.2	6309	Textiles	13.0				0406	Cheese and curd	12.3
22	3212	Pigments	12.6	4818	Household, sanitary articles of paper	12.9				3306	Oral or dental hygiene preparations	11.9
23	8431	Machinery parts	12.6	0806	Grapes; fresh or dried	12.9				6403	Footwear	11.1
24	7310	Tanks, casks, and similar containers	12.4	7310	Tanks, casks, and similar containers	11.2						
25	9015	Surveying instruments and appliances	11.4	2833	Sulphates; alums; peroxosulphates	10.7						
26				8903	Yachts and other vessels	10.6						
27				1517	Margarine	10.5						
28				3903	Polymers of styrene, in primary forms	10.1						

Source: IMF staff calculations based on World Bank WITS (2018).

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