

# Governance and the Economy in the MENA Region

## **Noha El-Mikawy**

Policy Advisor on Governance and Poverty Reduction

## **Ingvild Oia**

Research Associate

United Nations Development Program

Oslo Governance Center<sup>1</sup>

The countries of the Middle East and North Africa (MENA) are often seen as a menace. Rarely are they considered miracles, economic or political. The MENA countries are associated with economic challenges of modest economic growth rates, weak competitiveness, high unemployment, persistently young populations wanting to immigrate, poverty amidst richness, environmental vulnerabilities and high risks to human security. This is combined with timid political establishments more willing to modernize the administrative apparatus than allow for political diversity and rotation of power. The golden rules governing relations with the MENA countries seem to be: focus on the economy, enhance security, ensure stability, cautiously encourage liberalism and be careful of democracy. We shall argue that these golden rules belong to a minimalist agenda; though seemingly realistic in the short run, it has yet to prove itself effective for medium to long run sustainable human development.

## **Current Economic Trends**

Trends discerned back in the *Med.2003* (El-Mikawy, 2004) persisted in 2007. The Gulf countries continue to surpass North African and East Mediterranean countries on government effectiveness and economic competitiveness, though others in the region seem to be picking up.

Same applies to some indicators of integrity and transparency, where again Qatar, Oman and the UAE rank highest in the region.

Among the non oil-rich countries, Jordan and Tunisia continue to score relatively higher than other MENA countries on government effectiveness and integrity transparency.

Two trends in particular seem pervasive and thus sound loud alarm bells. Most MENA countries, including the better performers (oil-rich Gulf countries) have low levels of trust among the panels of executives who respond to World Economic Forum surveys. Another prevalent trend in the region is bureaucratic procedures considered burdensome by the panels of executives who respond to World Economic Forum surveys.

Given this record for most MENA countries, the latest decision of the EuroMed ECOFIN on 14th September 2007, where EU Finance Ministers met with their Mediterranean counterparts to discuss ways of achieving higher sustainable growth and more jobs, is quite welcome. The Ministers agreed to launch a Euro-Mediterranean Network of Public Finance Experts in an effort to share experiences in fiscal policy issues, paying attention to budget deficits and public debt, increasing public sector accountability and fighting corruption.

## **The Missing Perspective in Economic Trends**

Three trends are often missing in an account of economic performance that is based on surveys of executives and expert opinion: macro economic development strategies, unemployment and inequality. Macro economic trends on how economies are doing overall with respect to sector productivity, poverty and inequality are an important barometer of the overall well-being of societies. For a start, growth

<sup>1</sup> The ideas expressed in this chapter do not represent an official position of the UNDP.

CHART 17

Global Competitiveness Index 07-08, (scale 0-6 where 6 is most competitive)

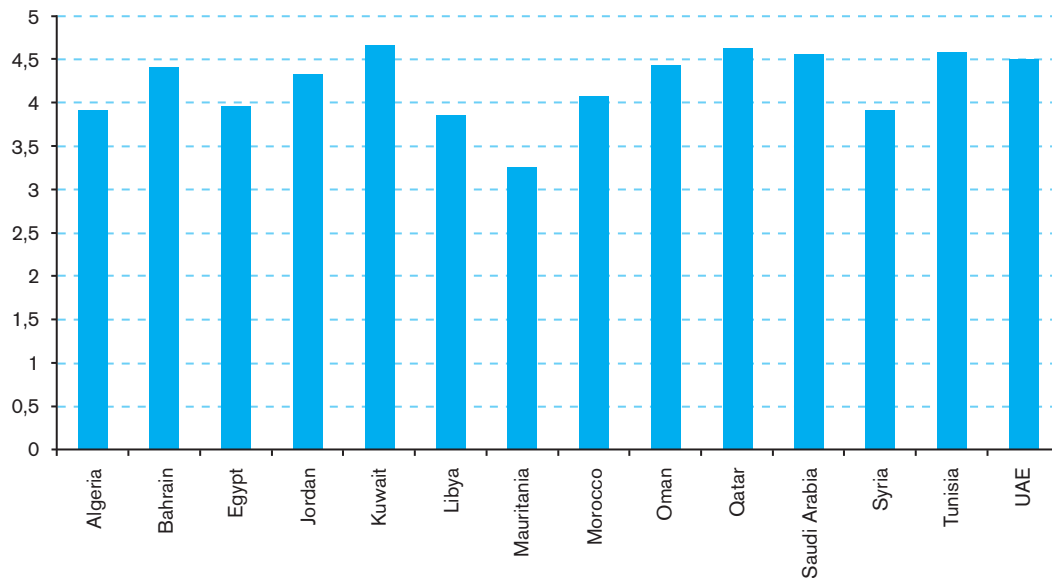
Source: World Economic Forum, *Global Competitiveness Report 2007-2008*.

TABLE 27

Indicators of Integrity and Transparency

	Algeria	Bahrain	Egypt	Jordan	Kuwait	Libya	Mauritania	Morocco	Oman	Qatar	Syria	Tunisia	UAE
Diversion of public funds. In your country, diversion of public funds to companies, individuals, or groups due to corruption (1 = is common, 7 = never occurs).	3.20	4.00	4.30	4.90	5.00	4.70	3.20	3.30	6.20	5.60	4.40	5.20	5.70
Judicial Independence. Is the judiciary in your country independent from political influences of members of government, citizens, or firms? (1 = no, heavily influenced, 7 = yes, entirely independent).	3.70	3.40	4.80	4.90	5.20	4.20	3.80	3.40	4.80	5.60	3.00	5.10	4.80
Strength of auditing and accounting standards. Financial auditing and reporting standards regarding company financial performance in your country are (1 = extremely weak, 7 = extremely strong —the best in the world).	3.70	5.60	4.50	5.10	5.40	3.40	3.30	4.00	5.50	5.30	3.20	5.10	5.30

Source: World Economic Forum, *Executive Opinion Survey 2006, Arab Competitiveness Report 2007*.

rates are volatile and uneven as a result of oil prices, weak competitiveness of exports, weak productivity, conflict and the ensuing political instability in the region (MENA-OECD Investment Program, 2006). This weak growth performance is considered by some observers to be a symptom of more than red tape or investors' weak trust. It persists despite consistent tariff reforms and a complex regime of free trade agreements (e.g. WTO, EU associations, co-terminus regional and bilateral trade agreements) which have resulted in noticeable reduction of tariff barriers to exports from Arab countries.<sup>2</sup> Weak growth cannot be blamed on state-led planned economies any longer as it persists despite the abandonment of state-led development models. This begs the question of why

weak growth (Page, 2004) (World Bank, 2007). For some analysts, weak growth is the other side of the coin of a conscious choice to base development strategies on the service sector, weakening in the process whatever gains made previously in the 1960s and 1970s in the industrial sector.

The former trend is untenable especially if it is coupled with a private sector that tends to be biased towards low risk services which do not produce enough jobs at a time when the Arab job market has one of the lowest employment absorption rates in the world. This perpetuates an inability to absorb millions of existing and new entrants into the Arab labour market on a yearly basis; the Arab labour force is estimated to have grown by an average of 3.7% per year in the

TABLE 28

Indicators of Trust and Bureaucratic Procedures

	Algeria	Bahrain	Egypt	Jordan	Kuwait	Libya	Mauritania	Morocco	Oman	Qatar	Syria	Tunisia	UAE
Public trust of politicians. Public trust in the financial honesty of politicians is (1 = very low, 7 = very high).	2.80	2.70	2.70	3.20	2.90	2.10	2.50	2.70	4.20	5.00	2.40	4.60	5.20
Favouritisms in decisions of government officials. When deciding upon policies and contracts, government officials (1 = usually favour well-connected firms and individuals, 7 = are neutral).	3.90	3.10	3.20	3.30	2.80	3.20	3.60	3.20	4.60	4.50	2.90	4.70	3.90
Government spending. Public spending in your country (1 = is When deciding upon wasteful, 7 = provides necessary goods and services not provided by the market).	3.70	3.70	3.20	3.70	3.30	3.00	2.50	3.40	4.70	5.20	3.00	5.30	4.90
Burden of government regulation. Complying with administrative requirements (permits, regulations, reporting) issued by the government in your country is (1 = burdensome, 7 = not burdensome).	3.00	3.40	2.90	3.60	2.90	2.60	4.60	3.10	3.40	3.90	2.70	4.20	4.30

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period 2000-2005 or 4 million entrants per year (ESCWA, 2007). In consequence, the informal sector thrives in most Arab economies. This means, however, that Arab employees are also more likely to accept insecure jobs, or create jobs based on insecure claims to assets without social security protection.<sup>3</sup>

Both trends become explosive when combined with a third trend: increasing wealth inequality as income inequality continues to have a mixed record. The region has experienced poverty reductions since the 1990s, except Morocco and the Least Developed Countries (LDCs). Nevertheless, incidences of extreme poverty still amount to 22% of the total population of the region (or 52 million people) with Egypt, Syria and the LDCs taking the biggest share thereof. Using World Bank "upper" poverty count,<sup>4</sup> headcount poverty reaches 42%. This is a substantial concern considering that those marginally above that line remain vulnerable to minor economic fluctuations. On the other hand, there is rudimentary evidence that wealth inequality – as opposed to income inequality – is on the rise due to concentration of urban and rural land holdings, among other things. Thus, to boast secure property rights is one thing (as is the case in the

World Economic Forum Executive survey); to have social cohesion is quite another.<sup>5</sup>

These trends are important to keep in mind because combined they result in entrenched dynamics of social exclusion. This manifests itself in exclusion from the labour market and from community services. The latter phenomenon manifests itself in the high rates of slum dwellers in urban areas of the region: 42% in 2001, down from 47% in the 1990s (ESCWA, 2007).

### Governance Trends: The Missing Link and the Missing Adjective

The European Neighbourhood Policy (ENP) has framed governance in the MENA region as a process that entails more than effective administrative management of public finances and of investment and trade policies. Human rights, democracy and rule of law are central to the ENP. This is reflected in the handful of ENP action plans signed between the EC and Morocco, Tunisia, Egypt, Jordan and Lebanon.<sup>6</sup> In principle, this is a move in the right direction. What this direction requires, however, is a strategic approach.

<sup>2</sup> ESCWA *Millennium Development Goals in the Arab Region 2007: A Youth Lens*. The report records declining average tariffs imposed by developed market economies on agricultural, clothing and textile products in different sub-regions of the Arab region and increasing free admission of developed economies' imports into the Arab region, pp. 59-60.

<sup>3</sup> See numerous research papers by the Population Council in Cairo, Egypt. See also ILO, 2005; World Bank, 2005.

<sup>4</sup> The upper poverty line is defined as the value of the basket of goods and services actually consumed by households whose food and energy intake is equal to the minimum requirement of 2200 calories per person per day. In countries like India this is the basis for calculating the absolute poverty line.

<sup>5</sup> World Bank (2005) and UNDP Poverty Reports for Yemen and Lebanon (2006, 2007).

<sup>6</sup> ENP Action Plans are bilateral agreements tailored to individual partners' short and medium term (3-5 years) reform priorities covering political dialogue, economic and social cooperation, trade, sectorial cooperation, cooperation on justice, and people to people contacts.

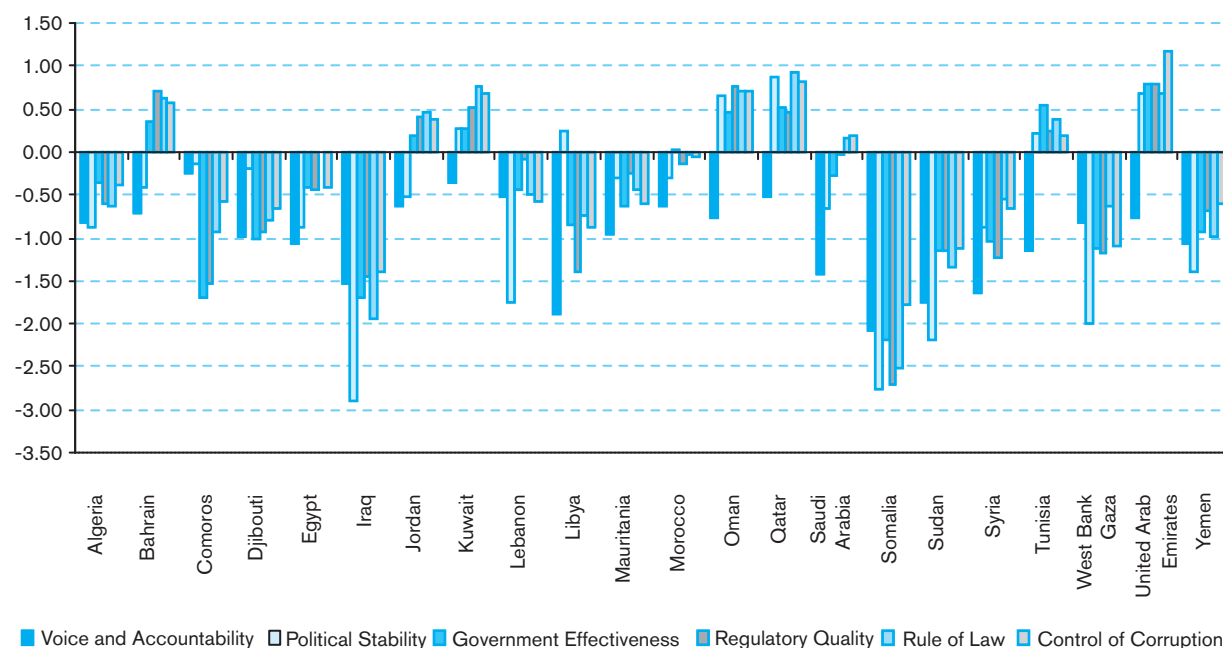
As it stands, these various central components of the ENP are additive programmes or activities. It seems to follow a piecemeal approach based on progress reports that are produced by the EC delegation staff. What the region may want beyond a parsimonious “good enough” governance approach is a governance type that allows for development with social cohesion and political inclusion. This entails meaningful participation and civic empowerment, access to justice, and power de-concentration/power sharing. The “Arab Human Development Report 2004” calls for many far-reaching legal and political changes to fortify the institutional foundations of freedom, limit the monopoly on power currently enjoyed by the executive in most countries and ensure an independent judiciary and total free speech.<sup>7</sup>

### Meaningful Participation and Civic Empowerment

The region has seen increased activity with respect to elections in the past 15 years, both national parliamentary, presidential and local. Most notably, Egypt ran presidential elections for the first time in its modern history, Palestine experienced power rotation, breaking the record set by Morocco, Algeria organized multi-candidate elections, Morocco and Jordan organized multi-party elections that saw the power of Islamists wane.

Nevertheless, it is important to note that participation was on the decline in all these otherwise trend-setting election rounds. For example, in Algeria’s 17 May, 2007 parliamentary elections, almost 65% of the electorate boycotted the elections, “a historical threshold never crossed since independence” (Hachemaoui, 2007). In Morocco, on the day of the elections, a smaller proportion of the electorate went to the polls, barely 34%, according to numbers released by the Ministry of Home Affairs, compared with the elections of 2002 (52%) (FDCM & CERSS, 2007). Though Egypt had its first multi-candidate presidential election in 2005, turnout was lower than previous presidential elections. Most of the electorate were convinced that the incumbent President would win the election. Beyond voter turnout, there is the issue of rural versus urban and poor versus middle class voters. Although voter turnout is associated with higher levels of education in developed democracies, in Egypt, illiterates are twice as likely to vote as those who can read (Blaydes, 2006). During the 2005 elections, AFP (Agence France Press) correspondents on the ground and members of independent Egyptian groups monitoring the vote confirmed participation was low in cities and higher in rural areas.<sup>8</sup> This is because the votes of illiterates tend to be cheaper to purchase by political entrepreneurs, and illiterates are also more vulnerable to intimidation by state authorities. Similar trends in vot-

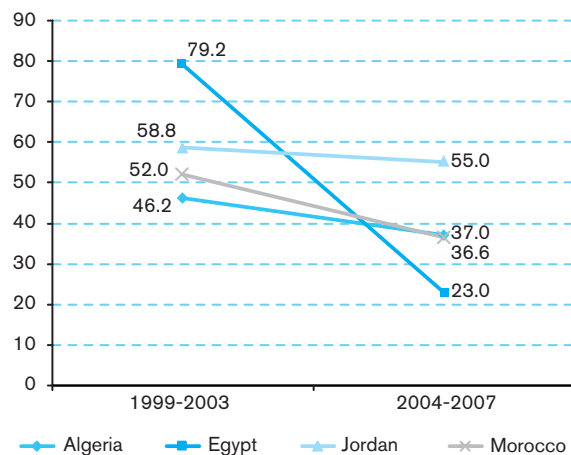
CHART 18 Worldwide Governance Indicators 2006



## Human rights, democracy and rule of law are central to the ENP. This is reflected in the handful of ENP action plans signed between the EC and Morocco, Tunisia, Egypt, Jordan and Lebanon

ing behaviour based on tribal affiliation instead of party platform or candidate programme are also discernable in Jordan. These findings have implications for our understanding of meaningful participation, clientelistic politics, electoral authoritarianism, and accountability in autocratic regimes (Blaydes, 2006).

CHART 19 Electoral Turnout Is Dropping



Source: [www.electionguide.org](http://www.electionguide.org), Algeria parliamentary elections 2002, 2007; Egypt presidential elections 1999, 2005; Jordan parliamentary elections 2003, 2007; Morocco parliamentary elections 2002-2007.

Meaningful participation goes beyond election events. Meaningful participation requires an arsenal of legal safeguards for civil and political freedoms. Most countries in the region, except for Morocco and Jordan, restrict the formation of political parties in the name of containing the threat of Islamist parties. Press freedom remains an issue in the region. In Jordan there is an ongoing restriction on the freedom of the press (Hroub, 2007). In Tunisia, there has been little progress on freedom of association and freedom of expression. The activities of Tunisian independent civil society (NGOs, political movements, trade associations) have also been obstructed. The obligation for daily newspapers

and magazines to deposit a number of copies with the authorities prior to publication was abolished in 2006 under the organic law but remains in force for the foreign press. In practice, journalists continue to face various obstacles (e.g. media access to advertising<sup>9</sup>). Electronic public space has not been spared. In Jordan there are draft laws calling for the monitoring of electronic news sites. This is not specific to Jordan by any means; in a study of the internet in 40 countries (excluding Europe and the United States), OpenNet Initiative, an academic think-tank, says that censorship of the internet has spread from just a handful of countries five years ago to 26 nations. Some countries in the Arab region are now blocking entire internet services such as YouTube, Skype and Google Maps.<sup>10</sup>

On the other hand, there are some hopeful signs; several countries tolerate the presence of a critical public space that is given various opportunities of survival. Egypt, Morocco and – to a lesser extent Tunisia – witness the mushrooming of independent press, blogs and electronic networks. In most cases, these spaces need to watch over red lines that should not be crossed. Most recently, the Tunisian President announced that censorship of written publications will move from the hands of the executive to the courts. It remains to be seen whether the courts will be more lenient. In Morocco, a number of political parties chose to publicise their programmes through the so-called “independent” press, which sometimes published the programmes of several parties, with differing agendas, in the same edition (FDCM & CERSS, 2007).

Civic engagement requires a societal infrastructure. The region boasts thousands of civil society organizations. However, most are characterized by shallow grass root presence, weak voluntarism, dependency on development aid and constant state surveillance. In contrast to civil society organizations, the region is characterized by popular and effective social movements. Mostly faith based, these movements (notably the Muslim Brotherhood in Egypt, Hamas in Palestine and Hezbollah in Lebanon) are capable of organizing community based development schemes and social protection schemes as much as they are capable of contesting power. In contrast, non-faith based movements, historically affiliated with socialists and communist thought, have waned considerably, with the most recent Jordanian elections having witnessed the marked absence of any representatives thereof.

<sup>7</sup> [www.un.org/apps/news/story.asp?NewsID=13865&Cr=arab&Cr1=development](http://www.un.org/apps/news/story.asp?NewsID=13865&Cr=arab&Cr1=development)

<sup>8</sup> [www.iol.co.za/index.php?set\\_id=1&click\\_id=85&art\\_id=qw1126093503260E213](http://www.iol.co.za/index.php?set_id=1&click_id=85&art_id=qw1126093503260E213)

Scores on “Voice and Accountability” are dropping in some countries despite presence of regular elections.

### Power De-Concentration/Power Sharing

The region’s policy makers manifest reasonable willingness to embark on institutional reform as long as it entails more modern management systems, more effective administrative performance and ultimately more growth and investments. The concern about the image of one’s country in the international community is part and parcel of this willingness to reform.

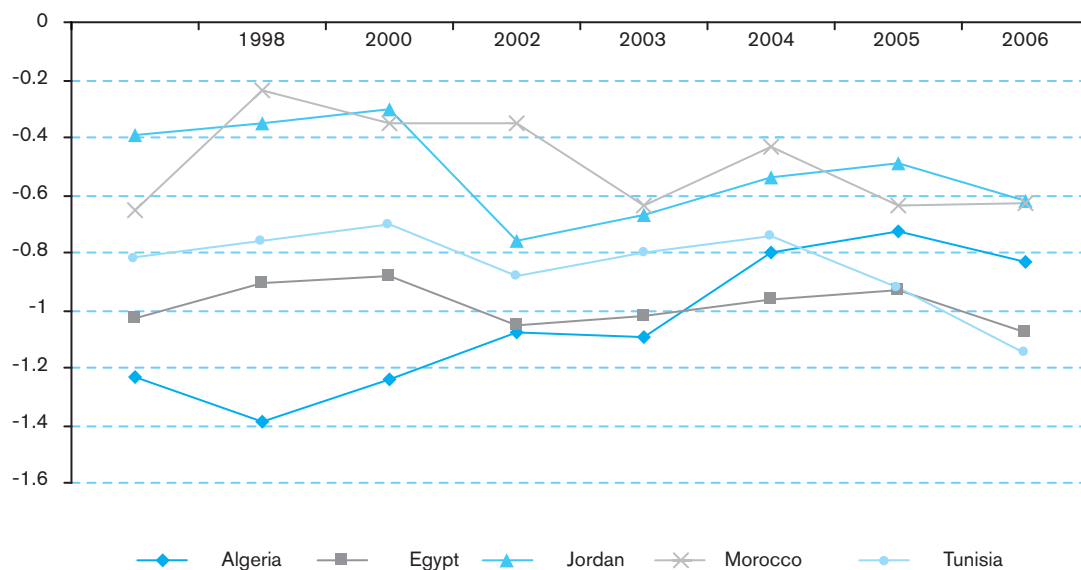
The region has, however, shown the limits of this attitude: economic liberalization yes, political liberalization no, especially if the latter means power rotation and the questioning of the economically liberal development model adopted across the region. Consequently, growth rates no matter how modest have not resulted in the easing of the political legitimacy crisis in the region or in political stability in the long run.

Most political institutions, most prominently parliaments and political parties, are discredited for their weakness. With the exception of the Kuwaiti parliament, most of the region’s parliaments are too weak vis-à-vis the Executive, be that run by a Monarch or a President. Even the Parliamentary institution in Morocco – which by design constitutes the most capa-

ble in the region to capture societal diversity – has waned over the years (Ottaway, 2007). The Jordanian parliament is equally weakened after the latest elections in 2007. Political parties in both countries, models of relative tolerance of political diversity, have also been curtailed over the years though not all of this weakening is to be attributed to state oppression alone (Ottaway, 2007) (Hroub, 2007).

Parallel to the concentration of assets and wealth in the region, there is an equivalent concentration of political power as well. Though concentration of political power is nothing new to a region of dominant patrimonial authoritarianism, it seems to increasingly converge with concentrated economic wealth, a drastic reversal especially in Arab countries that witnessed a phase of Arab socialism. The most striking trend in this direction is the flagrant presence of businessmen in the political arena, e.g. in Egypt, Jordan and Morocco. The incumbent Egyptian government and the Egyptian parliament have a number of businessmen who are ministers and chairmen of standing parliamentary committees. The latest Jordanian elections were marked by a retreat of the Islamists, a marked absence of the leftists, Baathists and the non-Islamist opposition, and a strong presence of political money which contributed to the victory of a large number of businessmen and wealthy individuals with little political background. In Morocco, the vot-

CHART 20 Scores on “Voice and Accountability” 1996-2006



Source: World Bank <http://info.worldbank.org/governance/wgi/2007>

<sup>9</sup> Neighbourhood Policy Progress Report, 2006.

<sup>10</sup> *The Economist*, 11th Oct 2007.



ing system adopted encouraged political parties to seek “wealthy candidates” to head their lists, especially in large constituencies in rural areas (Hroub, 2007) (FDCM & CERSS, 2007).

This points to the main weakness of limited institutional reforms in the region. These reforms can only serve a limited purpose: encourage growth and investments. They cannot be allowed to encourage power sharing or power rotation, especially when the most likely contenders are faith-based. Power sharing and/or power rotation are perceived as too risky by the incumbent ruling elite, the international community and some elements of the opposition as well (Ottaway, 2007). However, without some considerable elements of meaningful participation and civic engagement to advocate for and support power sharing/power rotation, growth may continue to miss the poor and impoverished middle class, especially as both are concentrated in regions that are outside the attention of capital-based elites and investors.

### Access to Justice

In most institutional reforms encouraged in the MENA region, attention is given to the legal and normative framework for investment. Recently, however, as seen in the ENP Action Plans, more attention and funds are being devoted to issues of the rule of law and protection of human rights. This is a welcome strategic direction. The overall regional trends seen from the point of view of investors and executives are worrisome. With the exception of the Gulf countries, Jordan and Tunisia, countries of the region score weakly on property rights, judicial independence and reliability of police. One is left to wonder how the scores would have been

if the respondents had been poor and vulnerable groups or even the middle class of the region.

The dearth of pro-poor and gender-sensitive surveys on access to justice is a serious drawback in the region. International aggregate indicators which are good for comparisons are not enough to inform national and local reform in the various countries of the region. But it is precisely this type of reform that is needed to address the economic challenges afore-

**The region’s policy makers manifest reasonable willingness to embark on institutional reform as long as it entails more modern management systems, more effective administrative performance, and more growth and investments**

mentioned in this chapter. Access to justice is critical for poverty reduction in more than one way. The poor are often those most likely to suffer from violations of their physical security, their financial assets or access thereto. The poor are also most likely to have no access to health, education and shelter. When corruption is rampant, the poor are disproportionately disadvantaged because they are less able to pay bribes and, if they do, it constitutes a higher cost for services, costs which they are in dire need of reducing. What would contribute to economic development and political stability is a legal framework that provides remedies to the problems of the poor and middle class – beyond investors – giving them more access to their rights, raising their awareness thereof, ac-

TABLE 29 Indicators of Property Rights, Judicial Independence and Reliability of Police

	Algeria	Bahrain	Egypt	Jordan	Kuwait	Libya	Mauritania	Morocco	Oman	Qatar	Syria	Tunisia	UAE
Property rights, including over financial assets (1 = are poorly defined and not protected by law, 7 = are clearly defined and well protected by law).	4.50	5.00	4.70	5.00	4.80	3.70	3.70	4.80	5.90	5.30	3.80	5.40	5.10
Judicial Independence is the judiciary in your country independent from political influences of members of government, citizens, or firms? (1 = no, heavily influenced, 7 = yes, entirely independent).	3.70	3.40	4.80	4.90	5.20	4.20	3.80	3.40	4.80	5.60	3.00	5.10	4.80
Reliability of police services. Police services (1 = cannot be relied upon to protect businesses from criminals, 7 = can be relied upon to protect businesses from criminals).	3.70	5.60	4.50	5.10	5.40	3.40	3.30	4.00	5.50	5.30	3.20	5.10	5.30

knowledging and protecting their assets and their human security broadly defined.

## Conclusion

What the region would benefit from, however, is a strategic view as to what governance trends say about meaningful participation and civic empowerment, access to justice, and mechanisms of power concentration, power distribution and power sharing. These governance domains are of cardinal importance to deal with the aforementioned economic trends within a new formulation of the sort of developmental state and the sort of state society relations required for sustainable inclusive development in the MENA region. The economic development agenda reduced to effective government alone is not enough; the sort of economic development required to address the aforementioned challenges goes beyond the scope of effective administration and transparent public finance management.

The region will need an access to information act that respects, protects and fulfils people's rights. The region will also require enhanced capacity in collecting, analyzing and sharing information on poverty, inequality, and governance. The latter will have to go beyond international aggregate datasets which are good for cross country comparisons but cannot be catalysts for domestic accountability nor are they likely to provide guidance on reform priorities which address the challenges and revert the trends alluded to in this chapter.

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# Stabilisation or Modernisation? New Challenges for Economic Reform in the Maghreb

Panorama

## Gonzalo Escribano

Lecturer in Economic Policy-Applied Economics and  
Member of the International Economic Policy Research  
Group, UNED, Madrid

Med. 2008

Ever since the crisis of the 1980s, economic reform in the Maghreb has focused on macroeconomic stabilisation, with the goal of providing a healthy economic base to favour growth. Unlike its achievements in the field of macroeconomic stabilisation, the Maghreb has proved incapable of progressing in the field of microeconomic, structural and administrative reforms at a comparable rate to liberalise its economic system and enter into a phase of sustained acceleration of growth based on the pressing need to increase the productivity of its economies.

This article highlights the fact that the window of opportunity for carrying out these reforms is limited and that there is an urgent need to speed them up. If this does not happen, the sustainability of key elements such as macroeconomic stabilisation, increased production, integration with the EU and the promising, but fragile, acceleration in economic growth of recent years could be very seriously affected. Outstanding reforms include privatisation, tax reforms, overhauling the administration and financial sector, as well as improving the institutional context. In combination, these reforms pave the way for a move from a logic based on macroeconomic stabilisation to one based on macroeconomic and institutional modernisation.

Looking at the current outcome and future prospects for microeconomic reforms and macroeconomic balances shows a mixed situation. Although things have greatly improved in comparison with the 1980s, the 1990s saw rate of reforms stagnate. The current decade has witnessed the same firmness with regard to macroeconomic stability and greater dynamism in microeconomic reforms in Morocco and Tunisia,

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where liberalisation is advancing slowly and unevenly, depending upon the sector. In Algeria and Libya, there is a systematic failure to meet promises to introduce reforms. Increases in oil and gas prices have, paradoxically, proved a serious obstacle to opening up the economy, since they bolster the rentier sector and create resources for maintaining the state's "clientele" structure, weakening the short-term requirement for reforms.

On a microeconomic level, opening up the economy regionally (i.e. to the EU and, for Morocco, the USA) and multilaterally (for the World Trade Organisation, WTO) calls for a speeding up in reforms and broadening their scope so that Maghrebi businesses become capable of competing in their national and international markets. This pressure in favour of competition bolsters moves for reform, but internal resistance from protected industries, the public sector and part of the administration are delaying the adjustments and the implementation of policies to improve the investment environment and productivity. As already noted, the window of opportunity for reform is small, since it ends with the full industrial liberalisation with the EU from 2012, depending upon the different timetables stipulated in each Association Agreement. If reforms do not progress more quickly, the application of safeguards may be perceived as inevitable, damaging the credibility of the free trade area with the EU and, therefore, the urgency of the reforms. These will be decisive years, especially in Tunisia and Morocco, for the Association Agreements to have the desired effect of modernising Maghrebi economic structures and institutions. Algeria and Libya should also take advantage of favourable crude prices to initiate reforms to modernise and diversify their production structures.

Macroeconomic policy has improved, although large-scale macro balances still suffer from a certain degree of fragility. There are doubts about Algeria's