AFRICAN DEVELOPMENT BANK GROUP

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المصرف المغاربي للإستثمار و التجارة الخارجية
Banque Maghrébine d'Investissement et de Commerce Extérieur

Report on REGIONAL INTEGRATION IN THE MAGHREB 2019

Challenges and Opportunities for the Private Sector

Synthesis

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Table of contents

Introduction and Perspective

Since its establishment in 1989, the Arab Maghreb Union (AMU), the regional economic community comprising Algeria, Libya, Mauritania, Morocco and Tunisia, has been making very slow progress in terms of both commercial and financial regional integration. While the objective of AMU is to facilitate the adoption of common policies and strategies in all fields, capital, investment and trade flows within the Maghreb region are remarkably weak. Several socio-economic factors account for such poor performances, but regional integration policies should also be supported by appropriate measures. The regional infrastructure network, the business environment and exceedingly high tariff and non-tariff barriers constitute significant obstacles to the development of trade and investment in the region.

By positioning themselves as a regional bloc, the Maghreb countries would make significant gains in economic development, in terms of both structural transformation and sectoral activities. In addition, with trade integration, the Maghreb economies would be less dependent on the outside world, thus improving their trade balances and easing the pressures on their foreign exchange reserves. The enhancement of intra-Maghreb trade is a necessary condition for inclusive and sustainable growth in the region. The benefits of greater trade integration include economies of scale, increased market size, establishment of value chains in various sectors, increased economic growth and, ultimately, job creation in a region where unemployment, especially among young people, is endemic.

The Maghreb private sector has put an emphasis on lost growth opportunities and expressed its determination and commitment to bring the economic integration of the five AMU countries to fruition. Regional economic integration helps to accelerate private sector growth and development by generating a range of benefits associated with increased intra-regional trade. Comparative international experience shows that a competitive private sector in turn plays a key role in the structural transformation of economies and in speeding up regional integration in all markets. The private sector must be involved in the mobilisation of private investments in the tradable goods sector, which is essential for sustained productivity growth, increased exports and enhanced expertise in the export sector, helping to create more jobs, particularly quality jobs. Regional integration also allows the private sector to innovate, prosper and transfer knowledge more quickly, while helping to bolster the region's global competitiveness. The potential and capacity of regional production value chains to participate in global value chains should, therefore, be further exploited.

Therefore, improving the business and investment climate is particularly important for the region at a time when tariff and non-tariff barriers are hampering trade and competitiveness indicators are progressing slowly. While the private sector has a vital role to play for the trend and future of integration of the Maghreb economies, it continues to face recurring impediments and major constraints, including regulations and red tape, which hinder entrepreneurship, business development and business globalisation. It also faces obstacles in terms of access to sources of financing and the international attractiveness of investments.

The analysis of structural and sectoral transformation in the Maghreb countries also helps to identify other fundamental aspects of the integration process, in particular the effects of upgrading owing to the reallocation of intra- and inter-sectoral resources to high-productivity sectors. The potential of export sectors, in terms of product and market diversification, for example, the profile and regional distribution of sectoral jobs, as well as the ability of private companies to adapt to regional and international competition, are crucial for the development of value chains. Upgrading and integration in regional or global chains require the adoption of regional industrial policies and mechanisms to support competitive sectors at the national level.

Chapter 1: External Trade and Obstacles to Regional Trade Integration

The level of trade within the Maghreb region is low compared with trade within other regional economic communities (RECs) on the African continent. In 2017, trade within the community represented only 2.7% of the external trade of AMU countries, compared with 3.1% in 2016 and an average of 3.2% over the 2012-2017 period.

Nevertheless, despite the weakness of intra-regional trade, AMU has strong potential for trade integration, as demonstrated by recent trends in trade, with declining concentration of export products, buoyant trade and, above all, better diversification of export products. Several trade products and growth-bearing sectors have been identified for their true competitiveness potential through trade complementarities and proven comparative advantages.

The relaxation of still-strong trade protection measures and market access conditions, and the gradual elimination of tariff and non-tariff barriers and foreign exchange control restrictions, are essential for trade facilitation. The quality of external trade infrastructure is also an important factor for better economic integration of AMU.

Low Level of Intra-Maghreb Trade

On average over the period 2012-2017, more than 68% of intra-AMU trade consisted of commodities, notably fuels, oil and natural gas, which accounted for more than half of exports to AMU member countries. High-tech manufactured goods represented only 8.5% of total Maghreb trade.

Graph 1: Intra-zone exports and imports in AMU, ECOWAS and COMESA

Source: Authors, based on World Bank data
(http://databank.worldbank.org/data/source/world-development-indicators)

Unlike the regional economic communities (RECs) of the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC), where intra-regional exports are fairly substantial, accounting on average for 20% of total trade, with rapidly growing processed goods, the AMU regional economic community is one of the lowest ranked on the African Development Bank's 2016 Africa Regional Integration Index, for all its five dimensions (infrastructure, trade, production systems, free movement of persons, macroeconomic and financial convergence).

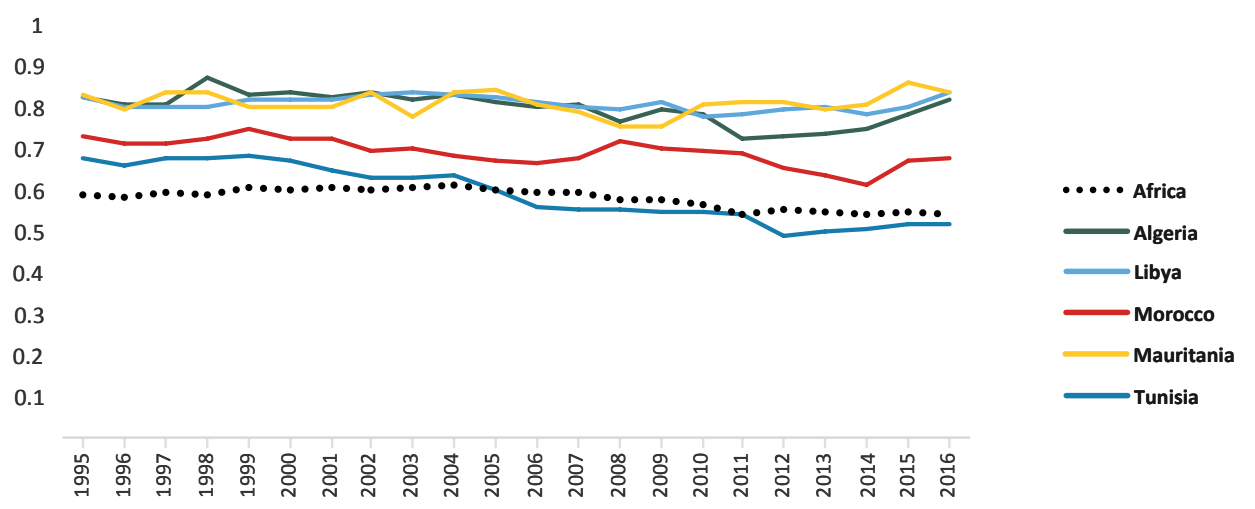
Trade Integration Potential

Despite their low level of trade, the AMU countries produce goods that have high potential for intra-regional trade but are not necessarily traded. More than 20 of such good categories could help to boost intra-regional trade. They include fertilisers, clothing, electrical appliances, hides and skins, fish, crustaceans and shellfish.

Since 2011, the average number of products exported from AMU countries to AMU countries has been increasing steadily, along with the total value of intra-AMU exports. However, that

number has remained below the average number of products exported from the Maghreb to other regions of the world. As a result, there are potentially new export products that could help to enhance intra-Maghreb trade. Despite efforts to diversify external trade, the export diversification index, which measures the convergence of a country's trade with world trade, shows the difficulties faced by all countries in the region in keeping up with changing conditions in world trade (Graph 2).

Graph 2: Export diversification indices



Source: Authors, based on UNCTAD data (http://unctadstat.unctad.org/FR/Index.html).
Note: 0 corresponds to maximum diversification and 1 to no diversification.

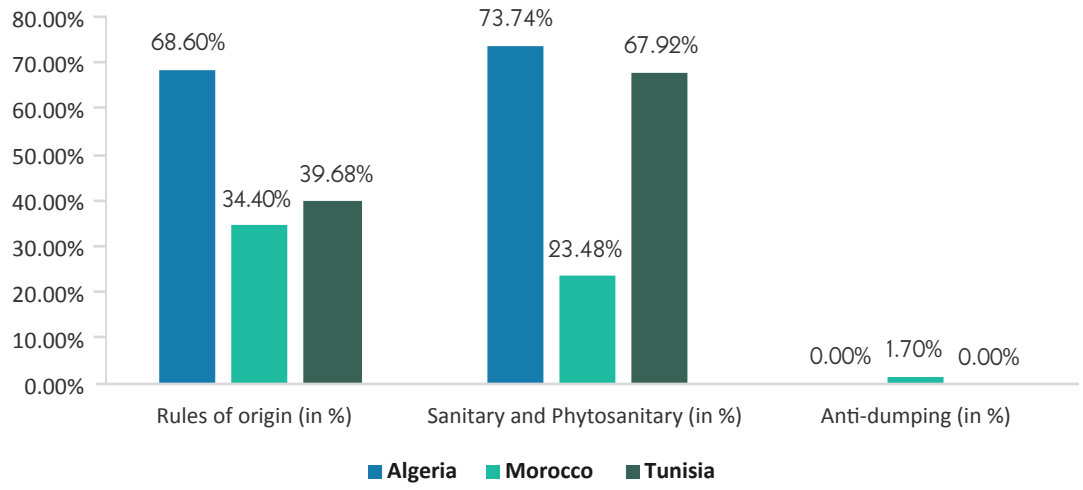
In general, the AMU countries have low capacity to meet the import needs of other countries of the region. Although those needs are satisfied by imports from abroad, they highlight the opportunity for the local private sector to strengthen trade complementarity. Enhanced regional trade integration is expected to help boost exports of high-growth goods on regional and international markets by making it easier to exploit each country's specialisations and comparative advantages. In order to create the conditions for better regional trade integration, it is important to clearly identify and ultimately eliminate the major constraints and obstacles thereto.

Major Constraints to Regional Trade Integration in the Maghreb

In addition to the lack of political will on the part of the authorities of the member countries, several regulatory and logistical obstacles and constraints prevent companies in the Maghreb from doing business or engaging in trade with the rest of the region. One of the biggest obstacles to trade between AMU countries is the high level of trade protection in the region.

Beyond the recurrence of tariff barriers, non-tariff measures (NTMs) have become increasingly important in recent years and now create far more problems for exporting companies in the Maghreb than the level of tariffs (Graph 3). NTMs are also more difficult to be perceived as a threat than customs duties, because some of them are useful. They can help to improve the quality and level of product safety and provide the final consumers or client companies with better information on goods.

Graph 3: Frequency of non-tariff measures as a percentage of tariff lines



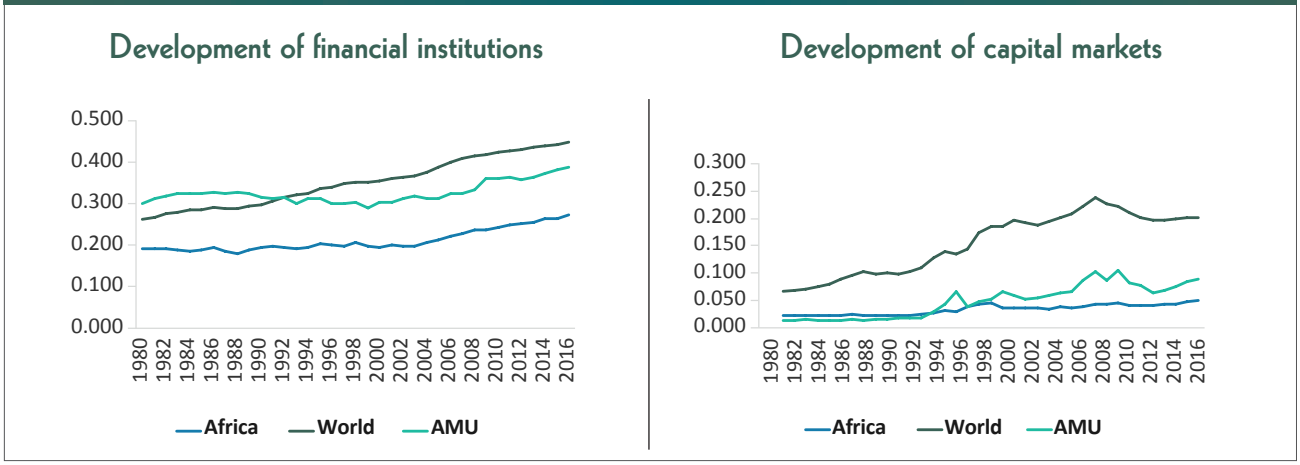
Source: Authors, based on data from the United Nations (https://comtrade.un.org/), the World Bank (2010) and UNCTAD (2009).

In terms of exchange controls on current transactions in the Maghreb countries, some obstacles remain recurrent. The procedures in place in various AMU countries, including the repatriation of export proceeds, spot and forward export sales and import settlements, are still highly restrictive.

Chapter 2: Regional Financial Integration for Private Sector Development

The financial development of the Maghreb countries is booming, with the multiplication and diversification of financial institutions, the increase in financial products provided and the development of financial markets. Maghreb banks are already operating in the region and are beginning to expand significantly across the continent. In terms of foreign direct investment (FDI), the AMU region remains relatively unattractive and uncompetitive at the international level. Despite the development of outward investment by AMU countries, intra-Maghreb FDI is very low. The main shortcomings include limited financial nclusion, high sectoral and banking concentration, high level of non-performing loans, insufficient amounts of private sector loans, and low market capitalisation and non-bank financing. The region is also lagging in terms of financial digitisation. An examination of the two segments (financial institutions and capital market) shows that AMU is trending differently from the rest of the world and that the initial gap in the development of capital markets has widened over the past two decades (Graph 4).

Graph 4: Financial development by component and by region (Evolution of indices)



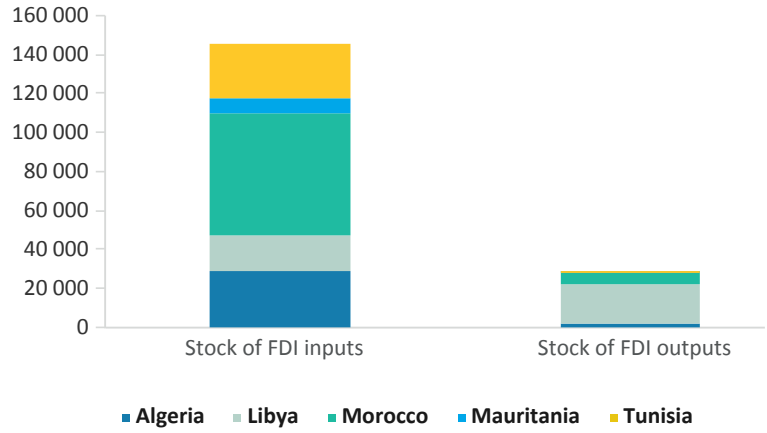
Source: Authors, based on data from the International Monetary Fund (https://www.imf.org/en/Data).
Note: The AMU indices are calculated by weighing the country indices against the weight of GDP in each country in the region.

However, the financial system in AMU countries has the potential to contribute to regional integration, which should be exploited through better consultation and cooperation in the face of many common challenges and the facilitation of bank set-ups and cross shareholding. Improved access to sources of financing would facilitate promotion of the private sector, development of FDI and advancement of regional financial integration. In turn, financial integration should make it possible to improve the economic fabric throughout the region.

Bilateral FDI in AMU

The AMU region is relatively unattractive and uncompetitive in terms of foreign direct investment (FDI). In 2017, the region received a total of USD 5.1 billion in FDI, representing only 0.35% of FDI flows worldwide and 1.35% of the region's GDP (Graph 5).

Graph 5: FDI between AMU and the rest of the world in 2017 (in USD million)



Source: Authors, based on UNCTAD data.

The Maghreb's presence in foreign investment in the Maghreb is remarkably weak. In 2011, for example, the share of Maghreb FDI in the AMU countries amounted to USD365 million. These FDIs represent 1.7% of the total FDI in the world from AMU countries (USD 21.1 billion) and 0.31% of AMU FDI from the rest of the world (USD 117 billion). These investment flows rates are even lower than those of intra-Maghreb trade. Thus, AMU, which is relatively active and attractive at the international level in terms of FDI, is not very present in its very own region.

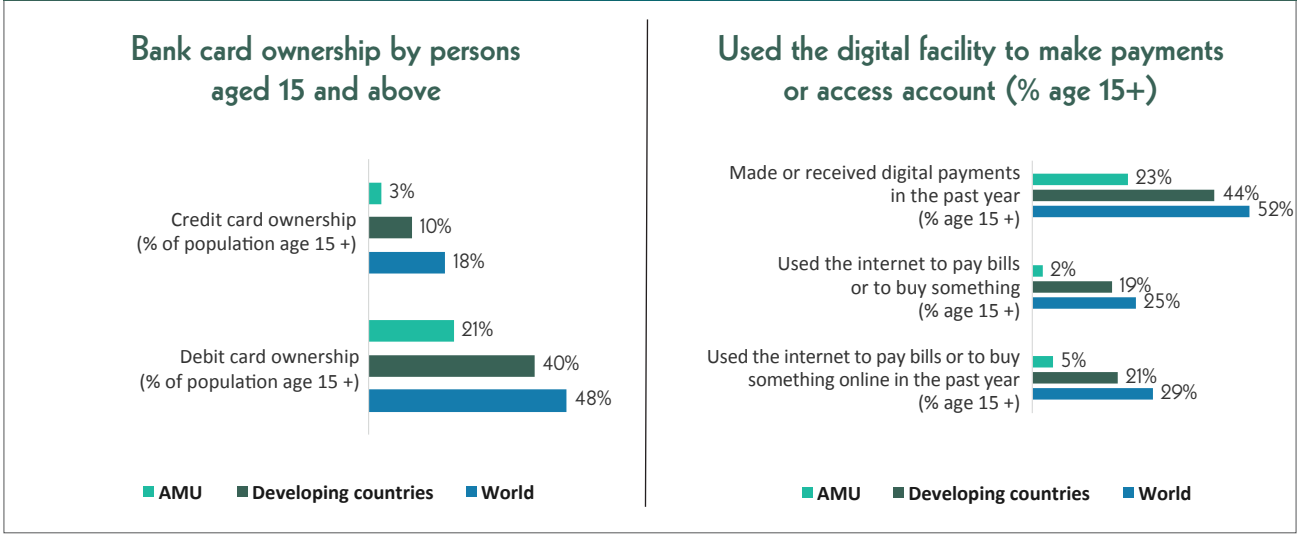
The relative weakness of FDI in the region is inherent in some still-latent restrictions on capital and financial transactions, compared with other regional economic communities (RECs) in the world. The unfavourable business climate and exchange regulatory restrictions placed on capital movements in each

of the Maghreb countries are obstacles to the free movement of capital in the region.

Financial Inclusion and Access to Financial Services

In addition to the small number of account holders in AMU countries, the region is lagging in terms of digitisation (Graph 6). First, debit and credit cards are less common among people aged 15 and over than in other developing countries and in the world. Second, the delay in joining the digital age is reflected in the low rate of use of the Internet and/or mobile phones for bill payments, purchases and account inquiries.

Graph 6: Digital financial inclusion in 2017



Source: Authors based on Findex data (https://globalfindex.worldbank.org/#data_sec_focus).

Regional integration can be fostered by financial inclusion for two reasons. Firstly, coordination of financial inclusion can be technically coordinated at the level of the AMU, through exchanges of experience and harmonisation of information, and also through alignment and convergence of financial systems. Secondly, financial inclusion could reduce the predominance of the informal sector in cross-border trade while the proliferation of foreign exchange regulations means that part of the economy is left out of the official channels and does not benefit from the financial services that could boost its development.

Chapter 3: Entrepreneurial Environment and Business Climate Conducive to Regional Integration

AMU trade policy is considered very restrictive by companies. However, the obstacles to foreign trade are less stringent than those relating to the business climate. The business climate and competitiveness in AMU countries are unfavourable to the development of enterprise and hinder regional integration.

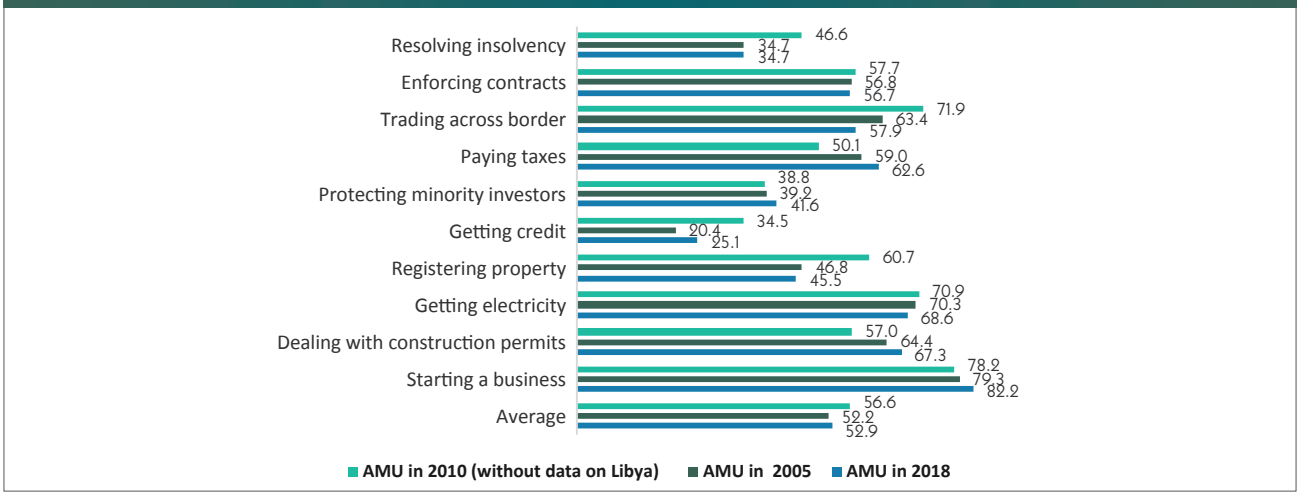
In the AMU, companies have generally adopted modern trade registration, certification, research and development and innovation practices. In addition, foreign equity participation and the number of export companies are on the increase. These characteristics favour the adaptation of companies to the recent conditions for conducting business and to regional integration.

Tapping into this potential, however, requires the improvement of other conditions relating to the business environment and the facilitation of foreign trade. For example, access to sources of financing is a major obstacle. Foreign trade facilitation is also hampered by the quality of infrastructure in the region and restrictions on financial flows in AMU countries, which are still too many. The investment laws of the various countries clearly affirm the respect of investors' rights to the repatriation of profit, but the frameworks for encouraging investment in AMU countries are still below expectation. Sometimes the transfer of proceeds of sale or liquidation requires prior authorisation and many sectors are still excluded from the free participation of foreign direct investment. For the AMU to become an area of interest for foreign direct investment, the countries would need to relax foreign exchange regulations and controls on capital and financial transactions.

Factor Influencing Regional Integration in the Maghreb

Some components of the business climate have a direct impact on regional integration. These include cross-border trade and foreign investment-related components such as protecting minority investors, enforcing contracts enforcement and settling insolvency. The foreign company, especially from a country of the Maghreb region, doing business in a Maghreb country is interested in the conditions, monetary costs, time-frames and complexity of seeking justice.

Graph 7: Trend of the distance to border in the AMU region for components of the business climate



Source: Authors, based on World Bank data (www.doingbusiness.org).

In AMU countries, cross-border trade is performing poorly with the sharp decline in the distance to the border since 2010 (Graph 7). In addition, components dealing with legislation and the functioning of the justice system, protection of minority investors, the enforcement of contracts and the settlement of insolvency are among the most critical business climate components in the AMU zone. The main asset of the business climate in AMU countries is the facilitation of business creation. The improvement of entrepreneurial density in the region should boost private sector dynamism in the Maghreb. However, the delays suffered by regional integration-related components may hinder private sector expansion and development opportunities throughout the Maghreb region. The entrepreneur in a AMU country desiring to open up internationally has to choose between the regional space and other areas of the world. In general, entrepreneurs export, import or invest in another country based on distance-related costs and transaction costs stemming from the quality of the business climate.

Support to Investment in AMU Countries

Regarding the development of the private sector and its role in regional integration, investment laws are of particular interest. To begin with, increased investment in more sophisticated activities with more advanced technological content enhances the supply of products emanating from the region. Furthermore, by proposing a better legislative framework, each country becomes more attractive to entrepreneurs from other countries and foreign direct investment (FDI). Lastly, in view of the synergies and cross-influences, improving the investment climate in the region favours the private sector development, densifies the entrepreneurial fabric and opens up new business opportunities.

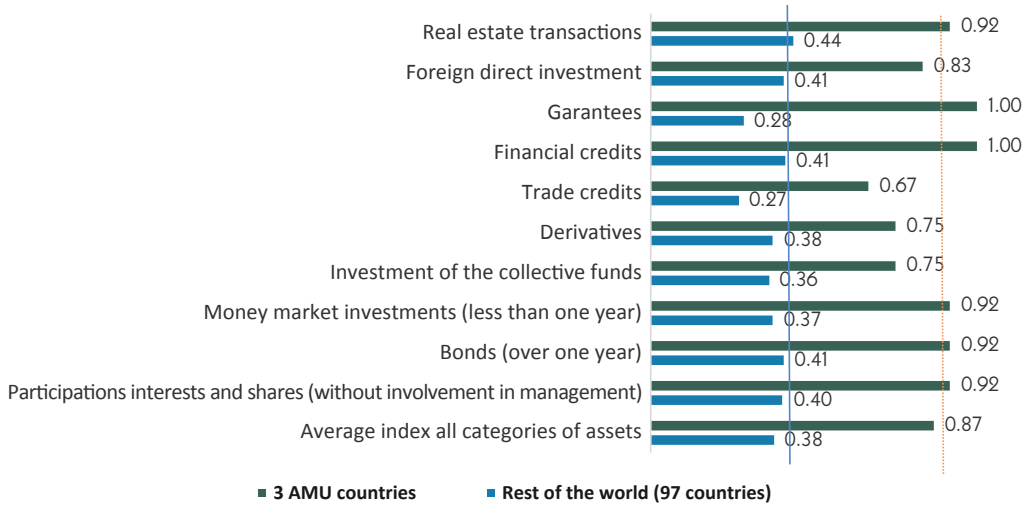
National investment laws have introduced improvements to make the Maghreb more conducive to domestic and foreign investment, but they have not been harmonised regionally.

Much remains to be done to reassure investors, facilitate capital transfers, ensure greater freedom of transfer of investor assets and streamline investment in all economic sectors. Moreover, the provisions on transformative projects of national interest and targeting the development of the disadvantaged regions of AMU countries could be an opportunity for Maghreb private sector initiatives in cross-border projects. While substantial progress has been made in the area of income repatriation, the transfer of proceeds of sale or liquidation is still sometimes subject to prior authorisation.

Foreign Exchange Control on Capital and Financial Transactions in the Maghreb Countries

The pace of easing foreign exchange regulation on capital and financial transactions has accelerated in Morocco and Mauritania, and is gradually moving towards the convertibility of capital transactions of residents and non-residents. On the other hand, Algeria, Libya and Tunisia have opted for slower sequencing of capital account liberalisation.

Graph 8: Index of restrictions on financial transactions in the AMU and the World by categories of financial transactions in 2013



Source: Authors, based on data from Fernández et al. (2015).

The gaps between the restrictions in the rest of the world and the Maghreb are extremely high for guarantees and financial credits (Graph 8). Generally, the group of three AMU countries is a closed space compared to the rest of the world, with high restrictions on all categories of financial transactions. Commercial credits, be they in the rest of the world or the Maghreb area, are subject to less stringent controls.

Chapter 4: Industrial and Support Policies for Structural Transformation in the Maghreb

Industrialisation is ongoing in the Maghreb, but the development model fails to lead to a structural transformation that could generate sustainable growth and jobs. The region suffers from a situation of exogenous specialisation, resulting notably from the demand from major European industries. Depending on the country, this specialisation focuses either on natural resources or intensive unskilled labour activities, which value only the low cost of labour.

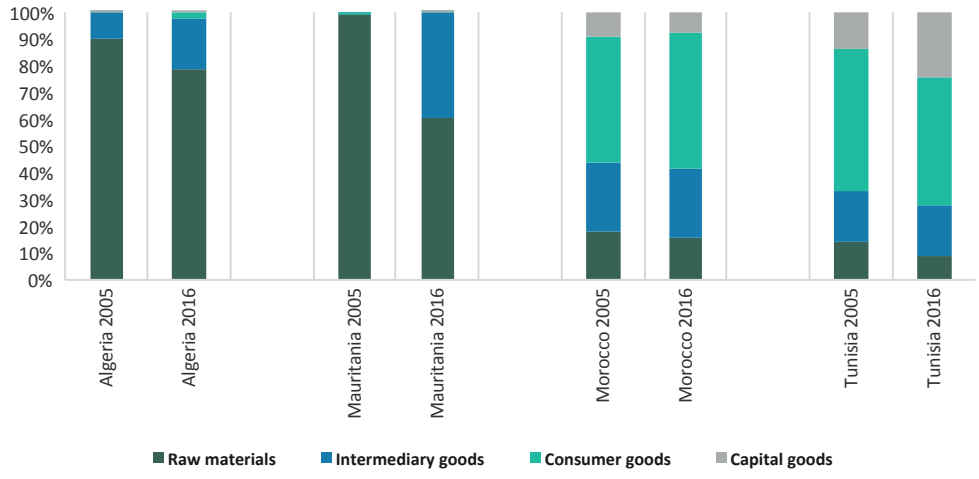
To initiate real structural transformation, the region must simultaneously aim for diversification and sophistication of its production, which can boost the growth of locally produced value added. The recent industrial policies of the Maghreb States have focused on national growth challenges, but neglected opportunities for regional cooperation. The private sector, long neglected by industrial policies of the Maghreb, must henceforth play a leading role.

Structural Transformation Dynamics

The industrialisation dynamics in the Maghreb and their contribution to regional integration in the region are assessed through the changes that industrial activity can induce in the region's production structure and its organisation in value chains. The expected effect is structural transformation, which means shifting economic activity from low productivity to strong, sustainable and inclusive growth. This process of structural transformation is characterised by at least two stylised facts: (i) increased share of manufacturing and high value-added services in GDP; and (ii) increased share of jobs in the most productive sectors of the economy.

A first point concerns the importance of raw materials in the regional production structure. This importance is reflected in the analysis of the sectoral distribution of exports from the Maghreb countries, which shows the predominance of raw materials and natural resource-based products in regional exports (Graph 9).

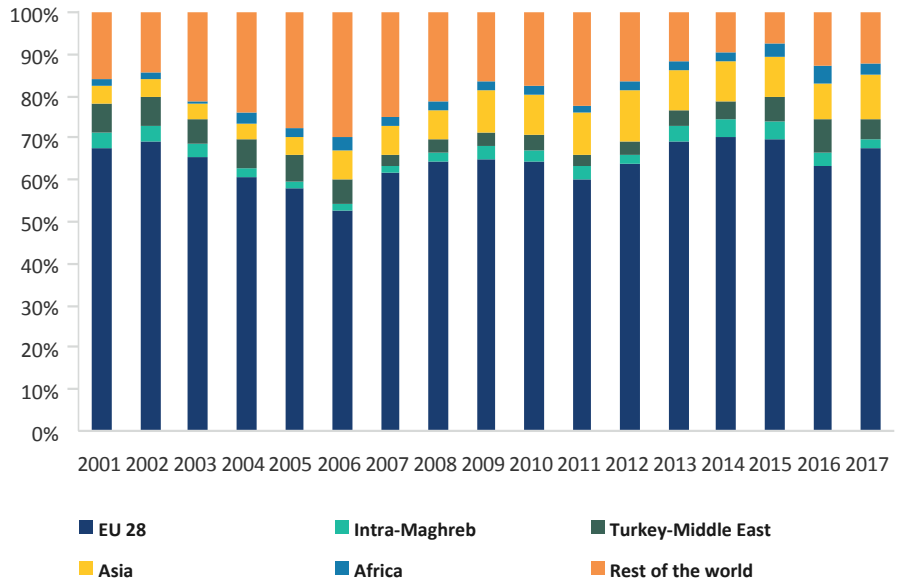
Graph 9: Export Structure (in %)



Source: Authors, based on data from ICT Trade Map (https://www.trademap.org/Index.aspx).

In addition, an analysis of the sectoral composition of regional non-hydrocarbon exports shows that the manufacturing activities that have managed to emerge are also concentrated in a few sectors, such as the textile, automobile, aeronautic and electrical industries. The agricultural sector, on the other hand, appears to be a weak exporter relative to its size in regional GDP. The industrial models of the Maghreb countries and the specialisations they have induced have tailored the polarisation of each country's exports to the needs of the European Union (EU) as the main partner. Exports to the rest of the world have remained relatively weak and undiversified, with their growth mainly due to the export of Algerian and Libyan mineral products to the United States and China. Intra-regional exports and exports to the rest of Africa have remained marginal (Graph 10).

Graph 10: Exports of non-mineral extractive products



Source: Authors, based on ITC data Map (https://www.trademap.org/Index.aspx).

An Industrial Trajectory to be Redefined to Revive Structural Transformation

The diagnosis of the structural transformation dynamics of the Maghreb revealed that the manufacturing industry and services sectors did not have the importance that they deserve, compared to the agricultural and extractive sectors. Analysis of current trends highlights the critical role of regional integration and private sector development strategies, and reveals the growing interdependence of the two. In this regard, a new sequence of industrialisation is needed to ensure the continuation of the structural transformation of the Maghreb. Similarly, the integration of regional markets would make large-scale industrial projects economically attractive and viable through economies of scale. Connectivity and standardisation of markets could increase the number of structurally transformative projects.

In recent years, the Maghreb countries have put in place various private sector development support schemes intended to build their capacity and support their participation in the transformation and diversification of the economy. Analysis of the industrial and development policies of the Maghreb countries (except Libya) reveals that these countries have understood the individual stakes of their structural transformation and have transposed them into a planning exercise.

However, political will is one of the major constraints to regional integration in this North African region, since regional concerns feature only marginally among the set objectives. This absence is all the more remarkable given that the inadequate integration of the Maghreb is an old issue. It does not, however, mean that the preferred approach is wrong. Admittedly, the non-Maghreb option comes at a cost which the countries of the region would logically want to dispense with, but the current strategies, if effectively implemented, could enable the countries to achieve their individual objectives. On the other hand, irrespective of the willingness that each country may demonstrate, neglecting regional integration only makes their task more complicated.

Regionalising the industrialisation process is not an end in itself, but a strategic and crosscutting way to amplify the impact of national policies, by better synchronising with the dynamics and scales of global competitiveness. In other words, the current low levels of integration of the Maghreb countries undermine their individual industrial competitiveness and hinders their structural transformation in various ways, including by slowing down the diversification and emergence of the industrial sector. The progress made by some countries or in certain areas, both in terms of the appropriation of technology and integration into global value chains, has unlocked great potential for the development of Regional Value Chains.

Chapter 5: Regional Integration and the Private Sector: Growth-bearing Sectors and Regional Value Chains

The strategies adopted individually by the Maghreb States for their integration into global value chains compel them to make intense efforts to upgrade industries specialised in a number of activities in growth-bearing sectors, which limits industrial diversification. The absence of a regional vision in the industrial strategies of the Maghreb hampers the pace of structural transformation.

The Maghreb meets the conditions for the establishment of Regional Value Chains (RVCs): proximity to the European Union, the development of domestic and African markets, and the existence of differentiated capacities. The regional model could take the form of both a production block incorporated into global value chains and a specialised production area on its domestic market and the African and Middle Eastern markets. The examples of the automobile industry, the pharmaceutical and fisheries sectors are particularly promising. Consolidated competitiveness would generate better regional industrial cooperation, ensure better integration into global value chains and enhance the competitive advantages of regional companies in their own expanding market.

Limitations of Integration into Global Value Chains

Stronger participation in Global Value Chains (GVCs) is a common goal for all Maghreb countries that have formulated industrial strategies. This choice is justified by the expected outcomes that the upgrade would have on their domestic industries. However, this strategy has limitations in that the operational characteristics of value chains may impede the pace of development of industries in the region.

For developing countries, entry into a global value chain (GVC) starts with low value-added and low-technology activities, which require the mobilisation of either natural resources or other inputs such as cheap labour. As activities become more complex, the problem of sector-based specialisation arises, which is no longer linked to just the labour cost, but requires the availability of skills and technologies that are less and less reusable in other sectors. In other words, focusing on global value chains is not conducive to the sectoral diversification of industrial activities. In addition, integration into GVCs is a highly

competitive process. Since these chains are directed towards end markets that are mainly located in developed countries, they are subject to mandatory quality differentiation. To meet the quality conditions, actors of the chain are required to adopt, on a voluntary or a mandatory basis, technical, sanitary, social, safety and environmental standards, which may prove to be extremely restrictive. Lastly, GVC upscaling is a negotiation process in which the leading companies generally have pre-eminent power in their choice of collaboration. The relational mode adopted by these companies may prove to be a windfall for operators in developing countries working in collaboration with them, since they benefit from knowledge and technology transfer. Conversely, the balance of power may be disadvantageous to them if the companies see no operational, political or other benefits in increasing their activities within the country concerned. Moreover, when they do step up their activities, they use their influence to obtain the most favourable conditions.

Developing Regional Value Chains in the Maghreb

In the Maghreb, the advantage of a value chain where the product is entirely produced locally is the relatively low cost of production linked to the favourable labour costs in all segments of the regionalised production process. This price competitiveness, which may be optimised by sharing tasks regionally, is amplified by the economies of scale that are likely to be achieved by producers with access to a wider market. Strengthening trade integration is, therefore, a key factor in the enhancement of the price competitiveness of regional products. The Maghreb, as a coherent region (characterised by a common language, religion, climate and the importance of Berber culture), also has a level of development and social and cultural features of its own, all of which help to distinguish the market that it constitutes from other global markets. This specificity can be leveraged industrially by the operators manufacturing products tailored to the regional demand.

The domestic market-based RVC model seems even more relevant for the Maghreb, given that the region is a growing consumer market in terms of per capita consumption. Also, the region continues to urbanise. This phenomenon has led to transformation in the modes of distribution and retail, as evidenced by the advent of supermarkets and the development of neighbourhood shops in the city.

Regional Automobile Value Chain in the Maghreb

Thanks to targeted industrial policies, the automobile production has become a key activity of the Maghreb manufacturing industry. It is mainly Morocco and Tunisia that have invested in this sector, notably because of the weakening of the textile sector with the dismantling of the Multifibre Arrangements in 2005. These two countries initially entered the sector by luring foreign investors with the low cost of labour for low value-added assembly activities (manufacture of cables in particular), organised under franchise (free points in Tunisia and free zones in Morocco). Morocco subsequently transitioned to the assembly of passenger vehicles, initially as part of a partnership with Renault in Tangier. Tunisia, whose market was too narrow to attract manufacturers in a similar manner, continued and diversified the production of car components. From the 2010s, Algeria also sought to enter the sector, starting a line for assembling new vehicles for the domestic market. The Maghreb thus carries out two types of activity in the automobile industry: final assembly and production of components.

Table 1: Sale and production of new vehicles in the Maghreb in 2017

Country	Sales	Production
Algeria	94 408	60 606
Libya	23 600	0
Morocco	168 913	376 286
Tunisia	47 359	1 940
Total Maghreb	**334 279**	**438 832**

The automobile sector offers major growth opportunities to the Maghreb countries. It is already an important sector in the Moroccan and Tunisian industrial model, and Algeria intends to have it play a role in its economic diversification strategy. The industrial and economic outlook is conducive to investment in this sector for at least three reasons. Firstly, the automobile industry is highly regionalised and the Maghreb has the advantage of being close to the main markets and the headquarters of major European groups in the sector, which are among the largest in the world. This situation opens up opportunities for cooperation and the penetration of European value chains, linked to the proximity and logistical advantages, as well as the complementarity involved, in the context of a changing international division of labour. Secondly, the Maghreb can play a decisive role in the expansion strategies of automobile groups in emerging countries. Given the sluggishness of traditional markets, the Maghreb is a strategic region for the production of competitive vehicles for emerging markets. Indeed, the region constitutes a significant market (Algeria is the second-largest automobile market in Africa) and offers, thanks to its trade agreements and low-cost production capacity, a platform for access to the Mediterranean, Middle Eastern and African markets, characterised by a huge growth potential. Thirdly, the Maghreb seems to be engaged in a favourable industrial cycle. Many car manufacturers have announced investment projects in the region, which is a sign of confidence in the region's potential and productive capacity. Morocco, a very advanced country in terms of sectoral development, seems to have firmly anchored the region in the European automobile value chain by succeeding in attracting not only major manufacturers, but their equipment manufacturers as well.

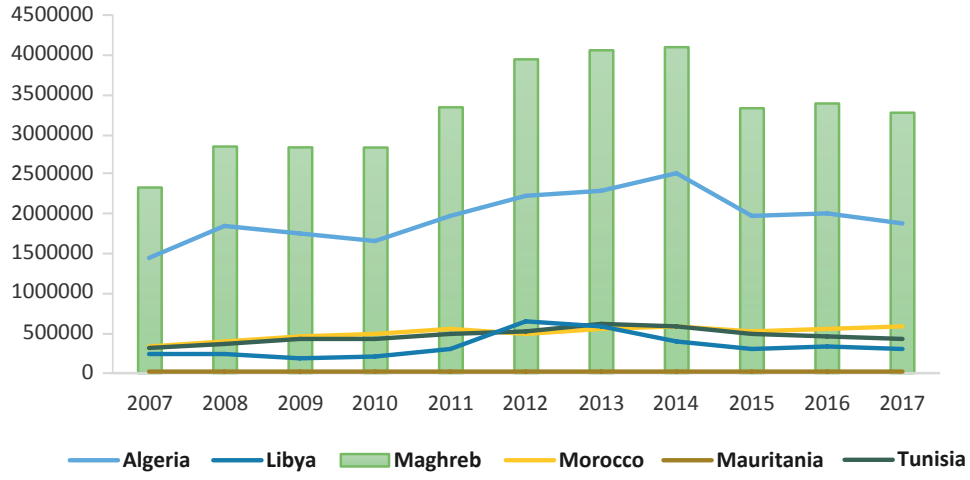
The Maghreb, as an automobile production area and consumer market, has the opportunity to capitalise on its inclusion in the sector's global value chains. For that to happen, the region must diversify its activities in the sector and improve its performance in terms of upgrading, as well as seek to enhance the regional complementarities resulting from the factor endowment structure and consumer areas. The goal is to design industrial integration, in other words, better capture of the value added, at the regional and not at the national level. Algeria, Morocco and Tunisia have a leading role to play in the measures to be promoted.

Pharmaceutical Industry Value Chain in the Maghreb

The Maghreb has a relatively mature pharmaceutical industry that partially meets the people's needs. Its upgrading and expansion, particularly through intra- and extra-regional exports, could offer opportunities for industrialisation, job creation and human development. This eventuality is, however, predicated on the support that the industry receives from the States of the region. Indeed, on account of the social issues involved, the pharmaceutical value chain is dependent on public policies and particularly sensitive to interactions with them. Social security coverage measures, health priority policies (vaccination campaigns, national issues, etc.) and the sector regulation are decisive factors in the development of the local industry.

The demographic and epidemiological transitions simultaneously taking place in each Maghreb country are amplifying the scale of health challenges at a regional level. In the face of this situation, the appropriate response would be to design a market that is also regional in scope, so that the Maghreb pharmaceutical industry can play its part in the ongoing transformation, and adapt its structure and capacities to the changing demand. With the exception of Libya, production capacity in the region has been increasingly expanding for several years, thanks to the numerous investments in the sector. As a result, drug imports have been on the decline across the region (Graph 11). The sector is all the more buoyant, given that pharmaceutical industry helps to meet the people's basic needs, which will continue to grow and become more complex as a result of population growth, urbanisation and the epidemiological transition taking place in the region. In addition, the sector's great potential in the Maghreb is attested to by several indicators, such as growth in production, exports and investment in the pharmaceutical industry, especially by large multinational groups.

Graph 11: Trend of pharmaceutical imports in the Maghreb (In USD thousand)



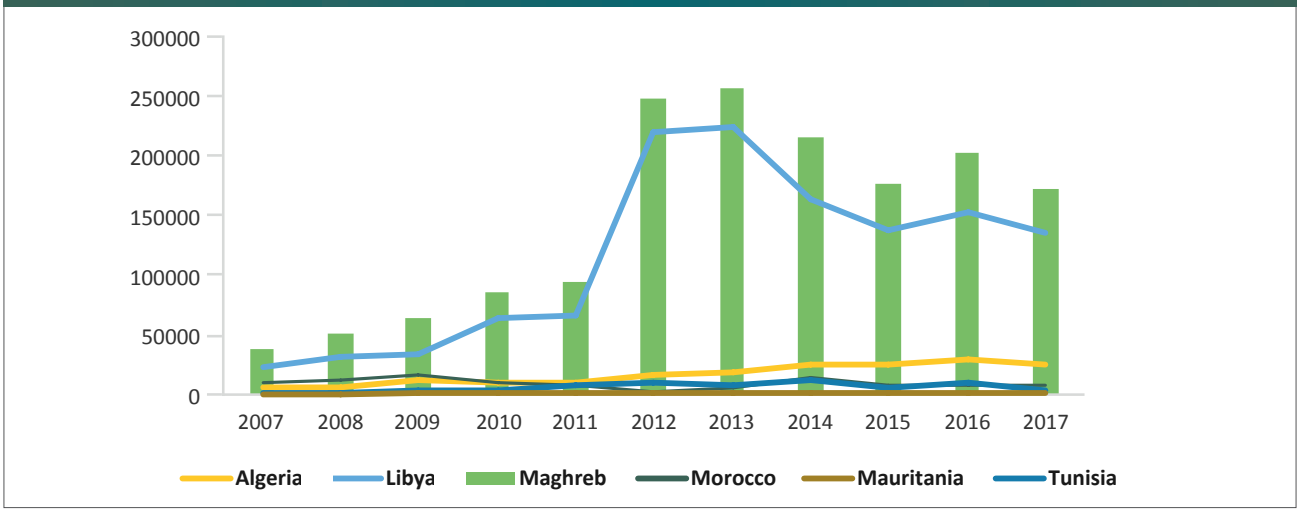
Source: Authors based on ITC data TradeMap (https://www.trademap.org/Index.aspx).

The region has several advantages that can be leveraged for the development of the sector. First, it has a productive apparatus whose capabilities are certainly limited to less complex activities, but which demonstrates efficient technological appropriation capabilities. The accumulated equipment and expertise provide a solid foundation for industrial progress. Moreover, the involvement of producers in networks for the supply, local marketing and export of products, particularly to Africa, can also be improved as part of a move to upgrade or increase production. A second advantage available to Maghreb countries is derived from the presence of multinational drug companies on their territory. The decision to enter these markets is an indication of their positive understanding of regional opportunities, not only in the short term but in the long term as well. The Maghreb pharmaceutical industry would have the opportunity to take advantage of strengthened links with the innovators doing business in their markets and to join them in working towards upgrading. The construction of a Maghreb innovation hub, driven by cooperation between research centres, pharmaceutical companies, innovative start-ups and manufacturers, revolving around projects focused on common health challenges, would enhance the region's attractiveness to investors and qualified staff. This change in scale would open up broad perspectives in the fields of medical biotechnology and pharmacogenetics, especially in activities ranging from research on the therapeutic routes characteristic of these companies, to the study of the phytosanitary virtues of plants available in the region.

The Value Chain of Fisheries Activities in the Maghreb

Pour les pays du Maghreb, les activités halieutiques présentent For the Maghreb countries, fisheries activities offer huge opportunities for industrialisation, job creation and regional development. The nutritional transition in the Maghreb and the growth in global demand for fisheries products are opening up encouraging market opportunities for the region in the spheres of import substitution and exports. Moreover, the industrialisation of the fisheries and aquaculture sector is conducive to the creation of skilled jobs (technicians, skilled workers, researchers, managers, etc.), not only in coastal areas, but also in the hinterland, in the case of inland aquaculture. Beyond the market opportunities, the region may leverage its numerous advantages for the development of fisheries and aquaculture activities. As a whole, the Maghreb countries have an exclusive economic zone of more than one million square kilometres, encompassing waters rich in fish of a wide variety. Moreover, each country has already put in place the equipment (fishing ports, coastal industrial zones, refrigeration infrastructure, etc.) that forms the groundwork for the development of industrial activities. Each country also has processing units with relatively high capacities. These promising regional prospects are a pointer to the efforts of the Maghreb countries to effectively integrate into the global value chains for fisheries activities. There is no data on the domestic consumption of these products. However, imports have increased in recent years in the region (Graph 12).

Graph 12: Imports of prepared and preserved fish (In USD thousand)



Source: Authors, based on ITC data Trade Map (https://www.trademap.org/Index.aspx).

Aquaculture is a buoyant sector in the Maghreb. The prospective factors identified as being responsible for its development include population growth, increasing consumption of aquatic products, as part of the nutritional transition, and the growing number of sites available for aquaculture, particularly in the desert area, owing to the development of major hydraulic infrastructure. This sector is, therefore, largely oriented towards domestic consumption, with a view to increasing food security, but a regional approach needs to be adopted in order to speed up its development. Technical, financial and institutional cooperation is essential, since countries in the region must simultaneously increase their capacity in the aquaculture subsector. The facilitation of regional exchanges, including trainers and input suppliers (feeds and fingering), would ensure some level of dissemination of the technologies and expertise existing in the region, with each country being subject to comparable environmental and climatic constraints.

Regarding the private sector, there are several types of complementarity at the regional level. Current producers can have access to neighbouring markets, which offer them an opportunity to achieve economies of scale and increase their capacity, while helping to enhance access to fish consumption for the region's populations. The expertise acquired in both the marine and mainland environments could be transferred in the context of industrial cooperation and joint ventures with actors from neighbouring countries, by encouraging intra-regional investment in the sector. Similarly, Morocco and Mauritania could simultaneously increase their production of fishmeal for use in aquaculture. The two countries are already Tunisia's leading suppliers of this essential input. Increasing their production levels is feasible, especially if Morocco, which is more experienced in the manufacture of this product, supports the development of Mauritania's capacities. The resulting boost in fishmeal production could help to further the development of the aquaculture sector in the region.

Conclusion

Towards the Strengthening of Regional Integration in the Maghreb

Policy recommendations aimed at strengthening regional integration in the Maghreb relate to strengthening trade, financial systems and capital trading, improving the business and investment climate, adapting regional industrial policies to structural transformation and to exploitation of the potential of Regional Value Chains.

Enhance Trade Integration

The shift in export structure reflected in the relative stagnation of traditional regional exports (minerals, fertilisers, organic chemistry products, clothing and footwear), needs to be further expedited in order to broaden the range of exported products, but the countries must also improve the complementarity of the products traded in the region and facilitate trade by removing recurring barriers, including those relating to day-to-day operations.

- Diversify the export structure: New and more sophisticated export products generate value-added and strengthen regional integration by increasing access to a more diversified range of products for each country.
- Consolidate the competitive potential: Competitive potential must be strengthened and consolidated by exploiting trade complementarity and the revealed comparative advantages of traded products. The analysis showed that some AMU countries import products from the rest of the world whereas the same products are available within the region. In addition, better strategic positioning of AMU exports in the international market would make the products more competitive in the region.
- Remove recurring barriers to trade: One of the main barriers to trade in goods in the region is the availability and quality of infrastructure. It is imperative to strengthen the quality of regional infrastructure, so that freight transport may be fast and cheap within the AMU. Beyond physical barriers, the region faces organisational and institutional challenges to trade facilitation. Access to the domestic market is hampered in particular by the quality of border administration, as well as by tariffs and non-tariff barriers.
- Facilitate day-to-day operations: All Maghreb countries continue to use foreign exchange caps on business

transactions, retrocession or repatriation of export earnings, export sales or import settlements, and current transfer transactions relating to trips undertaken for business, study, health or touristic purposes. These foreign exchange controls act as barriers to foreign trade and current transfers.

- Strengthen dialogue between regional integration actors: There is a need to strengthen not only political dialogue between AMU States, but also dialogue between governments and businesses in order to unlock the potential of the private sector, consolidate productive capacities and stimulate intra-regional trade.

Strengthen Financial Integration

In AMU, strengthening financial integration encompasses the consolidation and cross-establishment of financial institutions, the development of capital markets and the enhancement of financial inclusion and access to financial services. All these measures should help to attract more intra-Maghreb FDI needed for private sector development. It should be underscored that the non-convertibility of different currencies within the AMU and foreign exchange regulations are the main obstacles to trade in goods and investments in the region.

- Consolidate financial institutions and develop their cross-establishment: This phenomenon should accelerate and strengthen regional integration if countries focus on consolidating their financial systems and overcoming certain persistent structural problems such as: (i) the concentration of financial activity in a very small number of institutions; (ii) limited access to sources of bank financing for small businesses and young entrepreneurs; (iii) crowding out of the private sector by the public sector; (iv) lack of proactiveness in respect of the new information and communication technologies; and (v) the problem of non-performing loans, which keeps the cost of credit high to cover the risks. It is important for the private sector to be backed by a sound financial system.

- Develop Stock Exchanges: For stock markets to play a greater role in private sector financing, they need to attract more businesses. Less demanding and less costly public funding schemes could be put in place by financial intermediaries. Similarly, information and prospecting campaigns could help attract companies close to eligibility conditions to go public. In addition, the Maghreb stock markets are not involved in cross-border transactions because of several obstacles. Firstly, capital transfer restrictions and currency convertibility problems hinder financial flows. Secondly, cooperation between AMU stock exchanges requires the alignment of procedures, facilitation of the interventions of the various actors in the markets and encouragement of companies to seek funding outside their countries of origin. Financial intermediaries could design innovative financial products, for example, offer packages of Maghreb multinational securities. Similarly, Maghreb stock exchanges could specialise, even partially, in the development of Regional Value Chains, with the support of stock exchange firms and authorities.

- Strengthen financial inclusion and optimise access to financial services: Regional integration could be facilitated by improving access for people and businesses to banking and financial services. Better financial inclusion would in particular reduce the predominance of the informal sector in cross-border trade, while the proliferation of foreign

exchange regulations means that part of the economy is left out of the official channels and does not benefit from financial services that could lead to its development.

Improve the Business and Investment Climate

The obstacles to private business development in the Maghreb are significant within the various national economies and penalise twofold the companies doing business in the countries of departure and the countries of destination. To foster regional integration, AMU countries must continue to modernise businesses, remove major constraints to doing business, and ease foreign exchange controls on capital and financial transactions.

- Consolidate the signs of modernisation of SMEs: With the increase in foreign equity participation and the number of exporting companies, companies in the region are adapting to the recent conditions for doing business and to regional integration. While the most significant barriers that hinder the conduct of business and impede regional integration have been removed, these positive signs of modernisation should be accelerated. In addition to the political instability that undermines the business climate, half of the companies in the AMU region say they are competing with informal businesses and suffering from the lack of funding and skilled labour.

- Remove major constraints to doing business: These include barriers to obtaining loans, protecting minority investors and settling insolvency, all of which discourage foreign investors from doing business in the region. The pillars of competitiveness also need to be strengthened, especially the factors relating to innovation and sophistication, the adoption of ICT and the removal of restrictions on FDI.

- Ease capital and financial transactions: Conducted at different paces in the Maghreb countries, the process of easing foreign exchange controls on capital and financial transactions, for both residents and non-residents, needs to be accelerated to support the modernisation of investment laws adopted by AMU countries, and to better attract foreign direct investment and portfolio.

Adapt Regional Industrial Policies to Structural Transformation

The adaptation of productive systems and growth patterns of the Maghreb countries to the demands of better regional integration dynamics requires structural transformation and renewed industrial policies to support the development of foreign trade. However, traditional specialisation, resulting in particular from the demand of large European industries in terms of natural resources and cheap labour for labour-intensive activities, is a model that is not easy to give up abruptly.

- Accelerate the dynamics of structural transformation: The sectoral redistribution of employment has generally not kept pace with the growing productivity of each sector. One of the main reasons is the relative weakness of the manufacturing sector in terms of wealth creation, given that its share in GDP has not increased substantially. Speeding up the dynamics of structural transformation requires that production systems be diversified and made more sophisticated in order to move towards higher value-added activities, especially in the manufacturing sector.

- Build industrial capacities: Countries should define national industrialisation policies, especially based on the processing of natural resources and the development of manufacturing activities that would create value-added jobs, taking into

account the need to use existing regional industrial capacities to strengthen regional integration.

- Define a regional industrial trajectory for reviving structural transformation: Long neglected by the industrial policies of the Maghreb, the private sector must now play a leading role and develop freely on a regional scale. Horizontal and vertical industrial policy actions must be strengthened to promote regional integration. Horizontal policy actions aim to improve the general conditions under which the process of industrialisation will unfold (macroeconomic stability, the industrial environment, and human capital). As for vertical actions, they are intended to support a particular industrial activity, in order to promote a sector, a product, or to achieve a broader objective, such as integration into value chains or territorial development.

Tap the Potential of Regional Value Chains

The common objective of all industrial strategies of Maghreb countries is to enhance country participation in global value chains because of the upgrading effects expected from their national industry. However, the strategy has its limitations, since the operational characteristics (technical, health, social, safety and environmental standards are sometimes extremely restrictive) of these value chains can hinder the pace of growth of industries. Thus, countries of the Arab Maghreb Union (AMU) should draw on their experience in global value chains to define Regional Value Chains, by capitalising on productive complementarities and reallocating tasks at the regional level.

- Move from global value chains to Regional Value Chains: The Maghreb has favourable conditions for setting up Regional Value Chains that articulate objectives for intensive and extensive growth in production. These include proximity to the European Union and African and Middle Eastern markets, the growth of domestic markets, and the existence of differentiated capacities that can be developed for the conquest of new markets.

- Capitalise on productive complementarities within the region: regional value chain (RVC) operators could exploit the productive and commercial complementarities offered by the differentials in resource endowments and levels of development within the region. The regional model could be in the form of both a production block in global value chains as well as a specialised production area in its do mestic market and in the emerging African and Middle Eastern markets where per capita consumption is booming. The examples of the automotive industry, and the pharmaceutical and fisheries sectors, are particularly promising.

Lastly, to fully realise the gains of regional integration, policymakers must not commit the following errors: (i) worry excessively about a loss of national sovereignty; (ii) neglect institutional infrastructure in favour of physical infrastructure; (iii) believe that regional integration does not benefit small countries; and (iv) impose rules of origin specific to certain sectors, given that such rules are very constraining to the development of the private sector and value chains.

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