Tunis Conference on Regional Economic Integration
Conference Report[1]
July 18, 2013

Overview

The Arab transitions are now in their third year and continue to face daunting challenges of building democratic governance, economic growth and development and security. To date, change has not come quickly enough, and the instability that accompanied the uprisings has exacerbated economic ills. As such, the potential benefits of greater economic cooperation among Maghreb countries, particularly Tunisia and Libya, merit deeper exploration.

On June 29-30, 2013, the Stimson Center and the George C. Marshall Foundation in partnership with the Tunisian organization, the Institut Arabe des Chefs d'Enterprises (IACE) held a conference exploring the topic of regional economic integration in the Maghreb. A founding member of the Club de Tunis also provided substantive input to the conference framing. The roundtable-style conference featured 25 participants primarily from across North Africa (Morocco, Algeria, Tunisia, Libya) as well as representatives from the United States, Europe, and Japan. Participants were drawn from a wide spectrum of stakeholders, including the private sector, civil society, think-tanks, international financial institutions, and government.

The Tunis Conference on Regional Economic Integration is part of a larger project, *Pathways to Progress*, which seeks to relate the big ideas of the post-World War II Marshall Plan to the Arab states in transition. Promotion of regional trade and economic integration was a hallmark of the Marshall Plan which focused on building strong trade relations across Europe to foster both economic growth and stability. The same logic applies to the Arab world: devising policies to promote regional economic integration will develop robust markets, help create jobs, advance stability, and attract foreign investment and trade. In this spirit, the conference explored the critical obstacles to greater Maghreb economic integration and also highlighted positive and achievable steps that will help foster greater economic cooperation across North Africa.

The conference, divided into five sessions, covered a broad range of topics. Subjects included the economic benefits of economic integration and the costs of *not* integrating; the role of the private sector as a potential catalyst for greater regional economic cooperation; the role of government and public institutions in creating an enabling environment for Maghreb economic integration; and an exploration

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of creative, new approaches to fostering regional economic cooperation. The conference concluded with a session devoted to future prospects for Maghreb economic integration and the role of international actors.

Key Findings

- **Maghreb economic integration could be a "game changer," enhancing GDP growth by 2-3% and boosting job creation.** With less than 3% intra-regional trade, North Africa is the least integrated region in the world. Yet, the benefits of intra-regional trade and cooperation would be significant. Reducing barriers to trade could increase intra-regional commerce by 5-12%. This increase could in turn stimulate job growth and also help anchor stability. An integrated Maghreb would also create a consumer market of nearly 100 million, an important impetus for foreign investment and business expansion.
- **An absence of bold leadership and strategic vision is perhaps the greatest obstacle to greater regional economic cooperation.** Numerous legal, logistical, and administrative impediments to regional economic integration also exist. In addition, significant political and economic differences across the region also inhibit greater integration. However, these obstacles would surmountable, but for void in leadership at the government level where Maghreb economic integration does not register as a critical priority.
- **In the absence of government leadership, the private sector and business community across the region can play a greater role in advocating for economic integration.** The Arab transitions have opened the way for more vibrant and independent private sectors as well as more empowered civil societies. Business and civil society leaders should engage more energetically on the issue of regional economic integration by devising an "action plan" for governments and other stakeholders focused on promoting greater economic cooperation across the region.
- **Creative approaches to fostering greater economic integration include the establishment of cross-border enterprise zones and a focus on pursuing bilateral trade and cooperation.**
    - Significant cross-border trade already takes place in the informal sector. Cross-border enterprise zones would seek to formalize and expand economic activity by fostering the growth of small and medium enterprises operating in these border areas.
    - Multilateral integration may be too ambitious at this time given significant political and economic disparities as well as other concerns. However, crafting a series of bilateral cooperation agreements that capture existing complementarities offers an important inroad to integration. These bilateral agreements could anchor and facilitate broader integration over time. Of the five Maghreb countries, Tunisia and Libya offer perhaps the best prospect for deepening bilateral economic ties.

The Case for Greater Regional Integration

Benefits of economic integration. Greater regional economic integration in the Maghreb holds significant potential in terms of increased economic growth and job creation. The World Bank estimates that fostering Maghreb economic integration could result in GDP growth increases of 2-3% in each country. Intra-regional trade could easily grow by 5-12% in the event of liberalization. This growth could in turn translate to significant job creation particularly if enhanced trade encompasses both goods and services. Moreover, integrating Maghreb economies would lead to the creation of a consumer market of nearly 100 million, attracting greater foreign and local investment and affording smaller businesses opportunities for significant expansion.

Today, the Maghreb is the least integrated region in the world, with intra-regional trade estimated at less than 3%. By contrast, trade within the European Union is estimated at 65% of total trade; trade within the Association of Southeast Asian Nations (ASEAN) is 25% and among MERCUSUR countries of Latin America is 15%. The cost of intra-Maghreb trade is quite high due to its lack of integration. Trade within the Maghreb reportedly costs twice as much as trade between the Maghreb and European countries, though distances are shorter.

Critical impediments. A 2012 World Bank study on trade facilitation and infrastructure focused on both institutions and infrastructure as key impediments to regional trade. The report noted that the high cost of trade in the Maghreb is due to existing inefficiencies, particularly with infrastructure, as well as non-tariff barriers to trade. Moreover, Maghreb countries have implemented trade facilitation strategies at differing rates of progress, further hindering cooperation. As a result, fragmentation across the region impedes economies of scale. As one participant noted, “We have physical proximity without economic opportunities.”

In the past, attempts were made at regional integration through the Arab Maghreb Union and other agreements. The 2004 Agadir Agreement committed Morocco, Tunisia, Egypt, and Jordan, to establish a free trade zone. Tunisia has also independently sought to implement trade facilitation reforms. Yet, since the Revolution, Tunisia has regressed in terms of regional trade, with integration estimated to be comparable to that in 2006.

The political economy of Maghreb economic integration also provides insights into potential “winners” and “losers.” Countries across the region have different levels and speeds of integration. With the uncertainty about how particular countries or even sectors within countries will fare, many feel that is too early to move toward integration. Some assess that they may have more to lose than to gain. Oil-rich countries such as Algeria and Libya, in particular, question whether trade liberalization and economic cooperation makes economic sense. For these countries, a compelling case for integration still needs to be made.

Continuing security concerns across the region also inhibit the promotion of regional trade. Ongoing instability in Libya and to a lesser extent Tunisia, as these transition countries grapple with establishing new institutions of governance and the need for security sector reform has impeded progress on fostering economic ties. In addition, illegal arms trafficking—from Mali and Libya—and the continued presence of jihadist groups also serve to undermine efforts to establish greater trade across the region. Border areas between Libya and Tunisia and between Tunisia and Algeria are particularly fraught with instability.

Finally, a lack of leadership and the political will to undertake bold decisions stands as another key impediment to the promotion of regional economic integration. While the potential for economic growth through greater regional cooperation is significant, a void in leadership exists. Influential champions of regional trade are rare and have not taken significant initiative to advocate for greater economic integration. North African dependence on Europe will not lead to greater integration in the region. Europe is in the throes of major economic recession and will not be able to contribute much to moving an agenda of integration forward.

The impetus for reforms that lead to greater trade liberalization and economic cooperation must come from within the region. Political cover and bold leadership are needed to undertake the critical measures necessary for promoting integration.

The Role of the Private Sector

A new role for the emerging private sector. In the past, the concept of Maghreb economic integration has been saddled with negative connotations. As such, discussions need to move beyond the stale debate that has persisted over the years. During this period, civil society did not advocate effectively for integration or adopt an effective strategy.

Given the region's transitions and new economic openings, the business community and emergent private sector should play a leading role as advocates for economic integration. Thus far, the business community has been too passive. The business community must break with its earlier "bad habits" of working with corrupt regimes. Moreover, the overthrow of autocratic regimes in Tunisia and Libya should allow more open economies to flourish that are not beholden to "crony-ism" and that afford greater opportunities for new economic actors to participate. New entrants to the economy in transition countries—whether young entrepreneurs or émigrés returning from abroad—could play an important role in advocating for greater economic integration.

Deep cultural differences persist across the region regarding the role and prominence of the private sector. For example, Algeria's private sector is quite embryonic, differing substantially from those in Morocco and Tunisia. Key stakeholders across the region need to develop a common understanding and vision of Maghreb regional economic integration. The private sector, together with civil society, should take the lead.

As part of this effort, business leaders across the region should initiate a constructive dialogue that serves as a mechanism for proposing and implementing new ideas and strategies for greater economic cooperation. This dialogue would allow business people to come together quarterly. It could contribute to developing and sharing "best practice" approaches and techniques among private sector actors in the region. Ultimately, it could produce a document that would lay out the barriers and obstacles, to integration, as well as creative solutions.

Examples of private sector engagement Over the course of the conference, some useful examples of private sector involvement in cross-border trade and business were raised.

- A Tunisia-based company with several factories in Libya and Morocco, was raised as an example of how the private sector is already starting to take the lead in cross-regional economic activity.
- Despite numerous issues, their partners across the region have managed to overcome barriers to work with them. In one Tunisian border town, Ben Guerdane, the Tunisians were described as feeling "closer to Tripoli than to Tunis," with a real and deep understanding of how Libya works.
- Participants also pointed to recent moves to establish a Maghreb bank as a potential boost to greater private sector involvement in regional economic cooperation. Maghreb finance ministers met this past May in Marrakech to discuss the creation of the Maghreb Bank for Investment and Foreign Trade. The bank is slated to be established in 2014 and based in Tunisia.

Opportunity for Small and Medium Enterprises. Small and Medium Enterprises (SMEs) can play a role in integration. In particular, agriculture, environment, energy, water management, and the information and communications technology (ICT) sectors all show real potential for cross-regional activity. "Green economy" initiatives melding some of these areas are also promising and could be an important source of job creation as well.

In addition, particular efforts have been made to establish links with sub-Saharan Africa, particularly in Morocco. Morocco serves as an important bridge to sub-Saharan Africa, and numerous companies have exhibited interest in working with and through Morocco to establish deeper commercial ties with sub-Saharan countries. More broadly, with some of the fastest growing economies in the world, sub-Saharan Africa has great potential and the Maghreb should consider "South-South" trade initiatives more seriously, rather than focusing solely on Europe.

However, for entrepreneurs and businesses to move forward, significant information gaps must be addressed. In particular, greater clarity and transparency on procedures as well as more detailed information on how to market and move products across borders are essential. When companies move from one place to another, are they able to invest? Is their business sustainable?

Maghreb economic integration is already a reality in the informal sector. As one participant noted, “There is an integrated Maghreb that is totally informal.” Estimates are that 40% to 60% of the economy is in the informal sector in some Maghreb countries. As a result, significant cross-border activity occurs in the informal sector.

- The agricultural labor force in western Algeria is largely Moroccan. Migrant laborers come to work during the harvest season and then return to Morocco.
- Likewise, tens of thousands of Tunisians work informally in Libya, with the number fluctuating depending on security and other conditions. While Tunisians do not require visas to enter Libya, they do need work permits.
- Tunisia's real estate sector is doing well because Libyans are buying Tunisian real estate, via middlemen or finding ways to circumvent rigid ownership laws.
- Money is also circulating informally among the various economies.

Formalization of the informal sector is the key challenge. A strategy and structures for formalizing the informal economy should be a critical priority. In particular, efforts should be made to provide greater protections and property ownership guarantees to informal and microenterprises. Easing their access to financing and providing streamlined bureaucratic processes for registration should also be pursued. Empowering the informal sector, particularly those elements engaged in cross-border businesses, can help to anchor broader regional integration efforts.

The Role of Government in Developing an Enabling Environment

Developing a strategic vision is critical. A critical factor in developing an enabling environment for regional economic integration is whether governments have the necessary leadership to push for Maghreb integration. As of now, there is a lack of confidence and no real strategic vision. Indeed, the strategic importance of integration remains undervalued, and governments in the region have yet to make it a high priority.

Despite Europe’s recession, the reflexive response in the Maghreb is to continue to look northward to Europe for economic relations. At the same time, the focus on regional neighbors is often limited to purely security-related concerns. Instead, governments in the region need to think more strategically about the benefits of building closer economic ties with their neighbors. Investing in border regions could prompt greater economic growth *and* improve security conditions.

Promoting a strong business environment A strong business environment is a necessary component of a broader enabling environment. Good governance and clear investment codes are essential components. In addition, governments must realize that helping to create a strong business environment will help dictate favorable trade and investment decisions by foreign investors. The Maghreb could serve as a critical link in a broader global supply chain strategy. Tunis should look to examples of “gateway cities” such as Dubai and Istanbul. Could Tunis play the role of a gateway city? Despite

Tunisia's relatively small size, its modern infrastructure, wealth of human capital, and central location could position it to be the "Singapore" of North Africa, serving as a hub for business across the Maghreb. Similarly, Casablanca could also constitute a "gateway city," perhaps serving as an important for business between the Maghreb, Europe and sub-Saharan Africa. More broadly, Maghreb countries need to identify potential "growth points" and then connect with each other.

Infrastructure projects can play an important role. In pursuit of greater economic integration, governments in the region need to facilitate basic infrastructure projects such as connecting highways and railways across the region. Building stronger energy relations and developing energy-related infrastructure such as compatible power grids should stand as another priority.

Other types of infrastructure can also serve as important platforms for cross-border economic cooperation. For example, Libya lacks an adequate healthcare infrastructure. As it rebuilds, partnerships with Tunisia could be an important "win-win" solution. "Why bring European doctors to Libya, instead of looking to Tunisia, with its surplus of physicians?" a participant asked. Noting important complementarities between the two countries as well as the fact that Tunisian doctors would be less expensive than Europeans, he underscored the value in governments seeking regional solutions as they pursue transition-related needs.

Implement necessary economic reforms. Governments in the region also need to focus on critical economic reforms in order to realize the full benefit of integration. Various types of market distortions must be remedied. For example, energy subsidies distort the markets and make it difficult to integrate. Likewise, labor market distortions in Tunisia (among the most significant in the world) impede job creation and should be addressed.

Algerian challenges. Unfortunately, Algeria is perhaps the least open to broader integration and cooperation. The Algerian government, with its oligarchic structures and impending leadership succession, appears to bent on insulating Algeria from grassroots demands for change that have swept the Arab world. It has maintained longstanding restrictions designed to limit the presence of Tunisian or Moroccan companies or workers. In addition, crony capitalists are opposed to integration because they have a monopoly and want to obstruct anything that would break their monopoly. As a result, the informal economy between Algeria and Morocco and Algeria and Tunisia remains huge and very difficult to formalize.

Key Approaches to Fostering Regional Economic Integration

A number of interesting ideas were floated throughout the conference. In particular, three key recommendations for fostering Maghreb regional economic integration emerged in various discussions:

- **Create cross border enterprise zones and economic corridors**
- **Focus initially on bilateral economic cooperation rather than multilateral integration**
- **Initiate a Maghreb business community dialogue to share "best practices" and create an**

economic integration “action plan” to share with governments in the region

Cross border enterprise zones. The creation of cross-border enterprise zones would help formalize the informal economy, promote innovation and entrepreneurship and capture existing economic synergies. Significant cross-border economic activity is already occurring in informal sectors throughout the Maghreb. Indeed, people engaging in these commercial enterprises on either side of the border often have more in common with each other than with their capitals. Formalizing and expanding this type of activity could help anchor economic integration in these border zones.

To help foster and expand these informal enterprises, one participant suggested that “mapping” the “ecosystem” of enterprises operating in these areas would be a key first step. Once mapped, these enterprises should be surveyed in order to better understand their needs and the obstacles they face such as financing and bureaucratic red tape. These surveys could then help to inform a series of policy recommendations designed to create small and medium enterprise (SME) zones in border regions that are specifically designed to foster cross-border economic activity.

Efforts should be made to learn from earlier attempts at sub-regional economic integration. In particular, the case of Souk Ahras – Le Kef in the Algerian-Tunisian border area is worth examining. The initiative focused on public companies and ultimately was not successful. However, a renewed attempt at this type of sub-regional cooperation should instead focus on the private sector. The example of the Tunisian company Poulina’s operations in Ben Guerdane and its cross-border operations in Libya may be instructive.

Similarly, the creation of an economic corridor between Algeria and Morocco has also been under consideration. Two years ago, discussions of an economic corridor between Algeria and Morocco was modeled on a similar plan developed in China. In the case of Algeria and Morocco, frontier passage points would be established to allow the flow of goods between the countries. [Currently the Algerian-Moroccan border is closed.] The movement of goods would be analyzed to determine whether the cross-border trade has a negative or positive impact on each country’s economy.

Focus on bilateral economic cooperation. Seeking to create region-wide economic integration is likely too difficult for a variety of reasons. Morocco and Algeria are less sanguine about integration given their longstanding dispute over the Western Sahara. Nor have these two countries experience transitions and greater political openness as is the case in Tunisia and Libya. In addition, the oil-rich countries of Algeria and Libya have less incentive to integrate given their relative wealth. Indeed, they may harbor deeper suspicions over the motives for greater trade and cooperation, believing the benefits are not apparent. However, focusing on various bilateral economic relationships may serve as an important anchor for integration.

Among the five Maghreb countries, Tunisia and Libya may be best placed to pursue greater economic cooperation at a bilateral level. Currently, 100,000 Tunisian workers are in Libya. While Libya's needs are significant as it transitions from decades of authoritarian rule, instability and an incomplete political transition process have inhibited economic cooperation across borders. Continuing security concerns inside Libya, as well as lax border security has dampened enthusiasm for economic cooperation. Libya's transitional period is not slated to be complete until mid-2015. Libya must first undergo broader legislative, administrative and educational reforms before tackling regional economic integration.

Nonetheless, Tunisian-Libyan relations remain a positive aspect of the transition and benefit from longstanding historic ties between the countries. Libyans have worked closely with Tunisian counterparts in various areas related to their political transitions. In addition, 70,000 Libyans fled to Tunisia which provided significant resources to Libyan refugees, further engendering close ties.

Some key sectors have emerged that would be propitious for broader Libyan-Tunisian economic cooperation. In particular, partnerships in agribusiness and health care sectors hold promise. Libyans coming to Tunisia for medical services constitute an important source of revenue. Construction materials and food products offer additional prospects for trade. Libya may also look to Tunisia for assistance in establishing polytechnic and vocational training institutes. Moreover, Libya's systems of water management and electricity also require development, with potential opportunities for cross-border cooperation with Tunisia.

While the Tunisian-Libyan relationship holds significant potential for greater economic integration, participants highlighted some of the challenges as well. In particular, from a Tunisian perspective, the Tunisian-Libyan relation at times seems more like a client – supplier relationship. Ties need to evolve into more of a real partnership between the two countries. Meanwhile, Libyans note their willingness to invest in Tunisia, but underscore that they do not have adequate legal protections and therefore opt not invest.

Initiate a Maghreb Business Community Dialogue. The Arab transitions have not only resulted in new governments, but have also opened the possibility of more vibrant and independent private sectors. More dynamic private sector actors can play a key role in advocating for greater regional economic integration. Governments have yet to develop a strategic vision for economic integration in the Maghreb. Yet, the Maghreb business community, working with civil society, can serve as an important catalyst for action.

Business leaders and chambers of commerce in each Maghreb country should work to create a mechanism for dialogue. Through a structured dialogue or business forum, various private sector actors can work to build a broader consensus across the region for economic cooperation. This forum could serve as an important arena to share information on best practices, identify key obstacles to cooperation, and generate recommendations for stakeholders. In particular, a cross-Maghreb business dialogue could forge consensus on a Maghreb economic integration action plan or road map to share with governments and legislatures.

Role of International Actors

International actors, particularly the United States and Europe, could do more to encourage Maghreb economic cooperation. Greater US engagement and focus on the topic will be essential. The US can serve as a catalyst for greater economic cooperation through its leadership and economic diplomacy. In particular, the US can provide expertise and technical assistance to Maghreb governments and private sector actors.

Meanwhile, Europe has produced significant research on the benefits of economic integration, emphasizing the cost of the non-Maghreb. However, Europe continues to promote a “hub and spoke” model of economic ties with North Africa. Rather than encouraging broader economic integration across the Maghreb, European projects and policies tend to foster greater competition among Maghreb countries. The European approach still prejudices bilateral economic ties between Europe and individual Maghreb countries rather than region-to-region relations. One participant noted a distinct discrepancy between how Europe deals with the Maghreb versus the Gulf Cooperation Council (GCC). Europe-GCC ties focus more on regional relations rather than bilateral ties.

However, from the perspective of external actors, Maghreb regional economic integration carries significant benefits. It will enhance economic growth and job creation, helping to dispel deep popular disaffection over continued economic malaise two years after the revolutions began. Fostering trade will also help to anchor stability and provide greater impetus for stronger and more solid ties across the region, positively transforming regional relations. As one planner noted during the building of the Marshall Plan, “When goods cross borders, soldiers will not.”

Participants List

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Observers from the European Union Delegation to Tunisia, French Embassy, General Electric, International Republican Institute, Japanese External Trade Organization, National Democratic Institute, and the United States Embassy were also present.