

US Foreign Policy towards the Maghreb: The Need for a New Beginning

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On 4 June 2009, President Barack Obama called for a “new beginning” in relations between the United States and the Muslim world. For decades, the Maghreb region of North Africa –which includes Algeria, Libya, Mauritania, Morocco and Tunisia– has fallen through the cracks of US foreign policy. The Senate Foreign Relations Committee has not held a hearing on the Maghreb for at least six years, an astounding fact given the strategic importance of the region. As part of the broader Middle East, it has been overshadowed by Iraq, Iran and the Peace Process. As part of Africa, it has been neglected because of the pressing conflict and development issues in the sub-Saharan. The adoption and implementation of a comprehensive policy for the Maghreb that confronts the region’s interrelated security, economic and political challenges would truly be a “new beginning” in US foreign policy in this important region.

I have a long and personal commitment to economic development in the Maghreb. While serving as US Under Secretary of State for Economic Affairs during the Clinton Administration, I launched the US-North Africa Economic Partnership, the purpose of which was to develop a closer relationship between the United States and the countries of the Maghreb and to encourage increased trade, investment and job creation. Because of the diplomatic situation at the time, however, neither Libya nor Mauritania was included. During the Bush Administration, the Partnership was subsumed into a broader Middle East Partnership Initiative and lost the focus on the Maghreb as a uniquely important region. I have continued to be engaged in the region and travelled there in 2009 to discuss these issues with the private and public sectors.

The region’s current challenges include the emergence of Al Qaeda in the Islamic Maghreb (AQIM), a terrorist network that seeks to destabilise the region and has orchestrated attacks in Algeria, Mauritania, Morocco and Tunisia. Other security concerns include the flow of illegal immigrants and contraband from sub-Saharan Africa to Europe through the Maghreb. These security issues are enabled and compounded by the lack of economic opportunity for the region’s population, particularly the growing “demographic bulge” of young, unemployed, urban men. A fully coordinated response to these security and economic challenges by the Maghreb countries has been hindered by political differences between Algeria and Morocco relating to the unresolved status of the Western Sahara.

In his Cairo speech, President Obama discussed the need to foster broader economic development in Muslim countries, development that comes from increased education and opportunity, and not oil wealth. He emphasised the need for expanded education and investment in the region and advocated strategies for the building of business and scientific relationships between the United States and Muslim countries. Economic development would in turn further many of the other goals outlined in the speech, such as the strengthening of democratic institutions and the combating of extremism. The President’s speech was addressed to the entire Muslim world, which is composed of regions and countries with diverse characteristics and challenges. While President Obama outlined broad goals for economic partnership with the Middle East, implementation of those goals need not –indeed, should not– be a “one size fits all” approach. In particular, US policy should treat the countries of the Maghreb as an economic unit with unique challenges and unique potential that can best be served by strengthening regional economic integration and fostering links between the

Maghreb and the rest of the world economy. The United States, working with its allies in Europe, can help the Maghreb to address the challenges it faces by encouraging economic integration between the countries of the region and between the region and the broader world economy.

Political Economy of the Maghreb

The Maghreb faces numerous political and economic challenges. The region experienced average annual GDP growth of only 2.5% from 2001-2005, which is disappointing in comparison to the results in other developing regions such as South Asia and East Asia. Indeed, it is lower than growth in many mature economies. Setting aside the recent worldwide economic crisis, the Maghreb should have the GDP growth rates of a vibrant, developing economy. There also is limited cross-border trade and investment in the region. In 2007, the countries of the Maghreb had a rate of intra-regional merchandise trade of only 1.3% of total merchandise trade. This is one of the lowest rates in the world for any region. While many tariffs have been reduced, these countries still have many non-tariff and regulatory barriers in place that impede trade and investment flows.

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Unemployment is high and economic opportunities for the growing population of urban, young men and women are limited. The median age in Tunisia, for example, is 29 years, and over 20% of the population is between the ages of 15 and 24. The United Nations Development Programme estimates regional unemployment at 16% and unemployment of urban youth at 30%. This absence of good jobs creates immigra-

tion pressures, often felt most acutely by other countries of the Mediterranean. High unemployment also creates a void where many young men may succumb to radical ideas, extremism or crime. This is a volatile situation, which cannot be allowed to persist. Terrorism, extremism, and narcotics and human trafficking, which are on the rise in the region, may, if unchecked, undermine the stability of the region's relatively moderate regimes and hurt the region's ability to attract foreign investment and tourism.

For example, in April 2007, suicide bombers in Casablanca, Morocco and Algiers, Algeria attacked a number of government and international targets, killing dozens. In December 2007, simultaneous car bombs were detonated in Algiers, damaging the United Nations' headquarters there as well as the country's Constitutional Court. Again, dozens were killed. In February 2008, AQIM extended its efforts to Mauritania, where it orchestrated an attack on the Israeli Embassy. More recently, AQIM has been kidnapping Westerners for ransom; as of the writing of this article, one French hostage was being held by the organisation in Mali, and an Italian couple had been kidnapped in Mauritania. According to a review by the National Counterterrorism Center and Lawson Terrorism Information Center, terrorist attacks have spiked in the Maghreb and neighbouring Mali by more than 2000% since 2001, with only four incidents in 2001 and 110 in 2007.

In an effort to combat the terrorist threat, the Maghreb countries have tightened restrictions on the movement of people and goods at their borders, which has had the unintended consequence of further reducing cross-border commerce in the region and decreasing economic activity. The US and European Union have encouraged the Maghreb countries to take anti-terrorism measures, and economic development and integration have consequently been deemphasised. These countries are taking steps to enhance their cooperation on security matters, but these efforts should go hand-in-hand with cooperation on economic matters in order to create greater long-term stability in the region.

Finally, the countries of the region do not necessarily look first to their Maghreb neighbours for close economic relationships, largely because each country has its own unique historical links to the rest of the Arab world, the rest of Africa, and Europe. Some countries lack well-diversified economies. For example, Libya and Algeria are highly dependent on oil and gas, and agriculture remains relatively important, es-

pecially in Morocco and Tunisia. Greater economic integration would decrease the reliance on these dominant sectors.

Prior Efforts at Regional Integration

There have been numerous attempts at integration in the Maghreb, internally and with the EU and the US. Among at least some of the countries of the region, there is the Arab Maghreb Union (AMU), the Greater Arab Free Trade Agreement (GAFTA) and the Agadir Agreement, among others. Unfortunately, most of these institutions have yet to fully realise their objectives, a fact which demonstrates the need for US encouragement of regional integration.

The need for regional political stability played a decisive role in promoting the creation of the Association of Southeast Asian Nations (ASEAN) and regional integration efforts in Central America, beginning with the Central American Common Market (CACM) and leading to the CAFTA agreement with the United States. The comparison with ASEAN and CAFTA clearly shows the economic gains that result from economic integration. The Maghreb's intra-regional merchandise trade of 1.3% of total merchandise trade compares to 6.3% for CAFTA-DR (Central America Free Trade Agreement - Dominican Republic) and 19.2% for ASEAN. There are political gains to be had as well. While the Maghreb faces serious political challenges, the countries of Central America and Southeast Asia faced political problems that were just as substantial when they began their efforts at economic integration. Ultimately, those countries were able to use economic integration as a way of advancing the cause of political reconciliation.

The AMU, which is the only effort that included all five Maghreb countries, was founded in 1989 to achieve economic integration and ultimately was to have resulted in a customs union in 1995 and a common market in 2000. Neither goal was met because, first, decisions must be made unanimously and, second, political tensions put a halt to meetings in 1994. More recently, however, there are signs of increased cooperation among AMU members. Since 2005, there have been several ministerial-level meetings organised by the five Maghreb countries. At the end of 2009, the foreign ministers of the AMU countries announced that the AMU would adopt measures to create the Maghreb Bank for Investment and Foreign

Trade as soon as possible; the creation of this bank was initially announced in 2007 as an institution that would promote investment, trade and cross-border economic cooperation.

The EU has strong ties to the region and has Euromed Association Agreements with Algeria, Morocco and Tunisia, while Libya enjoys observer status. Mauritania attends meetings of the Euromed foreign ministers as a "special guest." The EU also initiated the Union for the Mediterranean in 2008, which may reinvigorate the Barcelona Process. Morocco and Tunisia also have free trade agreements with the European Free Trade Association (EFTA). These agreements have led to real gains in the countries' trade with European countries. Between 2006 and 2008, exports of goods to the EU increased by about 37% for Morocco, over 50% for Algeria and 15% for Tunisia. While these gains are significant, and the EU has simultaneously given technical assistance to the Maghreb countries, more can be done to encourage intraregional economic integration to decrease the countries' reliance on the European market for their goods.

The countries of the region have demonstrated a desire to strengthen their bonds among one another and with the outside world. The US and EU should use their relationships with the Maghreb countries to assist them in achieving this goal.

The GAFTA was created in 1997 by 17 of the 22 members of the Arab League, including Libya, Morocco and Tunisia. The objective was the establishment of a free trade area by 2007. The organisation has made significant progress towards that goal: industrial and agricultural goods have travelled throughout the region duty-free since 2005. However, services and investment are excluded, as are sanitary and phytosanitary measures and technical barriers to trade. Strict rules of origin and the approval process for certificates of origin at embassies have been major obstacles.

The Agadir Agreement of 2004 between Tunisia, Morocco, Egypt and Jordan builds upon other agreements like the GAFTA and Euromed Association

Agreements. It is open to countries that have Euromed Association Agreements and are members of GAFTA. Countries abide by pan-European rules of origin – which may, however, conflict with GAFTA rules– and receive technical assistance from the EU.

The United States has entered into various bilateral arrangements with the countries of the region, which may offer it mechanisms to encourage greater integration. The US has Bilateral Investment Treaties with Morocco and Tunisia, Trade and Investment Framework Agreements (TIFAs) with Algeria and Tunisia, and a Free Trade Agreement (FTA) with Morocco. The United States and Libya are exploring the possibility of a TIFA. Previously, the countries signed a science and technology agreement, and the United States has recently opened a commercial office in Libya. While the United States has created formal economic relationships with the countries of the Maghreb, with the exception of the US-Morocco FTA, these economic ties are not significantly contributing to regional integration or integration with the world economy, and more needs to be done by the United States to promote economic cooperation in the region.

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Recommendations

The current state of the Maghreb's economy, the failure of prior efforts at regional integration to come to fruition, and the differential experiences in Southeast Asia and Central America demonstrate the need for concrete action. Although the United States should examine the structure of its formal agreements with the countries of the Maghreb, promoting cooperation among private actors in the region is as important as instituting formal economic agreements. The cooperation of private sector actors across borders can yield faster gains that will spill over into multiple areas. Additionally, in the current political and economic climate, any new US free trade agreements in the region are a distant prospect. The ambitions outlined in President Obama's "New Beginning" speech can be pursued in the short term through the fostering of dynamic regional private sectors to make them engines of innovation and growth.

Working Towards a Regional FTA

The European Institute for the Mediterranean (IEMed) and the International Food Policy Research Institute (IFPRI) contributed to a study by the Peterson Institute for International Economics analysing both the gains from closer economic integration among the Maghreb countries, as well as the additional benefits from closer economic ties between the region and the world economy, in particular the United States and the European Union.

Because the gains from integration among just the countries of the region would be somewhat modest, it is important for the region as a whole to enhance its ties with the broader world economy. The gravity model analysis suggests, in its most ambitious scenario, where both the United States and the European Union have regional FTAs with the Maghreb, that Maghreb trade would expand by nearly \$9 billion (nearly 8%) and total Maghreb inward FDI stocks would increase by \$5.8 billion (75%). In this same best-case scenario of US and EU regional FTAs with the Maghreb, the computable general equilibrium model similarly predicts dramatic changes. The positive GDP impact reaches 10% above current growth rates in Libya, nearly 8% in Tunisia, 6% in Algeria, and around 4% in both Morocco and Mauritania.

While such an expansive free trade area may not be practically or politically feasible over the near term, there are alternate ways to promote regional integration, building upon the US FTA with Morocco. These policies could also serve as stepping stones towards greater integration between the United States and the European Union and the Maghreb countries. First, the US could provide regional cumulation of origin under the US-Morocco FTA. This would allow inputs from other countries in the region, such as Tunisia, to be considered as "Moroccan" content for the purposes of the FTA's rules of origin, so long as the final product is made in Morocco. This option, which is expressly contemplated in the text of the FTA, would provide a mechanism by which the other countries of the Maghreb could realise some of the benefits of a region-wide FTA without the requirement of a lengthy or contentious negotiation and ratification process. The second option would be the creation of special "Economic Integration Zones," or EIZs, like the Qualifying Industrial Zones (QIZs) in Jordan and Egypt or Reconstruction Opportunity Zones being considered by the United States for Afghanistan and Pakistan. EIZs would be specific geographic areas in the Magh-

reb region designated by the US as areas that can benefit from preferential tariff rates for exports to the United States. Inputs would come from multiple Maghreb countries to be produced in these zones. Finished products produced in EIZs would encourage deeper integration among Maghreb countries and make all of the participating countries potentially more attractive to investors. As Jordan's QIZ experience shows, EIZs can be used to foster complementary industries in participating countries and can serve as a precursor to deeper integration with the United States.

EIZs must, however, be carefully planned and negotiated among the participating countries in order to ensure that all parties reap the maximum benefits. EIZs are an ambitious goal and would likely require new legislation in both the United States and in each participating Maghreb country. For this reason, the United States should actively pursue additional programmes to foster economic integration in the region, as outlined below.

Relationship and Institution Building

The fostering of connections in the private sector and the creation of strong public and private institutions are vital to promoting economic integration, and these are areas ripe for assistance by the United States. While the Western Sahara issue is a potential barrier to formal economic integration agreements among the governments of the region, efforts to encourage Maghreb economic integration among private-sector actors can move forward and might even help ease some of the political tensions in the region. In his "New Beginnings" speech, President Obama announced a Summit on Entrepreneurship to strengthen ties between business leaders, foundations and social entrepreneurs in the United States and Muslim communities. This Summit will be taking place this spring in Washington, DC with participants from over 40 countries, and a natural stepping stone would be a more focused initiative involving the countries of the Maghreb, with the private sectors in the United States and the region encouraged to take a leadership role.

Efforts to connect the private sectors in the United States and the Maghreb would be complemented by network-building initiatives among the private sectors in the region and by the fostering of cross-border investment and educational opportunities within the Maghreb. The creation of a strong, regionally-minded private sector would generate grassroots impetus for

the regional governments to work towards integration and would help identify areas of cooperation and mutual benefit. The United States should support the creation of these types of initiatives as a complement to more formal governmental efforts.

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With respect to institutions, the United States and European Union can also help to improve the business climate in the Maghreb by encouraging accelerated reforms, for example by encouraging harmonisation of investment and regulatory regimes throughout the region to the highest standards set forth in bilateral trade agreements. The efficiency of intra-regional shipments could also be improved with procedures consistent with the International Convention on the Simplification and Harmonisation of Customs Procedures (the Kyoto Convention), which is intended to streamline customs procedures to facilitate and encourage international trade. The United States and the European Union could also provide Maghreb countries with the equipment and technology they need for ensuring that cross-border shipments do not contain weapons, drugs, dangerous chemicals or explosives.

Sector-Specific Cooperation

The Peterson Institute, IEMed and IFPRI study shows that US and EU promotion of Maghreb economic integration is not enough. Independent intra-Maghreb cooperation should also be encouraged. The framework for integration and cooperation has already been put in place in the region –through the AMU, the Agadir Agreement and other intra-regional institutions. However, the mere existence of such institutions is not sufficient to spur cooperation across borders. The study identified specific projects that are ripe for a

greater regional focus and for use as a launching pad to broader integration.

- *Transport:* The connection of railways, roadways and air transport among the three countries (i.e., Morocco, Algeria and Tunisia) is critical to the connection of their economies. A practical example, which is very visible to those travelling in the region, is the difficulty of getting from Casablanca to Tunis, two of the region's commercial centres. The Maghreb countries must work together to bring down these types of barriers which impede trade and investment within the region and with the rest of the world.
- *Energy:* Regional collaboration on energy policy, including electric interconnectivity and the sustainable development of the energy supply, would improve energy delivery within the region and to energy-importing countries outside the region.
- *Agribusiness:* The similarities among the North African countries in their food production offers opportunities for regional cooperation through the realisation of economies of scale, for example, in the down-sector food-processing industry, and through increased specialisation among the countries based on their comparative advantages.
- *Banking:* Collaboration on the reform of the banking sector can encourage a more regional outlook and orientation towards the mobilisation of capital for the purpose of economic development.
- *Water Supply:* The ability to ensure a sustainable water supply into the future is a critical problem that is common to the countries of the region and would be most productively addressed by a joint solution.

Cooperation across these sectors would not only pool the countries' resources towards common problems and opportunities, but would also build networks and connections among the countries that may lead to integration and development in other sectors.

Conclusion

The greatest promise for increased trade and investment among the countries of the Maghreb and

between the Maghreb and the broader world economy is likely to be realised through a comprehensive approach to economic reform. The countries of the region need to work together to lower tariff barriers, reduce non-tariff barriers and harmonise regulatory regimes to enhance the regional investment climate.

The international community must work in a coordinated manner to encourage and assist the countries of the Maghreb in their efforts to enhance regional economic integration and to help these countries strengthen their economic ties to the broader world economy

The international community –including the World Bank, the IMF, the European Union and the United States– must work in a coordinated manner to encourage and assist the countries of the Maghreb in their efforts to enhance regional economic integration and to help these countries strengthen their economic ties to the broader world economy. There is a deep hunger in the region for international leadership in this area. The countries of the region, as well as the international community, stand to benefit from working together to enhance economic opportunity in the region. Increased economic opportunity promises to enhance stability and security and diminish the appeal of terrorism and crime.

The economic development of the Maghreb is not just an issue for Europe or the Mediterranean region. The Maghreb is for many reasons ripe for a “New Beginning” of the type described in President Obama's Cairo speech, which could serve as a model for other initiatives in the Muslim world, to be tailored to the specific needs of each Muslim country and region. The United States, alongside Europe and the rest of the international community, should act now to harness the potential of the region and truly turn the page on US foreign policy.