The Founding Treaty of the Arab Maghreb Union (AMU), signed in February 1989, calls for a strengthening of all ties among its member states (Algeria, Libya, Mauritania, Morocco, and Tunisia), including a gradual move toward free circulation of goods, services, and factors of production among them. The paper provides an overview of the economic conditions in the AMU member countries, describes the institutional arrangements under the AMU, and assesses the progress made in attaining the economic objectives of the Treaty. In so doing, the paper identifies the main obstacles encountered in making progress toward the objectives of the Treaty and reviews actions that need to be taken to make further progress in the coming years. In that context, the paper also examines the relationship of the AMU countries with the European Union (EU).

JEL Classification Numbers:

F15

1/ This paper is based on the findings of a mission comprising Messrs. Mohamed Finaish, former Executive Director at the Fund (1978-92) and currently Consultant to the Managing Director, and Eric Bell, Economist, Middle Eastern Department, that visited the capitals of the five member countries during September 1993. The mission also met with officials of the EU in Brussels and in the various capitals.

2/ The authors would like to express their appreciation to Saleh Nsouli for providing useful comments on various drafts of this study, as well as to Said Hitti, Abdelali Jbili, Azizali Mohamed, and the members of Division F of the Middle Eastern Department. The authors are also grateful to Janet Bungay for excellent editorial assistance.
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On February 18, 1989, the Heads of State of five Maghreb countries—Algeria, Libya, Mauritania, Morocco, and Tunisia—met in Marrakech (Morocco) to sign a Treaty establishing the Arab Maghreb Union (AMU). On the economic side, the Treaty aims to integrate the economies of the five countries.

This paper provides an overview of the institutional arrangements and the key issues relating to economic integration in the Maghreb. The paper draws attention to the progress made consonant with the economic objectives of the agreement as well as the problems and obstacles encountered. It also attempts to assess the extent to which the main prerequisites for economic integration are in place in the Maghreb. It does not, however, analyze the potential for trade creation as this would require a study of factor endowments and potential production patterns, which is outside the scope of the paper. Special attention is given to the relationship between the AMU and the European Union (EU), recognizing that the economies of the AMU countries are currently more strongly oriented toward Europe than toward each other, and that the EU may be an important factor in determining the success of Maghreb economic integration.

The paper is divided into seven sections. Section I provides the historical and country perspective to the Union and describes the objectives of the Treaty. Section II reviews the various aspects of the implementation of the Treaty to date. Section III describes the pattern of AMU trade and economic relations during the period 1992-93. Section IV explains the main difficulties confronting economic integration in the Maghreb. Section V covers the main elements of the current debate regarding the strategy of economic integration within the Union, whereas Section VI examines some issues relating to the interrelations between the EU and the AMU. The last section presents the main conclusions of the study. Despite considerable progress, economic integration has remained limited, mainly to differences in development strategies and economic policies amongst the five countries. For the future, the major challenge is not only to create a convergent economic environment, but also to put in place appropriate mechanisms to increase cooperation without distorting the working of market forces.
I. **Background**

1. **Historical perspective**

Within the broader context of Arab economic cooperation, the Arab Maghreb Union (AMU) encompasses five North African countries that have strong historical, cultural, and language affinities. These neighboring countries have long had ties with one another, dating back to at least three millennia before Christ, when the nomadic Berbers roamed the region, and continuing between 1200 B.C. and the mid-twentieth century A.D. under a variety of rulers (Phoenicians, Romans, Arabs, Ottoman Turks, and western European colonial powers). They finally emerged as independent states in the 1950s and 1960s: Libya emerged from rule by the Italians (1911-42) and British and French Administration (1942-51) to become the first country in Africa to be granted independence under the aegis of the United Nations, in 1951; Morocco and Tunisia were French protectorates until November and March 1956, respectively; Mauritania was a French colony until 1960; and Algeria was colonized by France until 1962.

Recent attempts at closer relations among the countries of North Africa go back to 1958, when the nationalist parties in Morocco and Tunisia, together with the Front de Libération National of Algeria, held the Maghreb Unity Congress in Tangier. Little headway was made thereafter, as the three parties were absorbed in the task of establishing their newly independent states. The first Conference of Maghreb Economic Ministers, which took place in Tunis in 1964, launched the Conseil Permanent Consultatif du Maghreb (CPCM) between Algeria, Libya, Morocco, and Tunisia, to coordinate and harmonize the four countries’ development plans, as well as intraregional trade and relations with the EU. In practice, however, these plans were not carried out in the 1970s and 1980s, particularly because of differences over the Western Sahara question. New impetus came with the reconciliation of Tunisia and Libya in December 1987.

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1/ Economic integration has been one of the principal goals of cooperation among Arab countries ever since the establishment of the Arab League at the end of World War II. The Arab Common Market was established in 1964 to eliminate intra-Arab trade barriers and establish an economic union. In the event, this approach turned out to be too ambitious and did not materialize. In the 1980s, attempts centered on subregional groupings, namely: (i) the Gulf Cooperation Council (1985), comprising Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Oman, and Bahrain; (ii) the Arab Cooperation Council (1989, but inactive since the Middle East crisis of 1991) between Egypt, Iraq, Jordan, and Yemen; and (iii) the Arab Maghreb Union.

2/ Some observers note that the various attempts at effecting Maghreb unity were, historically, reactions to each stage of the formation of the EU, starting with the conference in Tangier in 1958 and extending to the 1989 AMU Treaty, which came as a response to the EU’s Single Market Act.

3/ As early as 1969, various joint projects were considered. These included a Maghreb Coast Line shipping company, an Air-Maghreb transport company, and a Trans-Maghreb Express.
and the resumption of diplomatic relations between Algeria and Morocco in May 1988. 1/ Algeria and Morocco then reopened their frontiers, eliminated visa requirements, and set up a joint committee to oversee cooperation. In May 1988, Tunisia and Libya attempted to move forward unification with a decision to introduce a common identity card, allow free movement of individuals and goods, and devise pilot industrial joint projects. Locust invasions during the same year created the need for deeper cooperation, requiring coordinated locust control arrangements from Mauritania to Libya. The first Maghreb Summit of the five Heads of State, held at Zeralda (Algeria) in June 1988, resulted in a decision to set up the Maghreb High Commission and various specialized commissions. Finally, the AMU Treaty was signed on February 18, 1989 in Marrakech by the Heads of State of the five countries. 2/

Despite these countries' cultural affinities and political predilections, there have often been factors tending to drive them apart. Libya and Mauritania, in particular, are geographically at the outer limits of the Maghreb. Libya has always been attracted by both union with the Maghreb and eastward-oriented Arab solidarity focused on Egypt. 3/ Mauritania has most of its population in the southern part of the country along the River Senegal, and its economic relations have always been more developed with Sub-Saharan Africa. The Sahara Desert is a formidable physical obstacle between Mauritania and the rest of North Africa. Political differences have at times emerged between the Maghreb countries regarding frontier disputes, including the Western Sahara. More recently, the Middle East crisis in 1991 and the current political difficulties in Algeria, as well as the imposition of sanctions against Libya by some Western countries and by the United Nations Security Council, have created a difficult external environment for the AMU. 4/5/

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1/ Diplomatic relations were cut off between the two countries in December 1976 after Algeria's recognition of the Sahrawi Arab Democratic Republic.

2/ See Aghrout and Sutton (1990) for further information on the historical aspect of the AMU.

3/ Libya is a member in an integration scheme with Egypt and Sudan. Several other bilateral agreements have also been signed with Egypt and with Sudan.

4/ The 1981 U.S. ban on Libyan crude oil imports was extended in 1985 to all hydrocarbon imports and U.S. oil companies were asked to leave Libya. In January 1986, an executive order imposing sanctions on Libya was issued, and since then all U.S. trade has been banned and Libya's financial assets have been frozen. In 1991 and 1992, the United States blacklisted 94 companies controlled by the Libyan Government. In 1987 the U.K. Government cut off all air links with Libya. Libya is called upon to cooperate in a French investigation into the downing of a French airliner over Niger in 1989.

5/ (continued...)
2. The AMU member countries

The AMU represents 19 percent of Africa’s area and 40 percent of the Arab world’s. It borders the Mediterranean Sea and the Atlantic Ocean; its population was estimated at 66 million in 1992. It is rich in natural resources, including oil, gas, phosphates, iron ore, agricultural products, vast fishing banks, and tourist attractions; it also has a dynamic entrepreneurial private sector. Economically, however, the AMU countries are relatively small, with the GDP of the largest member, Algeria, amounting to about US$45 billion. Their combined GDP is equivalent to about half that of Belgium and their total exports are equivalent to Thailand’s (Chart 1). All member countries have fairly large agricultural or raw materials sectors, and are consequently quite vulnerable to exogenous shocks, such as the vagaries of weather and fluctuations in commodity world market prices. The bulk of their international trade and economic relations is with European countries. There are more than 2 million migrant workers from the Maghreb in Europe, and European tourism represents a major source of foreign exchange for Morocco and Tunisia.

The five countries face a number of common problems. In most of them, population growth exceeds 2 percent a year, with a high proportion (about 40 percent) of the population under 15 years of age. Unemployment is estimated at 15-22 percent of the labor force. Infant mortality is at around 60 per thousand live births, while illiteracy reaches 40 percent (Table 1). Other common problems include insufficiency of the water supply, desertification, periodic locust invasions, and environmental degradation. 1/

5/ (...continued)
5/ UN Security Council sanctions were imposed against Libya in April 1992 in connection with the Lockerbie airplane crash, which took place in 1988. These included a ban on the sale of spare parts and military hardware and a ban on all international flights to and from Libya. On November 11, 1993 the Security Council voted to tighten these sanctions. The new sanctions included: (a) a freeze on all "funds and financial resources" owned or controlled directly or indirectly by the Libyan Government, excluding funds derived from the sale of agricultural products, oil, gas, or petroleum products—these funds must be paid into bank accounts specifically earmarked for this purpose; (b) a ban on export to Libya of specific oil transportation and refining equipment; (c) a ban on supplies of aircraft, aviation components, aircraft engineering, and maintenance services; (d) the closure of all Libyan Airlines offices in all UN member countries and a ban on all transactions with the carrier; (e) a commitment by all countries to "significantly cut down the level of staff at Libyan diplomatic missions."
1/ Desertification, notably as a result of unreliable rainfall, is progressing at an alarming pace. Water quality is deteriorating rapidly because of increasing groundwater depletion and waste dumping has already affected fish stocks as well as beaches bordering the Mediterranean Sea.
Table 1. AMU: Selected Economic and Social Indicators

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Libya</th>
<th>Mauritania</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (thousand sq. km)</td>
<td>2,382</td>
<td>1,760</td>
<td>1,026</td>
<td>447</td>
<td>164</td>
</tr>
<tr>
<td>Population 1991 (million)</td>
<td>25.7</td>
<td>4.8</td>
<td>2.0</td>
<td>25.7</td>
<td>8.2</td>
</tr>
<tr>
<td>Population growth rate (annual, in percent)</td>
<td>2.7</td>
<td>3.5</td>
<td>2.8</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Population density (population per sq. km)</td>
<td>10.0</td>
<td>2.0</td>
<td>2.0</td>
<td>55.0</td>
<td>50.1</td>
</tr>
<tr>
<td>Urban population (percent of population)</td>
<td>53.0</td>
<td>71.0</td>
<td>48.0</td>
<td>49.0</td>
<td>55.0</td>
</tr>
<tr>
<td>Under 15 years of age (1990)</td>
<td>40.0</td>
<td>46.0</td>
<td>43.9</td>
<td>41.2</td>
<td>38.4</td>
</tr>
<tr>
<td>Primary enrollment ratio (percent)</td>
<td>95.0</td>
<td>...</td>
<td>51.0</td>
<td>68.0</td>
<td>115.0</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>66</td>
<td>63</td>
<td>47</td>
<td>63</td>
<td>67</td>
</tr>
<tr>
<td>Infant mortality (per thousand of live births)</td>
<td>64</td>
<td>71</td>
<td>119</td>
<td>57</td>
<td>38</td>
</tr>
<tr>
<td>Access to health care (percent of population)</td>
<td>90</td>
<td>...</td>
<td>...</td>
<td>50</td>
<td>91</td>
</tr>
<tr>
<td>Illiteracy (percent of population)</td>
<td>43</td>
<td>36</td>
<td>66</td>
<td>51</td>
<td>35</td>
</tr>
<tr>
<td>Main exports</td>
<td>Hydrocarbons</td>
<td>Oil</td>
<td>Iron ore, fish products</td>
<td>Phosphates, agricultural products, textiles</td>
<td>Textiles, fertilizer &amp; other chemicals, hydrocarbons</td>
</tr>
<tr>
<td>Exports to EU (percent of total exports)</td>
<td>65.1</td>
<td>60.4</td>
<td>60.0</td>
<td>60.5</td>
<td>76.1</td>
</tr>
<tr>
<td>Imports from EU (percent of total imports)</td>
<td>63.2</td>
<td>84.4</td>
<td>51.0</td>
<td>58.1</td>
<td>71.6</td>
</tr>
</tbody>
</table>

Chart 1.

The Arab Maghreb Union In Perspective

<table>
<thead>
<tr>
<th>Population (Million; 1991)</th>
<th>GDP (Billion $; 1992)</th>
<th>Merchandise Exports (Billion $; 1992)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritania 2.0</td>
<td>1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Tunisia 8.2</td>
<td>15.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Libya 4.7</td>
<td>25.0</td>
<td>10.2</td>
</tr>
<tr>
<td>Morocco 25.7</td>
<td>28.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Algeria 25.7</td>
<td>44.6</td>
<td>11.5</td>
</tr>
<tr>
<td>AMU(^1) 66.3</td>
<td>114.9</td>
<td>30.3</td>
</tr>
<tr>
<td>Belgium 10.0</td>
<td>200.0</td>
<td></td>
</tr>
<tr>
<td>Thailand 57.2</td>
<td>80.0</td>
<td>106.2</td>
</tr>
</tbody>
</table>

Sources: Various IMF and World Bank documents.
\(^1\)The Arab Maghreb Union, comprising Algeria, Libya, Mauritania, Morocco and Tunisia.
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The AMU countries do not form an economically homogeneous bloc. There are, between them, sizable differences in per capita income, factor endowments, and market size. GDP per capita ranges from US$500 in Mauritania to more than US$5,000 in Libya. Algeria and Libya are major oil producers, and oil exports represent more than 90 percent of their total export earnings, while the other three countries have fairly large agricultural sectors. The economies of Morocco and Tunisia are now relatively diversified, with significant private sector activity and substantial manufactured exports. Algeria's economy is larger than that of other AMU partners and includes a fairly large manufacturing sector based mainly on heavy industry. Morocco and Algeria have large populations and have traditionally been large exporters of labor to Europe. Mauritania, which belongs to a different climatic and soil region (the Sahel), is a small economy, exporting virtually only two products, fish and iron ore. It is the only AMU country in the "Least Developed Country" category.

The disparities in economic management among the countries of the AMU are also striking. In recent years, Tunisia and Morocco have made significant progress in stabilizing and adjusting their economies, thus setting the stage for high and sustainable economic growth (Table 2). Algeria, which had been centrally managed since the early 1960s, turned toward greater market orientation and was well advanced in the preparation of far-reaching reforms until 1991, when progress was interrupted by adverse political developments. Over the period 1989-93, the three countries have had arrangements with the Fund. Mauritania embarked on a program in 1989 supported by the enhanced structural adjustment facility (ESAF). This program was adversely affected by disruptions of traditional trade channels following a border conflict with Senegal. Subsequently, a two-year ESAF arrangement was approved in October 1992. In the Libyan economy, which has been managed since 1977 by people’s committees, state participation in economic activity remains widespread and extensive controls and regulation have limited private sector development. More recently, however, steps have been taken to encourage wider private sector participation in economic activity.

3. Objectives of the Treaty

The main objectives of the AMU Treaty (Appendix I) are to strengthen all forms of ties among member states (in order to ensure regional stability and enhance policy coordination), as well as to introduce gradually free circulation of goods, services, and factors of production among them (Article 2). Common defense and noninterference in the domestic affairs of the partners are also key aspects of the Treaty. The Treaty highlights the broad economic strategy to be followed (Article 3), namely the development of agriculture, industry, commerce, food security, and the setting up of joint projects and general economic cooperation programs. The agreement does not view bilateral arrangements between the parties as an obstacle to the development of multilateral relations (Article 16). Article 17 provides the possibility for other Arab and African countries to join the Union at a later stage.
Table 2. AMU: Key Economic and Financial Indicators, 1991–93

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Libya</th>
<th>Mauritania</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Annual change in percent)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP: 1991</td>
<td>0.2</td>
<td>4.0</td>
<td>2.6</td>
<td>6.2</td>
<td>3.9</td>
</tr>
<tr>
<td>1992</td>
<td>2.3</td>
<td>...</td>
<td>1.7</td>
<td>–4.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Increase in CPI: 1991</td>
<td>25.8</td>
<td>...</td>
<td>5.6</td>
<td>8.0</td>
<td>7.8</td>
</tr>
<tr>
<td>1992</td>
<td>31.7</td>
<td>...</td>
<td>10.1</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>(In percent of GDP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral breakdown of GDP (1992): 1/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>12.1</td>
<td>5.0</td>
<td>26.4</td>
<td>14.4</td>
<td>15.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.0</td>
<td>7.0</td>
<td>9.7</td>
<td>18.8</td>
<td>15.0</td>
</tr>
<tr>
<td>Services</td>
<td>17.8</td>
<td>28.2</td>
<td>39.5</td>
<td>40.5</td>
<td>33.1</td>
</tr>
<tr>
<td>Government</td>
<td>13.4</td>
<td>10.8</td>
<td>11.9</td>
<td>12.5</td>
<td>11.9</td>
</tr>
<tr>
<td>Investment</td>
<td>28.8</td>
<td>18.8</td>
<td>22.5</td>
<td>23.7</td>
<td>27.6</td>
</tr>
<tr>
<td>Gross national savings</td>
<td>28.7</td>
<td>26.1</td>
<td>6.0</td>
<td>22.3</td>
<td>21.2</td>
</tr>
<tr>
<td>Government accounts (1992)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>32.6</td>
<td>33.7</td>
<td>19.5</td>
<td>26.3</td>
<td>28.8</td>
</tr>
<tr>
<td>Expenditures and net lending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>31.7</td>
<td>28.7</td>
<td>24.9</td>
<td>28.5</td>
<td>31.3</td>
</tr>
<tr>
<td>Capital</td>
<td>24.3</td>
<td>15.8</td>
<td>18.8</td>
<td>21.4</td>
<td>24.9</td>
</tr>
<tr>
<td>Deficit (excluding grants)</td>
<td>–1.3</td>
<td>–5.1</td>
<td>–5.4</td>
<td>–2.2</td>
<td>–3.0</td>
</tr>
<tr>
<td><strong>(In millions of U.S. dollars)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External sector (1992): 1/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account</td>
<td>1,336</td>
<td>–197</td>
<td>–193</td>
<td>–543</td>
<td>–1,025</td>
</tr>
<tr>
<td>Exports, f.o.b.</td>
<td>11,510</td>
<td>10,275</td>
<td>414</td>
<td>3,982</td>
<td>4,032</td>
</tr>
<tr>
<td>Imports 2/</td>
<td>8,300</td>
<td>7,900</td>
<td>458</td>
<td>6,699</td>
<td>6,077</td>
</tr>
<tr>
<td>Tourism</td>
<td></td>
<td></td>
<td></td>
<td>1,128</td>
<td>1,069</td>
</tr>
<tr>
<td>Workers' remittances</td>
<td>200</td>
<td>…</td>
<td>…</td>
<td>2,179</td>
<td>574</td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
<td>93</td>
<td>79</td>
</tr>
<tr>
<td>Capital account, of which:</td>
<td>–1,231</td>
<td>…</td>
<td>19</td>
<td>553</td>
<td>1,063</td>
</tr>
<tr>
<td>Direct investment</td>
<td>3</td>
<td>…</td>
<td>7</td>
<td>505</td>
<td>434</td>
</tr>
<tr>
<td>Public MLT loans</td>
<td>90</td>
<td>…</td>
<td>11</td>
<td>56</td>
<td>393</td>
</tr>
<tr>
<td>IBRD/IDA lending (gross)</td>
<td>259</td>
<td>…</td>
<td>13</td>
<td>477</td>
<td>210</td>
</tr>
<tr>
<td>Amortization on MLT debt</td>
<td>6,834</td>
<td>…</td>
<td>107</td>
<td>1,682</td>
<td>886</td>
</tr>
<tr>
<td>Gross official reserves</td>
<td>1,509</td>
<td>4,582</td>
<td>67</td>
<td>3,751</td>
<td>1,045</td>
</tr>
<tr>
<td>(in months of imports)</td>
<td>(1.8)</td>
<td>(7.0)</td>
<td>(1.7)</td>
<td>(5.6)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>External debt (1992):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In billions of U.S. dollars</td>
<td>25.3</td>
<td>…</td>
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<td>20.1</td>
<td>7.5</td>
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<td>70.5</td>
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<td>510</td>
<td>1,030</td>
<td>1,500</td>
</tr>
</tbody>
</table>

Sources: Data provided by the authorities and staff estimates.
1/ For Libya, estimates are for 1991.
2/ F.o.b. for Algeria, Morocco and Tunisia, and c.i.f. for the other two countries.
3/ For 1993; except Libya which is for 1992.
4/ As a percent of exports of goods and nonfactor services.
Following the signing of the Treaty in 1989, a number of economic decisions were taken. Most importantly, the Council of Heads of State, in its third meeting in Libya in March 1991, adopted guidelines for a strategy for joint Maghreb development. These guidelines specified four stages of economic integration, and announced deadlines for establishing a free trade area by end-1992, a customs union by end-1995, a common market by end-2000, and a monetary union some time thereafter. Technical discussions between officials of the member countries over recent years have clarified the most important economic goals of the Union, although no clear and detailed strategy for their fulfillment has yet evolved. In the view of the authorities of the member countries, economic integration offers the prospect of economic gains in the form of increased social and economic welfare. These gains would be derived from: (i) increased production arising from the exploitation of economies of scale, partly as a result of greater access to the regional and nonregional markets; \(1/\) (ii) improvements in efficiency in the wake of increased competition; and (iii) integration-induced increases in the quantity of foreign investment and related inflows of technological know-how. The authorities hope that economic integration will dilute the influence of local vested interests within each country that have hitherto tended to resist trade liberalization.

II. Implementation of the Treaty

The first five years since the signing of the Treaty have been used to establish the basic institutions of the AMU. A legal and administrative structure is now in place, and some benefits have started to accrue. While relations among the five countries remain governed primarily by bilateral agreements, a number of steps have been taken to intensify relations at the multilateral level.

1. Legal and administrative structure

An institutional framework for taking and administering decisions has been put in place. The supreme institutional organ that has the authority to take decisions and to which all AMU institutions answer is the Council of Heads of State; its decisions require unanimity. Since the signing of the Treaty, the Council of Heads of State has met, as scheduled, twice a year to take decisions concerning regional issues. \(2/\) A Council of Foreign Affairs Ministers also meets regularly to prepare for the sessions of the Council of Heads of State and to examine proposals formulated by subordinate committees and specialized ministerial commissions. A follow-up Committee, consisting of representatives from each member State, follows the

\(1/\) This would result from a strengthening of Maghreb representation in world fora and facilitate greater access to markets of their current trade partners.

\(2/\) The frequency of the Council meetings has been changed to a yearly basis from 1993.
implementation of resolutions adopted by the Council of Heads of State. A Consultative Assembly, consisting of ten representatives from each member State that can advise the Council of Heads of State, and a Court of Justice, composed of two judges from each member State, have been set up in Algiers and Nouakchott, respectively. The latter will settle disputes arising from differences in the interpretation of the provisions and application of the Treaty. The AMU's Secretariat, which initially moved every six months to where the next meeting of the Heads of State was to be held, was established permanently in 1992 with headquarters in Rabat (see Appendix II). It has an annual budget of US$1.7 million, with equal contributions from each member, and has a staff of more than 25. It has a wide range of activities, including the identification of foreign financing for joint projects. Lastly, AMU members decided to establish a university and academy of sciences in Tripoli.

A number of specialized committees have been working in such areas as food security, economic and financial affairs, basic infrastructure, and human resources. Several working groups have been created since 1989 to address technical issues, and discussions have progressed on many fronts. Work has also been done on a Maghreb identity card that could be put in circulation at an appropriate time. The five countries have agreed to set up a regional development bank to finance projects in the region. Considerable work has been done at the technical level to formulate a unified customs nomenclature, and a common format for Maghreb certificates of origin has been completed; they will be put into effect with the implementation of multilateral agreements currently being discussed.

2. Economic achievements

The five countries have signed more than 25 multilateral agreements since 1990, covering diverse economic, social, and cultural areas. Member countries have ratified varying numbers of these agreements, but only five have been ratified by all members of the union. These include agreements on trade and tariffs (covering industrial products); trade in agricultural products; investment guarantees; avoidance of double taxation; and phyto-sanitary standards. The first two agreements aim at establishing free trade among the countries through the elimination of tariff and nontariff barriers. However, they are not yet in effect, as they are awaiting the preparation of technical protocols, listing the products to be covered and harmonizing tariff treatment of nonmember countries. The other three agreements are currently in effect. The agreement on investment guarantees, which follows the format of the multilateral agreement of the Arab League, provides for equal treatment of local and Maghreb investors regarding investment facilities and incentives, and specifies that the Maghreb Court of Justice is the legal institution for referrals in case of disputes. The agreement on avoidance of double taxation is similar to international agreements in this area. The last agreement stipulates phyto-sanitary standards for the trade in flowers and plant species.
Since 1989, the Governors and technical staff of the five central banks of the AMU have been meeting regularly. In December 1991, the five banks signed a multilateral agreement to help facilitate interbank payments within the Union. The agreement, which has been implemented since April 1992, has replaced the bilateral agreements between the central banks of the Maghreb. It sets unified modalities (coverage, terms, and communication procedures) of payments between the five central banks, and provides for monthly settlement of balances between any two countries without charge of interest on interim balances. The unit of account is the SDR and the settlement currency is chosen by the creditor country.

This new interbank payment agreement does not provide any credit facility (except for the balances between two settlement periods), but facilitates settlement between the countries by bunching payments and settlement, by permitting direct contacts between the central banks, and by obviating the need to use extraregional banks. The authorities of member countries indicated that savings have been realized in the commissions that would have been paid to foreign banks.

The AMU has provided the framework for numerous activities that strengthen economic relations among the member countries, either directly through joint projects, or indirectly through activities such as regular trade fairs at the bilateral and multilateral levels in the Maghreb. The most notable joint projects are in the energy sector. An Algerian-Tunisian pipeline to deliver gas to Italy is now in full operation, and construction is under way to double its capacity. There is also a new agreement on the Europe-Maghreb Pipeline that is to carry gas supplies from Algeria to Spain and Portugal, through Morocco. 1/ In the industrial sector a number of joint projects have been in operation for some years, some of which predate the entry into effect of the AMU Treaty. Algeria operates an oil refinery in Nouakchott, and Mauritanian enterprises are in joint ventures with Algerian and Libyan counterparts in the fishing sector. There are several other joint ventures between Algeria and Tunisia in the production of cement, light metal items, weaving machinery, transformers, and plastics. There are about 30 projects in operation between Tunisia and other AMU partners, and several joint industrial projects between Morocco and Libya in sectors such as textiles, food, leather processing, and chemicals. Morocco and Algeria jointly operate a factory to build automobile gear boxes. There are joint venture banks between Tunisia and Libya, Algeria and Tunisia, and Libya and Mauritania. A joint project between Algeria and Tunisia--financed by loans from the International Fund for Agricultural Development (IFAD)--has been under way for three years to improve 1 million hectares of land in the Kasserine, Tebessa, and Mellegue regions. Technical cooperation between the member states of the Union has been increasing. Tunisia is the main

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1/ The project involves the construction of a 2,000-km gas pipeline that will supply Spain and Portugal with gas from Algeria, passing through Morocco and crossing the Straits of Gibraltar. Morocco will receive income from transit dues and gas supplies covering 30 percent of its industrial needs.
supplier of technical experts, mostly to Libya and Algeria, in sectors such as education and health. More recently, in October 1993, there was a seminar of Maghreb officials on unemployment and a Maghreb campaign for infant immunization.

3. **Benefits**

Some of the benefits of the Union have started accruing to the member states. Officials from the five countries concur that, in the spirit of the Treaty, the Union has served to promote dialogue and strengthen ties among them. Some officials point to the similarity with the Association of South East Asian Nations (ASEAN), which came into being to effect a settlement of frequent political disputes and frontier incidents. 1/

The AMU, through its regular meetings of political leaders and technical staff, has strengthened member countries' resolve to address their common economic problems. The economic performance of Morocco and Tunisia may have helped to create a more favorable climate for domestic reforms in other AMU countries, including Libya--as evidenced by the privatization law introduced in that country in September 1992. There are now more reliable transport and telecommunications connections between the five countries, and it is easier to plan projects jointly. Greater cooperation has probably contributed to increasing intra-AMU trade in recent years, and thus each of the five countries now has easier access to the supplies from its partners, which are often more adaptable to their domestic consumption patterns, especially in the agro-industrial sector. Maghreb citizens travel freely across the region, without visa requirements, and there are now a significant number of Maghreb migrant workers in Libya. Since the reopening of their borders in 1988 and in 1990, respectively, Tunisia has benefited from a large number of Libyan tourists, and Morocco from Algerian tourists. 2/

A number of benefits at the technical level have also been identified, including, in particular, a more effective payments arrangement between central banks that facilitates trade and reduces transactions costs, and closer cooperation between the five countries' respective customs authorities. Through regular AMU meetings, some countries have benefited significantly from the experience of other members regarding administrative matters in particular. Mauritania's experience as a member of other African economic groupings--Economic Community of West African States (ECOWAS) and West African Economic Community (WAEC)--has been of relevance for the design of its policies and procedures in customs administration; the experience of

1/ Political motivations are likely to have been a principal driving force for regional integration. In this respect, assessment of the performance of the unions cannot be limited to the framework of the economic trade theory (Robson, 1988).

2/ It is recognized that many of these tourists are, in fact, border residents traveling to neighboring countries to carry out trade transactions.
Morocco and Tunisia regarding trade with the EU has been similarly useful to the other AMU countries. Partly as a result of the AMU agreement, the World Bank has been able to carry out some sectoral studies that cover all the countries of the Maghreb. These include the influence of transport on the economy of the Maghreb, research development, and the construction sector. The United Nations Development Program (UNDP) is financing a project in the computer training area throughout the Maghreb. The Arab Fund for Economic and Social Development (FADES) is financing a US$1.7 million feasibility study for an intra-Maghreb highway, and is expected to field a mission that will formulate strategies and foster policy harmonization in the agricultural sector at the regional level.

Despite the progress and benefits realized so far, however, little substantive headway has been made toward establishing a free trade area—the envisaged first step toward economic union. Trade relations remain governed by bilateral trade agreements essentially, and involve significant non-tariff barriers. Bilateral agreements between the AMU countries classify imports into three categories: commodities that are allowed free of tariffs (usually non-competing products); products subject to a compensatory tax of 17.5 percent (usually for those that benefit from duty exemptions in the exporting country); and products subject to standard import tariffs.

The most prevalent non-tariff barrier is the import licensing system, which is perceived to be quite harmful because of its lack of transparency and excessive administrative discretion. The five countries maintain licensing requirements for trade with their AMU partners precisely because these countries benefit from preferential regimes. In fact, it is often noted that the licensing mechanism is used by some member countries to ensure that intercountry trade balances remain within acceptable limits. Other non-tariff barriers, mentioned by the various authorities, include Algeria's Ad Hoc Committee for authorization of imports, arbitrary constraints used through the operations of public enterprises, local taxes and fees, and customs procedures.

III. The AMU Trade Pattern and Economic Relations

The pattern of the AMU's trade and economic relations is uneven, and intra-Maghreb trade remains small.

1. The AMU trade pattern

Total exports of the AMU—including intra-AMU trade—amount to about US$30 billion and include mainly hydrocarbons or their derivatives (Chart 2). Exports grew by more than 60 percent in U.S. dollar terms over the period 1988-90, driven by rising world market prices for oil and significant increases in the exports of Morocco and Tunisia. Thereafter, AMU total exports stabilized, as the decline in oil exports (following lower world market prices) was offset by strong growth in non-oil exports, mainly from Tunisia. AMU imports, however, increased steadily over the same period (Chart 3). As a result of these developments, the AMU's combined external
trade account balance registered a deficit of about US$1.8 billion annually during 1988-89, which was reversed in 1990-91. The renewed decline in world prices of oil in 1992 reduced the global trade account to a balanced position during that year.

Among the AMU countries, Algeria and Libya usually run trade and current account surpluses, although Libya's external sector position was adversely affected by the most recent United Nations sanctions and by the weakening world market prices for oil. Morocco and Tunisia traditionally run relatively large trade deficits, and Mauritania runs small deficits (Appendix III, Chart 1).

Most of the trade of the AMU member countries is carried out with industrial countries. The EU, Japan, and the United States represent 75-80 percent of total imports and exports of the region (Chart 4). The EU imports almost all of Libya's oil and Algeria's hydrocarbons. Algerian gas meets a growing proportion of the EU's import needs. 1/ Of the AMU's total exports, 56 percent are crude and raw materials, minerals, and fuels; of its imports, 65 percent are basic manufactures, machinery, and transport equipment. The AMU also has a sizable deficit in the food sector, which is met by imports from industrial countries.

The region depends in an important way on services receipts and transfers: Morocco and Tunisia together earn around US$2 billion each year from tourism, mostly from European countries; Algeria, Morocco, and Tunisia together receive about US$3 billion each year in workers' remittances.

2. Economic relations within the AMU

Intra-AMU trade is small, unbalanced, and volatile. Official trade (exports plus imports), including oil, within the Union is estimated to have grown by about 8 percent annually over 1989-93 and is estimated at about US$2 billion in 1992, representing less than 4 percent of the AMU's total trade. This contrasts with the ASEAN, for example, where intraregional trade is more than 20 percent of total trade. The biggest exporting countries in intra-Maghreb trade are Morocco and Tunisia, which account for 46 percent and 23 percent of the total, respectively. The largest importing country is Libya, which accounts for about 45 percent of total intraregional imports, followed by Tunisia and Algeria, at 20 percent each (Chart 5).

1/ Algeria's ability to supply piped gas to Europe (as opposed to the more expensive liquefied natural gas) gives it a clear advantage over other gas producers. Algerian gas is in great demand in Europe because of its environmental attractiveness and because of the closure of nuclear facilities in Italy and Spain. Gas consumption as a proportion of total energy needs in Europe increased from 11 percent to 17 percent between 1973 and 1986, while oil consumption declined from 63 percent to 47 percent. Some EU officials predict that Algeria's supplies may represent up to 60 percent of European gas consumption by the late 1990s.
Chart 2.

AMU: Exports and Imports by Commodity Classification, 1992
(In percent)


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CHART 3
AMU: TRADE AND CURRENT ACCOUNT BALANCES, 1988-92
(In billions of U.S. dollars)

TRADE BALANCE

- Trade balance
- Exports
- Imports

CURRENT ACCOUNT BALANCE

- Algeria
- Libya
- Mauritania
- Morocco
- Tunisia
- Current Account

Source: Various IMF documents.
Chart 4.

AMU\textsuperscript{1} Merchandise Trade with the EU and Other Destinations, 1992
(In percent)

\textsuperscript{1}Includes Algeria, Libya, Mauritania, Morocco, and Tunisia.
Chart 5.

AMU: Intra-regional Merchandise Trade, 1992
(In percent)

Thus, Morocco and Tunisia have, in recent years, run intra-Maghreb annual trade surpluses of US$150-250 million; Algeria has had a fairly balanced position; and Libya had a trade deficit annually of about US$330 million. Mauritania, whose role in intra-Maghreb trade represents less than 2 percent of the total, has had an annual deficit of US$20 million on average. These data, however, do not take into account unrecorded bilateral border trade. These flows have traditionally been quite large, and may have increased considerably in recent years, owing especially to the widening of economic policy differences between the countries. Intra-regional trade in general remains volatile, given the fluctuating demand in the various member countries and the nature of nontariff barriers.

Algeria and Libya export energy products essentially to all the AMU partners. They also export a small amount of agricultural machinery, which is assembled under license from developed or East European countries. Morocco and Tunisia export a considerable amount of agro-industrial products, paper, metal items, vegetables, and fruits. But intra-AMU trade is almost insignificant in machinery and transport equipment, which represents a large proportion of the region’s imports. There is little intraregional investment in the AMU, and joint projects are at the bilateral level only.

In contrast to the low levels of intraregional trade and investment, there is significant labor mobility within the AMU. A substantial number of Moroccans are reportedly working in other Maghreb countries; especially in Libya and Tunisia. Libya is a large labor-importing country; in addition to the Moroccan workers, there are several thousand Tunisians in Libya.

IV. Obstacles to Integration

The strengthening of economic relations, particularly the development of trade, within the AMU has faced a number of difficulties of both a political and an economic nature.

1. Political obstacles

A number of political issues may have affected the progress in strengthening economic relations among the Maghreb countries. These relate mainly to border disputes. The incidence of these disputes may have been compounded in recent years by domestic difficulties in Algeria and the fallout of the United Nations sanctions on Libya, which AMU partners are required to apply. 1/ The Libyan authorities indicated that the sanctions are having a serious adverse impact on the economy and have stymied the economic liberalization process started a few years ago. The sanctions have introduced complications in the development of cooperation between the AMU

1/ Following the UN sanctions, the AMU members have severed air links with Libya.
and the EU although, so far, Libya's hydrocarbon exports to EU countries have not been affected.

Such problems affect not only the flow of goods, but they also heighten uncertainties, which tend to hamper the process of integration. In particular, the uncertain situation in some of the countries prevents AMU importers from enlarging their reliance on AMU partners for strategic commodities. For example, Algeria decided more than one year ago to prohibit transit trade through its territory. 1/ The general climate of uncertainty also explains the relatively low ceilings on credit guarantees between the five countries. Member countries recognize that the political difficulties facing the AMU are significant, but hope that progress in economic integration will be helpful, in turn, in ironing out the political differences.

2. **Structural aspects**

The low level of trade among AMU countries is due partly to structural and historical factors in the member economies. Certain preferences for European products have established themselves firmly through historical links. In many areas, AMU producers remain less efficient than European competitors and the gravity effects of European economies, as reflected by their relatively large size, proximity, and diverse production structures, are difficult to match. 2/ In addition, many years of political strain among countries of the region have reinforced the tendency to carry out trade with countries outside the AMU. In this context, certain "natural" trade channels have developed between each AMU country and certain countries in Europe, namely between Tunisia and France and Italy; Libya and Italy; Algeria and France; Morocco and France and Spain; and Mauritania and Spain through the Canary Islands. 3/

Since almost all the countries of the AMU are at a rather early stage of economic development, their trade has the natural tendency to be of the inter-industry type. 4/ This, however, is difficult to achieve within the Union as member country production structures are competitive rather than complementary. In fact, Morocco and Tunisia have similar production patterns based on phosphate rock and its derivatives, agricultural and agro-based products, and textiles—and both countries aim at the same markets. They both seek to attract foreign investment in the tourism sector from Europe. Libya is now attempting to produce certain consumer goods already

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1/ Algerian officials explained that this was also due to the rapid development of contraband trade across the Algerian frontiers.
2/ For a presentation of gravity models of international trade, see Frankel et al. (1993).
3/ In addition, Mauritania has solid trading ties with member countries of the West African Economic Community.
4/ New models of international trade emphasize the difference between intra- and inter-industry trade in explaining trade flows between developing and developed countries.
available from these two countries. Mauritania operates an oil refinery, which is one of the most capital-intensive industries. All of the AMU countries are developing textiles and food industries; except for Mauritania, all have a vehicle assembly plant.

Intra-Maghreb trade is also constrained by payments restrictions in some countries. Other obstacles are prevalent, such as extensive administrative formalities at the border as well as differences in the practices for issuing certificates of origin and procedures for international tendering. In addition, there are several weaknesses in the regulatory environment of the member countries. Regulations often are abundant, lack clarity, and are uncoordinated between the local and national levels. The judicial process is often slow in enforcing rules and resolving disputes. Algeria and Libya carry out their trade mainly through public sector enterprises. The relatively low level of development of financial instruments in most AMU countries also affects trade negatively. Even the available instruments—suppliers’ credits, trade financing requirements, export insurance, and trade procedures—differ significantly between the AMU members. The coverage of political risks on long-term export credit does not exist in any of the countries. Standardization and quality control is not well developed in the region.

3. Disparities in economic development

The five Maghreb countries are at different levels of development, with Mauritania’s per capita income being less than one tenth that of Libya, and Morocco and Tunisia being at a fairly advanced stage in their integration into the world economy. As a result, the AMU faces the problem of economic polarization, which has confronted other economic groupings as well.

With total trade representing 30-40 percent of GDP, Morocco and Tunisia are relatively open economies. Their exports are quite diversified, with manufactured products accounting for more than 50 percent. The ratios of exports and imports to GDP are also quite high in Algeria and Libya, but exports are heavily concentrated in energy products. This divergent structure has had implications on the development of trade-promoting institutions. Algeria, Libya, and Mauritania do not have the necessary instruments to carry out an active export promotion policy (export financing schemes, guarantee arrangements, etc.), while Moroccan and Tunisian enterprises have deployed such instruments for some time and are well versed in their use.

1/ The AMU countries expressed satisfaction about the current central bank clearing system and felt that a multilateral clearing arrangement is not likely to provide additional advantages. This was clearly demonstrated in the case of the Latin American Integration Association arrangement (Fischer, 1983), which failed despite a well-functioning multilateral clearing system.
Morocco and Tunisia have also made significant progress in macroeconomic adjustment and structural reforms. They have recorded real growth rates of 4-5 percent annually over recent years and have reduced domestic inflation to about 5-6 percent, compared with 20-30 percent in Algeria and 10 percent in Mauritania (Appendix III, Chart 2). Both countries are members of the GATT, and their average tariff level has been reduced to 35-40 percent. They have established current account convertibility and accepted the obligations of Article VIII under the Fund’s Articles of Agreement in early 1993. The private sector in each country, which represents about 60 percent of total domestic activity, is relatively dynamic and is poised to become the main engine of economic growth in the coming years. In Algeria and Libya, by contrast, the private sector is estimated to account for less than 40 percent of GDP, and its development has been hampered by widespread state participation in economic activity and pervasive trade and payments restrictions. A large proportion of the Moroccan and Tunisian manufacturing industry is well developed. Manufacturers in these countries generally view free trade as a means of reducing costs; trade in manufactured consumer goods has started to move toward an intra-industry pattern based on product varieties with a relatively high degree of substitutability, which currently cannot take place with other AMU countries. On the other hand, manufacturing enterprises in the other three countries are limited in number. As their products have not become sufficiently competitive, the Maghreb market, in their view, offers an opportunity to develop their infant industries through protection on a regional scale. However, this may be difficult to achieve given the stronger positions of the other AMU partner enterprises.

The authorities in a number of the AMU countries explained that the relatively weak financial situation of a large number of Maghreb enterprises makes it difficult for them to provide competitive terms for trade financing to regional counterparts. This is particularly penalizing relative to European enterprises, which are not only stronger financially, but also benefit from a greater amount of official assistance for their exports. Maghreb enterprises claim that they were more severely affected than their European counterparts by Algeria’s policy of requiring stricter financing requirements from foreign suppliers. These compounded the AMU enterprises’ lack of competitiveness relative to European companies especially with respect to quality, variety, and supply reliability, disadvantages that the elimination of tariffs alone cannot offset. This is most visible in the construction sector, as illustrated by the case of a joint venture company for white cement production set up by Algeria and Tunisia. This company is facing difficulties in selling its products in Algeria, because of the availability of cheaper cement from other sources.

The respective infrastructures of the AMU member countries do not favor the rapid development of economic relations. While the infrastructural base

1/ In April 1991, foreign exchange regulations were introduced in Algeria requiring foreign suppliers to provide trade financing of one to three years, depending on the product.
is fairly well developed in individual countries (except for Mauritania), the links between the countries remain inadequate, partly because of historical colonial relationships with Europe. 1/ Freight is moved primarily by rail and road, which are beset by numerous constraints, such as limited coverage, 2/ technical differences, and regulatory requirements regarding transit. Integrating their infrastructures calls for sizable financial outlays, which can be justified only to the extent that trade potential holds promise. Currently, financing for such investments, which can be undertaken only by the public sector, is difficult to mobilize, given both the insufficiency of domestic resources and the inability to attract foreign resources for this task. It is often noted that the Algerian-Moroccan border was closed from 1975 to 1986, and that the Libyan-Tunisian border was more often shut than open from 1969 to 1988. Such instability has reappeared recently with Algeria's temporary prohibition of transit trade through its territory since 1992, and Libya's unannounced imposition in October 1993 of entrance fees on Maghreb vehicles. 3/

4. Divergences in economic policies

The different development strategies pursued by the member countries since the 1960s have created major obstacles to integration, largely explaining the current problems of structural distortions and macroeconomic instability at the regional level. Following independence, Algeria applied a central planning model, emphasizing the development of heavy industry to the detriment of agriculture and consumer-oriented industries. Close relations were maintained with the East European bloc until about 1989, when efforts were made to reorient economic management toward a market system. Tunisia, following independence in 1956, pursued a liberal economic strategy, although it relied on government controls in the productive sector and applied numerous controls and established a wide array of public enterprises. Starting in 1986, however, a comprehensive economic program was adopted combining macroeconomic adjustment and major structural reforms aimed at increasing the role of markets and the private sector. This program was supported by the IMF and the World Bank (Table 3). Morocco's economic development, following independence in 1956, was primarily based on agricultural development and import substituting industrialization within a protected domestic market. From the late 1970s, a series of economic reform programs were implemented, supported also by the IMF and the World Bank, emphasizing macroeconomic adjustment and outward-oriented reforms. Morocco also benefited from Fund and World Bank support. Mauritania, which is a low-income country with only two export items and a heavy reliance on foreign aid, maintained close ties with France through the 1960s, the first

1/ The same is true in other developing countries that were former colonies of European countries, such as in East Africa.
2/ Libya and Mauritania are not connected to the other three countries by rail. Nouadhibou and Nouakchott are accessible essentially by air and sea, and the volume of freight currently does not justify a regular shipping link.
Table 3. AMU: Financial Arrangements with the Fund, 1980-94
(As of end-October 1993; in millions of SDRs)

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<th>Country</th>
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Source: IMF staff reports.

1/ Arrangement was cancelled in December 1986.
2/ Arrangement was cancelled in April 1982.
3/ Arrangement was cancelled in March 1981 and replaced by another extended arrangement.
decade of its independence. Beginning in the early 1970s, it pursued economic reforms but its development has been severely impeded by the paucity of resources and by the lack of technical and professional manpower. Since 1981, its economic reforms have been supported by use of Fund resources. Since the early 1970s, Libya has sought to establish a system of self-government based on direct participation by the people in the governance of the country's economic institutions. It established a large public sector, with private sector activity effectively restricted to small owner-managed businesses. Productive establishments are managed by workers' committees. The authorities have aimed persistently at self-reliance (in construction and agriculture, for example), and for many years considerable resources have been earmarked for the development of a large irrigation scheme, the Great Man-Made River. I/ Since the late 1980s, efforts at economic liberalization have been undertaken, including the introduction of worker ownership and management and the opening of banking activity to the private sector.

Despite some progress in recent years, economic policies in the five countries remained quite divergent during 1989-93. 2/ Policy differences were most acute with respect to Libya. Although some small private sector enterprises were authorized in the late 1980s, the Libyan economy remained heavily regulated and continued to use subsidies extensively as an instrument of economic policy. Mauritania resumed adjustment efforts in 1989, but was severely affected by mounting macroeconomic imbalances related to reduced external financial assistance, declining competitiveness, weakening bank portfolios, border conflicts, and the Middle East crisis. In 1989-90, Algeria continued to deregulate a significant portion of its economy, but remained heavily constrained by an overvalued exchange rate, a large public enterprise sector, 3/ and considerable investment inefficiencies. Algeria's heavy debt-servicing obligations consume more than 75 percent of its export earnings; as a result, the country has been unable to provide adequate financial support for domestic economic restructuring. During the same time, however, Morocco and Tunisia made strong efforts to unsaddle their economies from distortions and controls. 4/

I/ A multi-billion dollar project, which aims at transporting water from subterranean wells in the southern part of the country to the main cities in the north.

2/ Divergences in economic policies have been problematic in several past attempts at economic integration, the most striking example being the East African Community (EAC). Tanzania's firm pro-planning stance, and Kenya's relatively market-oriented approach ultimately proved incompatible and made integration impossible. Currently, Mercosur is facing similar problems following divergences in macroeconomic policy and performance between Argentina and Brazil. The Argentinean government has recently resorted to a number of protectionist measures to slow down the widening trade deficit with Brazil (Oxford Analytica, Sept.15, 1993).

3/ The share of parastatals in industrial production in Algeria exceeds 80 percent.

4/ For details, see Nsouli et al. (1993).
Algeria, Libya, and Mauritania have had little success in mobilizing domestic savings in the face of the reduced availability of external financial resources. Accordingly, their fiscal situations have deteriorated, resulting in excessive monetary creation and trade and payments restrictions. Algeria's fiscal surpluses of 6 percent of GDP during 1990-91 turned into deficits of about 1 percent and 9 percent of GDP in 1992 and 1993, respectively. On the other hand, Morocco and Tunisia tightened their fiscal and monetary policies significantly during that period. Their fiscal deficits each represented about 3 percent of GDP in 1992, compared with about 5 percent in Libya and Mauritania.

The five countries have also pursued different policies in the social sector. Algeria and Libya emphasized such policies as the provision of free or heavily subsidized services (health, housing, and education) as well as subsidies on a significant number of consumption items, while maintaining high levels of minimum wages. 1/ Morocco and Tunisia pursued their social objectives indirectly, mainly through improving macroeconomic performance and introducing selective and targeted social security measures; in this context, both countries liberalized domestic prices considerably during the last four years. Mauritania dismantled its system of controls on domestic prices by eliminating the system of fixed margins for imports (excluding petroleum products) and locally manufactured goods, and by reducing a number of subsidized items. Algeria implemented more limited price liberalization: a significant proportion of domestic prices remain subject to administered pricing or controlled margins, while the rest, though formally free (but subject to official declaration), are determined by public sector enterprises. Libya maintained a system of prices closely controlled by technical ministries through the operations of public enterprises.

Libya's policy of pursuing self-sufficiency in food production resulted in significant price distortions. In the context of this policy, incentives were offered to farmers, including preferential prices for products such as energy, fertilizers, and water supply; farmers also benefited from relatively low wages paid to a large population of migrant workers, particularly from Egypt and Sub-Saharan Africa. 2/ The direct consequence of these support measures is that Libya, which may not have a comparative advantage in agriculture, is now able to produce a number of agricultural products (such as oranges, melons, and vegetables) that can be sold at low retail prices and thus often find their way into neighboring Tunisia. Viewed from the Tunisian side, the Libyan policy toward migrant workers and its system of social welfare calls for policy harmonization before free trade can be established.

1/ As of September 1993, minimum wages in Algeria (SMIG) were DA 3,500 per month, equivalent to about US$140 at the official exchange rate. This compares with D 60 in Tunisia (about US$62), and DH 1,000 in Morocco (about US$100), and less than US$40 in Mauritania.

2/ These immigrants, however, benefit from access to a large number of subsidized goods as well as free health services and education.
Exchange rate policy has differed significantly across AMU countries. During the period 1989-93, the Moroccan dirham and the Tunisian dinar were both managed with the aim of preserving export competitiveness and supporting the liberalization of the external sector. In real effective terms, their currencies, which had been depreciated in the mid-1980s, depreciated further. Both countries instituted current account convertibility in 1993 and capital convertibility for nonresidents. In contrast, the Libyan dinar, which is pegged to the SDR, remained unchanged in nominal effective terms until end-1991; since then, it has been effectively depreciated through the application of wider margins around an unchanged SDR peg by 14 percent in nominal terms. The Algerian dinar was devalued by 22 percent in September 1991, after which the nominal effective rate remained virtually unchanged, resulting in an appreciation of the real effective exchange rate of more than 50 percent. The Mauritanian ouguiya appreciated in real effective terms during the period. Misalignments of the exchange rates in Algeria, Mauritania, and Libya were evidenced by several indicators, namely the lack of competitiveness in the export sector, increased resort to trade and payments restrictions, and widening parallel markets for their currencies.

Trade policies also differed widely among the AMU members and, as a consequence, a considerable amount of illegal border trade has developed in recent years. Both Morocco and Tunisia liberalized their trade regimes considerably, virtually eliminating quantitative restrictions and reducing import tariffs. On the other hand, Algeria introduced restrictions on imports: in 1992, imports were classified according to their degree of priority and, as a result, some items (such as agricultural products and textiles) were subject to bans and others to varying degrees of control; an Ad Hoc Committee was set up to manage imports more closely and enterprises were subject to foreign exchange budgets. Import restrictions remained very tight in Mauritania as well. Libya maintained fairly restrictive trade and exchange policies, using numerous instruments such as annual commodity budgets, licensing, prohibited import lists, and until recently government monopolies on trade.

Significant differences in the area of domestic taxes and incentives have also indirectly affected the momentum for integration. Morocco and Tunisia already have efficient value-added tax systems in place, while Algeria's is still at an early stage of development. Mauritania is preparing for the introduction of a value-added tax in 1994, and it is making strong efforts to harmonize its tax system to conform with ECOWAS regulations. The tax systems in Algeria and Libya rest heavily on oil export receipts. There is no value-added tax in Libya. Indirect taxes also remain very different in the Maghreb regarding coverage, rates, exemptions, and procedures. An effort has already been made, in the context of bilateral trade arrangements between AMU countries, to offset the effects of existing "duty exemption" regimes. However, a greater effort is needed to harmonize the tax systems in general; this faces significant resistance given that it necessitates tax reductions in some member countries that are unable to compensate for them.
These policy differences have resulted in growing flows of goods responding to the incentives embodied in the various distortions. Parallel markets for commodities and foreign currencies have developed in border regions between Algeria on the one side, and Tunisia and Morocco on the other, as well as between Libya and Tunisia. A number of essential commodities subsidized by the Libyan Government subsequently find their way to the Tunisian market. Algeria has also had to deal with illegal imports from Morocco and Tunisia, especially textiles, spare parts for cars, and agricultural items. As mentioned earlier, certain agricultural exports from Libya to Tunisia reflect the effects of subsidization. These flows of commodities, together with divergent exchange rates in parallel markets have, in some cases, disturbed the operations of trade through official channels, created complications for the conduct of industrial and trade policies of members, and caused tariff revenue losses. Consequently, some intra-Union trading arrangements have had to be reviewed regularly. In other instances, various nontariff barriers have been used to slow down illicit trade flows.

Such trade distortions could affect adversely the Union's cohesion. Some of the countries have complained that subsidized food items—including cereals, coffee, milk, sugar, and cooking oil—were illegally exported to neighboring countries, in exchange for consumer items, which they considered inappropriate for import under the difficult economic conditions prevailing internally. In some instances, the divergent policies were confused with unfair practices, 1/ and frustrations were exacerbated by the fact that distortions were at times hard to locate, given the operation of public enterprises. These difficulties point to the need to remove price and incentives distortions prior to establishing a free trade area. In addition, significant disparities in the efficiency of customs administrations in the region would need to be overcome.

5. Weaknesses in the AMU institutional framework

The institutional framework of the AMU has been handicapped in several respects. First, a number of important steps were skipped in the stage preparatory to the signing of the Treaty. 2/ The basic document describing the integration plan was elaborated and adopted in 1991, but the

1/ In this context, countries that stimulate exports actively have been perceived by their Union counterparts to be acting aggressively. The authorities of some countries emphasized that there are numerous hidden subsidies to exports in the export-promoting countries. 2/ The signing of similar treaties—e.g., the Maastricht and NAFTA agreements—has been preceded by prolonged public debates involving a broad range of domestic institutions. This process is usually considered enriching for the prospective union. More than 30 years ago, Haas (1960) observed that there were some important basic conditions for economic integration to be successful, including the degree of homogeneity in the political ideologies of member states and the degree of democratic participation in the debate leading up to the treaty.
strategy was not described in detail. The Union did not benefit at an early stage from external technical assistance. In the case of other regional groupings, such as the Eastern-Southern Africa and Indian Ocean Initiative, several major donors and international institutions helped provide financial and/or technical assistance.

During most of the period 1989-93, the AMU was not equipped with the tools necessary to carry out its functions. The AMU did not have a permanent secretariat and a budget for a relatively long period after the signing of the Treaty. Nor was the AMU able to assume one of the most important functions through which economic groupings usually foster their role, namely that of carrying out a regional-level dialogue with other countries and groupings. This was due to the absence of a stable administrative structure, but also due to the sanctions on Libya. For example, the first ministerial meeting between the AMU and the EU in 1991 did not produce any follow-up. On the economic front, there has not been any multilateral action to increase the AMU’s economic significance, such as measures to attract foreign capital into the region, to create multilateral funds, or to improve the efficiency of AMU enterprises at the regional level. 1/

V. Strategy of Integration

1. Economic strategy

Political considerations appear to have ranked high in the motivations for creating the Union, and the five parties probably underestimated the difficulties of economic integration. In this sense, the Treaty may have been too ambitious; it overlooked certain stages of cooperation and the need to meet certain preconditions that had proved indispensable in the EU and the ASEAN, which had started on the basis of loose cooperative agreements, and gradually developed provisions tending toward regional economic integration. 2/

The initial approach of the AMU, aiming at a broad-based liberalization of most products, quickly proved unrealistic because of major differences in economic policy. As a result, the AMU members reverted to complementary agreements, which involved bilateral trade preferences only for products that did not compete strongly against domestic production. Attempts are

1/ Other groupings have used various instruments in this regard, including programs of industrial development, implementation of major regional projects, and development of regional export action plans.

2/ The EU started on the basis of cooperation agreements in the coal sector, which were eventually extended to cover cooperation in virtually every sector. In 1976-77, the first negotiations on tariffs took place among member states of ASEAN. These, however, were carried out not in a regional but in a bilateral framework, were selective in nature, and did not cover all commodities.
currently being made to extend these agreements on a multilateral basis, but many obstacles are being encountered. In particular, the five countries find it difficult to agree on a common list of products that would be allowed to circulate freely in the Maghreb. In fact, the 60 products that are being contemplated within the AMU Multilateral Agreement on Trade and Tariffs are not significant in terms of their share in total trade. To some extent, this may reflect the fact that the scope for trade creation within the AMU appears limited at present. First, there is limited complementarity of output and factors among the five countries. Second, the scope for increasing intraregional trade through the displacement of high-cost domestic products appears relatively limited, given that primary products account for the bulk of their tradable output. However, as industrialization proceeds, the scope for trade creation may grow. The rationale for integration in the Maghreb would then be based not so much on the existing pattern of production as on the potential pattern that may emerge in the future.

The AMU authorities are increasingly aware that the reasons for the slow progress in the economic integration of their countries must be sought in the various internal policies of the member countries. In this context, they decided in 1993 to reassess the progress toward economic integration by reviewing all the decisions taken so far, and by intensifying efforts toward implementing the most feasible ones at the earliest, before embarking on any new economic initiatives. The initially agreed deadlines for the various stages of the integration process have been postponed. Also, following disagreements that arose over how to compensate countries that would be unduly harmed by the intraregional abolition of tariffs, they have decided that the integration process would need to be organized more systematically. In their view, the most urgent task is to carry out several in-depth studies of the potential and limitations of each country before deciding on a new time frame for integration. The studies will accord high priority to a number of issues, particularly those noted in Section V above. The AMU Secretariat has recently been staffed and given the financial means to perform its functions, including, in particular, helping to carry out these studies and identifying sources for their funding.

1/ The Arab Common Market also faced the question of a common list of products for circulation within the market. The scheme did not succeed, partly because of the inability of member countries to come to an agreement (Lakhoua, 1993).

2/ There is a certain degree of factor complementarity between Libya, which is a labor-scarce economy, and other AMU partners, which are labor-abundant; however, at present Libya’s supplementary labor supply comes more from Egypt and other countries than from its AMU partners. The Economic Intelligence Unit (1993) reports that there are more than 1 million Egyptian workers in Libya along with another 600,000 from South Korea, Philippines, Thailand, and Vietnam recruited to work on infrastructure projects.
a. Harmonization of economic policies

The authorities of the AMU countries recognize that there is a considerable degree of policy divergence among them and that greater progress needs to be made in macroeconomic adjustment and structural reforms in each member country if integration is to advance. As a first step, they have initiated a study on this subject. The aim is to find a core set of harmonized policies that would be consistent with differing national priority objectives, especially in the social area, and, on this basis, to develop a more coordinated and gradualist approach to economic integration. Efforts are now directed at reducing trade obstacles and harmonizing regulations, while each country pursues structural reforms aimed at opening its economy, developing the private sector, and accelerating trade liberalization. It is probable that some members of the Union will not be able to proceed as quickly as the others in certain areas, such as the liberalization of the trade system. Nevertheless, certain obstacles to integration could be removed quickly. Discussions have progressed significantly on nontariff barriers. Efforts are under way to coordinate the countries' development objectives and plans, and joint projects would be carried out only to the extent that they have large externalities. Continuing the trend that has started over recent years, the AMU members are placing strong emphasis on developing relations at the enterprise level through improved exchange of information, especially through fairs, exhibitions, seminars, and contacts between professional associations. An economic conference, jointly sponsored by the AMU Secretariat, the Islamic Center for the Development of Commerce, the Islamic Development Bank, and the UNDP, was organized in October 1993 to explore ways of boosting commercial exchange between the AMU countries. The conference also helped identify the various obstacles to promoting intraregional economic relations.

The AMU countries have also started considering ways to harmonize norms and standards. For this purpose they would need an institution to coordinate the development of common product standards and licensing requirements. The need for such action is considered urgent now that the EU is moving toward its own harmonized system, and any AMU standardization authority would have to work closely with its EU counterpart to ensure that EU standards are incorporated into local production procedures and to avoid being locked out of European markets. This requires a great deal of financing and technical skill, and the intention of the countries is to mobilize external technical assistance for the purpose.

b. Exploitation of economies of scale

Member countries of the AMU view the exploitation of economies of scale as the main venue for gains from economic integration, given its effect on competitiveness and on attracting foreign direct investment (FDI). It is recognized that duplication of investments and the policy of import substitution have been costly and have resulted in considerable inefficiencies. Algeria's commercial vehicle industry has yet to achieve a satisfactory level of nationally manufactured components; the situation is worse on this score in Tunisia and Morocco, where several European companies assemble cars...
and commercial vehicles. Although there are other reasons, poor economies of scale in that sector have implied in these cases that unit costs of production in the Maghreb effectively remained higher than in Europe. This phenomenon is also evident in the case of road and air transport between the five countries, where each country’s airline covers the region.

A rationalization of the existing production structure in the region is expected to produce significant economies of scale. Most countries of the AMU recognize that patterns of specialization at the regional level cannot be centrally planned, precisely because of the failure of such attempts in other economic groupings, but need to rely on investments reflecting comparative advantage in each country. Regional planning that would require arbitrary allocation of industries to locations is bound to run counter to the priority being given to private sector initiative in the reform programs of individual countries. Morocco and Tunisia are now stepping up their program of privatization. For the first time, the Eighth Development Plan of Tunisia does not include any new government industrial project.

Economies of scale could be exploited effectively through large private investment undertakings, and would typically require foreign capital participation and know-how. The AMU countries are close to Europe, with which they have developed well-established trade and financial links, including preferential treatment from the EU (see Section VI). In addition, labor costs are much lower than in Europe and the labor force is fairly well trained. Yet, the Maghreb has been unable to attract large FDI flows owing, among other things, to political uncertainties and market fragmentation. Only in recent years have capital inflows to Morocco and Tunisia increased to significant levels (about US$200-500 million a year during 1991-92); they were negligible, however, in the other three AMU countries. It is also characteristic of all joint industrial projects in the region that there was essentially no extraregional capital involved in their implementation. In contrast, in the ASEAN, joint industrial projects were financed, in great part, by Japan—in some cases, up to 77 percent of the investment (Inotai, 1986); and in Mercosur, foreign car companies have been gearing to the economic integration of Argentina and Brazil through increased exchange of sub-assemblies at the regional level.

The AMU countries expect FDI to act as a catalyst for their regional integration, and, toward this end, most of them have recently made major changes to their investment codes and other incentive regulations. In particular, Tunisia has recently unified its investment codes, harmonizing and rationalizing investment incentives and procedures. Algeria has also liberalized its foreign investment code. Recognizing that insufficient coordination in this area could be harmful to the Union as a whole, the member countries recognize the need to intensify efforts for policy
harmonization in this area. 1/ The new world challenges are likely to require even more forceful actions to improve productivity, particularly since labor costs in the Maghreb, while being one tenth those of Western Europe, are still above Asian standards, where monthly wages of less than US$40 are common. In addition, the opening up of the East European countries has increased the competition for capital resources, and intensified competition for the Maghreb countries, especially for sectors that are likely to emerge in the future. 2/

c. Economic compensation

The experience of past economic groupings shows that for economic integration to succeed, the scheme must not only improve allocational efficiency, but must also be perceived to be equitable (Foroutan, 1992). Market mechanisms alone may be unable to satisfy this second concern; as a result, policies are needed to protect certain members from disproportionate adjustment costs. Accordingly, various compensatory mechanisms were established in past integration schemes. These took various forms, the most important of which were income transfers to compensate for losses in budgetary revenues following the liberalization of trade within the union, and the implementation of policies to influence the emerging patterns of resource allocation, trade, and development. In the second category, the most widely used instrument has been a deliberate, planned rationalization of industrial development, in South American groupings especially. The EU also uses financial transfers for human resource development in less developed areas.

The AMU faces this question in connection with trade liberalization within the Union. Initial attempts in this area were not successful not only because there was concern about domestic industries in some countries, but also because the need to establish fiscal compensation became very apparent. This was the case with Mauritania, which currently benefits from fiscal compensatory transfers from WAEC and ECOWAS, of which it has been a member since 1976 and 1982, respectively. Morocco emphasized, however, that it was taking strong actions currently to reduce the reliance of its tax system on customs tariffs in favor of a system based on domestic taxes.

1/ The absence of agreement on the treatment of foreign capital in the Central American Common Market (CACM) led to skewed (American) investment flows to only a few of the member countries, where it was easier to carry on production for a much larger regional market. As a result, certain member states accumulated large surpluses, while others sustained heavy deficits within the sphere of intraregional trade. This greatly affected the degree of interest in the integration process.

2/ Given their difficulties in lowering tariff barriers, ASEAN countries are now also seeking to accelerate regional integration, using subregional mechanisms, such as "growth triangles" that focus on facilitating investments at the micro level (Oxford Analytica, Aug. 2, 1993).
Other countries are concerned about possible polarization of economic activity within the AMU toward Morocco and Tunisia, especially as these countries move closer to the EU. In addition, fiscal compensation appears insufficient, as some see a need for additional transfers to compensate for losses in terms of employment and industrial development. In this case, also, there would be a need to devise measures to encourage the establishment of industries in the less developed parts of the region.

The AMU is not likely to be expected from the test of ensuring equity among its members, especially since a minimum degree of cohesion among the members is seen to be of critical importance for future success. In particular, some of the main objectives of the Union, such as attracting foreign investment and increasing the bargaining power of the region, depend closely on the stability of relations within the Union. The AMU authorities have not yet addressed this issue fully. While there is general recognition that some form of transfer mechanism will have to be devised for the less developed members of the Union, or even for some sectors in each economy, most countries appear to give priority to the strengthening of basic economic policies in each individual country as the main instrument for reducing regional disparities. The introduction of compensatory mechanisms is envisaged mainly to prevent income distribution disparities from undermining the community cohesion. An economic study has already been commissioned to prepare proposals on possible solutions to these questions. 1/

2. Financing

The different policies pursued by each member country have resulted in divergent external situations, but all the AMU countries, except Libya, have in the past relied quite heavily on external sources for the financing for their development. Apart from Libya, they all imported fairly large amounts of capital over the period, particularly in the form of bilateral project-related external financial assistance. In addition, they also received considerable project financing from the World Bank Group. Financial support from the EU has also been fairly large (see Section VI).

The total external debt of the five AMU countries at end-1992 is estimated at about US$65 billion, and represents 57 percent of their combined GDP. The debt service obligations of the five countries amounted to US$13.4 billion in 1992, representing 48 percent of their merchandise exports. Algeria holds the largest external debt in the Union. Mauritania's external debt is large as a proportion of its GDP, but is relatively small in nominal terms, totaling US$1.4 billion.

1/ The UNDP is currently preparing a proposal to finance a study that aims at strengthening the AMU Secretariat, and developing mechanisms for economic compensation within the Union. It is also considering the financing of a project that would help build the regional bank currently under consideration.
The higher growth rates that integration is expected to generate in the region will imply larger financial needs, particularly since the trade imbalances between the member countries will strain their relations if outside financing is not forthcoming. Member countries recognize these difficulties, and believe that economic integration could generate investment opportunities that would attract official and private capital. While much-needed structural reforms in Libya will constrain its export of capital to AMU partners for some time, expectations are that, as the integration process develops, additional financing will be available through foreign investment. The EU and international financial institutions are also expected to provide a large part of the new financing needed. In fact, some Maghreb officials see support from international institutions to regional integration schemes as a logical continuation of their support for the structural reforms that have been implemented in each of the member countries.

There is also a recognition that member countries must strengthen the mobilization of domestic savings through the implementation of sound macroeconomic policies and structural reforms. The constraint resulting from exchange restrictions within the AMU is likely to be lifted when currency convertibility is established throughout the Union, requiring appropriate reforms in Libya, Algeria, and Mauritania. The prevalence throughout the region of appropriate market-determined exchange rates, positive real interest rates, efficient state enterprise sectors and banking systems, as well as the development or strengthening of foreign exchange and capital markets, would also help to tap domestic savings and those of large expatriate populations abroad. In that context, setting up a regional stock market has been considered. The advantage of having one regional stock market rather than many national ones is the increased potential to finance large projects and attract flows from world capital markets. However, for a stock market to work effectively it is essential that the right macroeconomic environment be established.

To facilitate and coordinate the mobilization of external resources, the AMU member countries are currently considering the establishment of a regional bank, The Maghreb Foreign Trade and Investment Bank, with a capital of US$500 million, to finance investments in the region. It will be headquartered in Tunis, with branches in each member state. The president, who will be elected by the member states, will serve for three years, while each state will provide two directors. There may be some extraregional contribution to its capital. The regional Bank is expected to provide financing for joint projects in the agricultural and industrial sectors, to encourage movement of capital, and to assist in developing trade among AMU members. There is already a list of projects that can be implemented either individually by each country, or jointly among the member countries, to develop the industrial sector of the region (for example, the North African Highway and the West-Med Pipeline). The regional Bank could prove to be a useful instrument to further cooperation among the members and attract foreign capital into the region. It intends to establish close ties with the EU and other international institutions; its performance will be an important factor in influencing potential creditors.
VI. Relations with the European Union

The economies of the AMU member countries depend heavily on the EU, their main economic partner. This section reviews the extent of these relations and what they imply for Maghreb economic integration. The question of the new form of cooperation that Morocco and Tunisia are currently discussing with the EU is examined.

1. Status of relations with the EU

Economic relations between the EU and the Maghreb countries are extensive but asymmetric: 70 percent of the AMU countries' trade is with the EU, while EU's trade with the AMU represents only 2 percent of its total trade. Exports from the Maghreb are dominated by energy products, from Algeria and Libya mainly, while Europe exports a wide range of commodities, manufactured goods predominantly.

Europe is the most important source of investment and financing in the Maghreb, yet European investment remains small despite geographical proximity and the relatively free access to the European market. Flows of migrants from the Maghreb into EU countries were large during 1960-80. The total number of workers originating from Maghreb countries and living in EU countries is estimated at more than 2 million (40 percent from Algeria, 37 percent from Morocco, and 23 percent from Tunisia). There are very few Mauritanian workers in the EU. Transfers of remittances by these migrant workers are an important part of the external revenues of Algeria, Morocco, and Tunisia—estimated at more than US$2.5 billion in 1992. Tourism, mainly from France and Germany, provides Morocco and Tunisia with about US$2 billion each year.

A considerable amount of financial aid from the EU is transferred to the Maghreb, either on a multilateral basis or from some EU member countries on a bilateral basis (Table 4). Combined, these resources represent about 40 percent of the Maghreb's total external aid inflows. Of financial aid from Europe, 10-15 percent comes from the EU proper, mainly under the financial protocols attached to relevant agreements, described below. The EU's assistance also takes place outside the contractual frameworks, through food aid, emergency aid, and financing from nongovernmental organizations. Bilateral aid from EU member countries—mainly France and Germany—amounts to more than US$500 million per annum. There are, in addition, numerous bilateral agreements between the two groups of countries involving cooperation in many areas, such as agriculture, research, and training. The most important ones are fishing agreements with Morocco and Mauritania, which compensate these countries for the fishing rights that are granted to European fleets. Moreover, in 1990 the EU introduced a special fund to finance infrastructural and environmental projects mainly in the Maghreb countries.
Table 4. EU Aid to AMU Countries Under the Financial Protocols, 1978-96 1/

(In millions of ECUs)

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Source: European Investment Bank Annual Report, 1993, and official documents from the concerned local authorities.

1/ Does not include bilateral aid from EC member countries. Libya is not covered by any financial arrangement with the EC.
2/ Includes grants and special loans.
3/ Coordinated financing with the World Bank to finance structural adjustment reforms.
Mauritania's economic relations with the EU are set in the context of the Lomé Convention, which offers the highest level of trade preference and financial assistance by the EU. In addition, under the Convention, a considerable amount of aid has been channeled to Mauritania, including grants of ECU 16 million for the period 1990-92, and special allocations amounting to ECU 8.5 million for the period 1991/92 as support for structural adjustment programs. Disbursements under the Stabex and the Sysmin schemes have amounted to more than ECU 20 million during 1988-91. Mauritania also receives substantial aid outside the Lomé Convention, including transfers of cereals and emergency aid for refugees. Several nongovernmental organizations operate about 20 projects in Mauritania. Lastly, the EU compensated Mauritania with ECU 27.75 million for the period 1990-93 for fishing rights.

The EU's relations with Libya also follow historical and geographical links. More than 90 percent of Libya's crude oil is exported to Europe, mainly Germany and Italy, and 60 percent of Libya's imports come from the EU. Libya is not covered by any trade or financial protocol with the EU. Libya has been investing in downstream oil operations in Europe.

In 1976, the EU concluded bilateral cooperation agreements with Algeria, Morocco, and Tunisia. These agreements, which are reviewed every five years, offer substantial access to EU markets for manufactured goods; however, access to EU markets in textile and agricultural products remains limited. 1/ Agricultural exports to the EU have been restricted not only by quotas but also by reference prices imposed on a list of products. For example, Tunisia faces restrictions on exports to the EU of oranges, potatoes, dates, and olive oil and Morocco on exports of fresh fruits and vegetables. Morocco, the largest supplier of tomatoes to the EU and the second largest supplier of citrus fruit, has been negotiating export quotas for these commodities. The agreements also help direct European foreign investment toward the Maghreb. The EU's financial packages, which are usually tied to EU source restrictions, also help strengthen the European countries' position in the Maghreb. Fishing agreements with Morocco since 1988, which superseded Morocco's earlier bilateral arrangements with Spain and Portugal, provide an EU contribution of ECU 70 million per annum, and involve cooperation, training, and the like.

2. EU support for Maghreb economic integration 2/

As shown by its own experiences in Latin America, the EU has generally favored dialogue with regional groupings. Pointing out that the creation and successive enlargements of the EU were as much motivated politically as by economic realities, EU officials emphasize that Maghreb economic integration would contribute to boosting growth rates in all the five countries, thus alleviating their difficult unemployment situations by offering new opportunities in the face of reduced prospects for further labor migration.

1/ See IMF (1992) for details on restrictions of trade with the EU.
2/ Based on discussions with EU officials in Brussels.
toward Europe. The EU also views economic integration as a step in the process of trade liberalization for some countries. In addition, economic integration would provide the means for attracting international investment and provide opportunities for economizing in areas such as research, education, and health. Since 1986, the European Commission has tried unsuccessfully to carry out a global Mediterranean policy, by encouraging Maghreb countries to negotiate their cooperation agreements collectively—even when aware that these countries preferred to carry out their negotiations separately. Algeria, Morocco, and Tunisia have thus continuously deepened their relations with the EU, while integration among themselves has made limited headway.

The EU offers certain advantages for regionalizing common issues. Budgetary allocations amounting to ECU 60 million have been made to finance projects with a regional dimension. These funds are used to finance various programs that foster cooperation between Mediterranean countries in the areas of medicine, research, and public administration. The funds can also be used to subsidize interest charges for the financing of environmental projects from the European Investment Bank. From the diplomatic point of view, the EU's relations with the AMU remain at the country level, with representations in each country, except Libya. There are contacts also between the AMU institutions and various committees of the EU Parliament.

The value of trade preferences for the Maghreb has diminished somewhat since 1986, especially in agriculture, as key competitors, Greece, Portugal, and Spain joined the EC. 1/ The EU is also concerned about the widening economic gap between the two regions over recent years. The EU recognizes its vulnerability to the economic, social, and demographic effects of under-development among its neighbors across the Mediterranean Sea. As a result, there is currently much reflection within the EU over how to provide greater assistance to the Maghreb. The aim is to design a new form of long-term relationship that would anchor the region to the EU—possibly along the lines of the NAFTA agreement. The main instrument will be the creation of an open economic area between the two regions, which will be based on political dialogue, and economic and financial cooperation. In the discussions that are already under way, Maghreb countries are seeking greater access to the European market for their exports, and larger European investments; they have proposed the creation of a Euro-Maghreb development bank along the lines of the European Bank for Reconstruction and Development (EBRD), and have requested an easing of their external debt burdens. 2/

1/ When Spain and Portugal joined the EC, agreements with Maghreb countries were adapted as the Community attempted to safeguard the traditional exports of the Maghreb. Nonetheless, competition intensified.

2/ In a speech before the members of the European Parliament in Strasbourg (France) on June 22, 1993, Tunisian President Ben Ali, who assumed the chairmanship of the AMU on January 1, 1993 for one year, reiterated the need to make progress on those issues.
3. Future relations of Morocco and Tunisia with the EU

The economic performance of Morocco and Tunisia, on the one hand, and that of the rest of the Union, on the other, has differed widely over recent years. Morocco and Tunisia have grown rapidly and improved their competitiveness significantly over recent years, relative to the other countries in the AMU; authorities of these two countries are confident that their enterprises can meet the competition from other AMU countries. They appear ready to remove intraregional nontariff barriers, but only on the basis of full reciprocity. The other member countries, however, feel the need for a transitional period before phasing in free trade, even with their Maghreb partners.

The Moroccan and Tunisian authorities are concerned about the widening gap between the AMU countries, but are at the same time pressed by their own domestic imperatives. They are apprehensive that the slow progress of the AMU economic integration, and the uncertain pace of reforms in partner countries, may not allow satisfactory exploitation of their economic potential.

The need for an urgent response to the major world challenges that face all developing countries (i.e., how to keep pace with the rapid development of international competition) is even more pressing in the Maghreb. Regional integration schemes of the 1960s and 1970s among developing countries responded to this challenge through an inward-looking strategy, based on cooperating with other partners at the same stage of development and on implementing a strong import-substituting industrial policy. The context of the 1990s is radically different. The trade reforms of the 1980s have created a liberal economic environment; South East Asia, Latin America, and parts of Eastern Europe are exerting strong demand pressures on world investments; 1/ and other developing countries around the world are looking more to a North-South type of integration than to the previous South-South type. 2/ From the AMU countries' point of view, close cooperation with Europe has the potential of generating significant economic and social benefits. Europe represents a big reservoir of extended financing and technology and offers a large market.

Under the circumstances, and given the EU's readiness to broaden its relations with the Maghreb, Tunisia and Morocco have officially requested the EU to consider their application for a new form of economic relations closer to full membership or association. This does not imply, on their part, a lesser commitment to the AMU. As explained above, these two

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1/ In fact, the AMU countries perceive the risk of FDI diversion more of a threat than trade diversion, as access to foreign risk capital is becoming the primary vehicle for technological transfer and skill formation. The establishment of the Single European Market in 1992 had magnified this apprehension, since it gives additional attraction to European investors.

2/ For example, Mexico with the United States, and Israel with the United States.
countries view closer relations with the EU as a means of strengthening their economies individually and the region as a whole. Similar to developments within the ASEAN, the impetus to growth in their economies is expected to spill over to their AMU neighbors, and may in the end stimulate quicker economic liberalization within the AMU. The new form of relationship with the EU could also serve as a model for other states within and outside the AMU. Freer trade relations with the EU may allow them to build strong institutions similar to those in Europe, reduce the domestic pressures against free trade, and guarantee the continuation of internal reforms.

VII. Conclusion

The AMU Treaty calls for a strengthening of all forms of ties among member states and for a gradual move toward the free circulation of goods, services, and factors of production among the member countries. Economic integration, it was hoped, would galvanize economic development and growth by allowing specialization along the lines of comparative advantage, exploitation of economies of scale through a larger market for goods and services, and an improved negotiating position vis-à-vis third countries or trade blocs.

The AMU has provided a useful framework to foster dialogue among the member countries in the relatively short period of its existence. Despite difficulties in their political environment, economic ties have increased significantly between the Maghreb countries over recent years, as reflected in the growth of intraregional trade, the movement of labor, and the number of joint ventures. However, for some member countries, economic ties with Europe have developed faster than links to other AMU members, reflecting the well-established trade links with, and the gravity effects of, European economies, but also regional infrastructural inadequacies and the similarities in factor endowments and production patterns among the AMU countries. Given the structural differences between the economies—Morocco and Tunisia are relatively diversified and open economies with a fairly large manufacturing sector, while the economies of Algeria and Libya remain heavily dependent on hydrocarbon exports, and Mauritania is a rural and resource-poor economy that is undergoing major structural reforms—the potential for intraregional trade has remained limited. In addition, little headway has been made toward establishing a free trade area and dismantling the numerous obstacles to intra-AMU trade.

The underlying cause for this limited progress, however, has to be sought mainly in persistent differences in development strategies and economic policies in the five countries over the period. For example, Morocco's and Tunisia's strategies have favored the emergence of a large private sector, whereas, Libya and Algeria have economies that are largely state-dominated. More importantly, prudent financial policies and structural reforms have contributed to the progress that Morocco and Tunisia have made in establishing macroeconomic stability, current account convertibility, a measure of capital account convertibility, and trade
liberalization. However, the other countries still face macroeconomic imbalances, reflected in exchange and trade restrictions. As a result, the progress in other AMU countries in removing tariff and nontariff barriers to intraregional trade has been slow. Some AMU members have also been concerned that liberalizing trade between them might displace industries and aggravate unemployment in the short run, as well as adversely affect their budget revenue in the absence of an appropriate transfer mechanism. Finally, domestic difficulties among member states, the UN sanctions on Libya, and political difficulties in Algeria have continued to hamper the strengthening of economic ties between the AMU countries.

Overall, it appears that in establishing the Union and during the first years of its existence, the member countries have relied too much on noneconomic factors, namely their historical, cultural, and language affinities, to help galvanize their intraregional relations. Drawing from the lessons of the recent experience, the AMU countries decided in 1993 to review their strategy of integration and to proceed in a more gradualistic fashion than originally envisaged. Having realized that the initial approach of rapid and broad-based liberalization of goods and factor flows was unrealistic, the Union members are now intensifying their efforts to reduce nontariff barriers and agree on a subset of commodities that would circulate freely throughout the AMU. They are also studying ways of devising appropriate transfer mechanisms to compensate members that would be disproportionately affected by trade liberalization. They have provided resources to the AMU Secretariat for that purpose.

To make further progress toward the achievement of its objectives, the AMU will need to address a number of economic issues forcefully in the years to come. Three major challenges face Union members.

The first is the need to harmonize policies to create a convergent economic environment. This will require sustained economic reforms in Morocco and Tunisia, and an intensification of structural adjustment in Algeria, Libya, and Mauritania to reduce distortions and expand the role of market forces. So far, no consensus has yet emerged on the overriding role of the private sector and the need for economic policies to converge toward the least distorted system. In addition, all the five countries will need to pursue prudent fiscal and monetary policies to reduce inflationary pressures and re-establish domestic and external financial stability, in order to allow for the lifting of trade and exchange restrictions and to foster an environment conducive to private sector savings and investment.

The second challenge is the need to design an appropriate transfer mechanism to compensate regions that might suffer from the displacement of industries, unemployment, and lose budgetary revenue in the wake of intraregional trade liberalization.

The third challenge is for the AMU governments to impart renewed momentum to greater economic integration but in ways that do not distort the working of market forces. While keeping this imperative in mind, there are several areas that offer a great deal of potential for strengthening intra-
Maghreb relations in the current circumstances, notably in the provision of public goods, the improvement of regional transportation facilities, and the protection of the environment; the regional bank that the AMU countries are setting up may also be instrumental in fostering intraregional integration. Greater rapprochement on the social and political fronts could also help the process of economic integration.

Given the rapid integration now taking place in the world economy, regional groupings need to recognize the importance of a liberal trade and payments regime to promote an atmosphere conducive to efficient resource allocation and growth. Insofar as regional integration in the AMU leads to more liberalized trade and payments flows both among its members and between the AMU and the rest of the world, the main trading partners of the AMU will benefit from further integration of the Maghreb countries. The EU, being the largest trading partner of the Maghreb, already supports the AMU and its central goals viewing integration and growth in the Maghreb as beneficial to both sides.
The Founding Treaty of the Arab Maghreb Union 1/

In the name of God the Merciful,

His majesty, King Hassan II of Morocco,

His Excellency, Mr. Zine El Abidine Ben Ali, President of the Republic of Tunisia.

His Excellency, Mr. Chadli Ben Djedid, President of the People's Democratic Republic of Algeria.

The Guide of the Revolution of 1st September, Colonel Mouammar Kaddafi, of the People's Great Arab Socialist Jamahiriya of Libya.

His Excellency, Colonel Mououya Ould Sidi Ahmed Tala, Head of the Military Committee for the Salvation of the Nation, Head of the Islamic Republic of Mauritania.

Having confidence in the solid ties which unite the peoples of the Arab Maghreb and which are based on a common history, religion, and language;

Acknowledging the deep and strong hopes of these peoples and their leaders of the creation of a Union which will further strengthen the ties already existing amongst them and allow them to gather together the appropriate means for progressively attaining a more complete integration amongst their countries;

Conscious of the results arising from this integration which will allow the Arab Maghreb Union to acquire a special importance and enable it to contribute effectively to world balance, to strengthening peaceful relations within the international community and ensuring security and stability throughout the world;

Considering that the Arab Maghreb Union requires tangible achievements and the setting up of common rules in order to realize real solidarity amongst its member countries and to guarantee their economic and social development;

Expressing their sincere intention of striving to make the Arab Maghreb Union a means of achieving complete Arab unity, and a starting point towards a wider union including other Arab and African countries.

Have agreed the following:

Article 1: By virtue of this Treaty, a Union called the Arab Maghreb Union is established.

Article 2: The Union aims at:

- strengthening the fraternal bonds which unite the Member Countries and their peoples:

  - achieving progress and prosperity in the societies forming these countries and the defending their rights.
  - contributing towards preserving peace based on justice and right.
  - pursuing a common policy in various fields, and

1/ Translation received from the Secretariat of the Arab Maghreb Union in Rabat.
working progressively towards achieving the free movement of persons, services, goods and capital amongst the Member Countries.

Article 3: The common policy mentioned in Article 2 has as its aim the following objectives:

- at the international level: the achieving of agreement amongst the Member Countries and the setting up of close diplomatic cooperation amongst them, based on discussion.

- at the defense level: the safeguarding of the independence of each of the Member Countries.

- at the economic level: the achieving of the industrial, agricultural, commercial, and social development of the Member Countries, and the joining together of the means necessary for this, especially by setting up joint projects and by drawing up general and specific programs in these fields.

- at the cultural level: the setting up of cooperation in order to develop education at the various levels, to preserve the spiritual and moral values inspired by the teachings of Islam and to safeguard the Arab national identity by acquiring the necessary means for achieving these objectives, especially through the exchange of teachers and students, and the creating of universities and cultural institutions, and institutions specializing in research, all of which to be common to the Member Countries.

Article 4: The Union is provided with a Presidential Council composed of the Heads of the Member Countries and which is the highest body in the Union; the presidency of the Council is held for a period of six months by each of the Heads of the Member Countries in turn.

Article 5: The Presidential Council of the Union will hold its regular meetings every six months. However, the Council may hold extraordinary meetings whenever this may prove necessary.

Article 6: The Presidential Council is the only body empowered to take decisions. These decisions are to be made unanimously by its members.

Article 7: The Prime Ministers or acting Prime Ministers of the Member Countries may meet whenever this may prove necessary.

Article 8: The Union is provided with a Committee of Ministers of Foreign Affairs which is to prepare the sessions of the Presidential Council and examine the questions laid before it by the Follow up Committee and the specialized Ministerial Committees.

Article 9: Each Member Country will appoint from amongst the member of its government or its General Popular Committee, one member in charge of Union affairs. These members will form a Committee in charge of following Union affairs and will submit the results of its workings to the Committee of Ministers of Foreign Affairs.

Article 10: The Union is provided with specialized Ministerial Committees set up by the Presidential Council which is to define the responsibilities of these committees.

Article 11: The Union is provided with a General Secretariat, consisting of a representative from each Member Country, which will carry out its functions within the territory of the country holding the presidency of the session of the Presidential Council, under the supervision of the President of the session, this country assuming the expenses of this session.

Article 12: The Union is provided with:

- a Consultative Council consisting of twenty members from each Country, who are to be chosen by the legislative bodies of the Member Countries or according to the regulations of each particular country.

- the Consultative Council will hold one regular meeting each year, and will hold extraordinary meetings at the request of the Presidential Council.

- the Consultative Council will give an opinion on any project for decision which the President Council may lay before it and may, if necessary, submit to the Council recommendations which it judges capable of strengthening the Union's action and contributing towards achieving its objectives.
APPENDIX I

- the Consultative Council will draw up its internal regulations and submit these to Presidential Council for approval.

**Article 13:** The Union is provided with a judicial body composed of two judges from each country to be appointed for a period of six years, half of whom to be renewed every three years. This body will elect its President from amongst its members for a period of one year.

- this body is empowered to judge any disputes concerning the interpretation and the application of the clauses of the Treaty and Agreements concluded within the framework of the Union, which may be submitted to it by the Presidential Council or a country party to the dispute, or according to the clauses of the Founding Statutes of the body. Decisions are final and binding.

- the judicial body will give its advice on legal questions which the Presidential Council may lay before it.

- the abovementioned body is to prepare its statues and submit them to the Presidential Council for approval. These statues will be an integral part of the Treaty.

- the Presidential Council will decide on the location of the judicial body and draw up its budget.

**Article 14:** Any act of aggression against one of the Member Countries will be considered as an act of aggression against the other Member Countries.

**Article 15:** The Member Countries undertake to allow on their respective territories, no activity or organization which might prove harmful to the security, territorial integrity or political system of any Member Country.

They also undertake to take part in no military or political pact or alliance which may be directed against the political independence or territorial unity of the other Member Countries.

**Article 16:** The Member Countries remain free to conclude any bilateral agreements amongst themselves or with other countries or groups of countries, as long as these agreements are not contrary to the terms of the present Treaty.

**Article 17:** Other countries belonging to the Arab National or to African Community may become part of this Treaty if the Member Countries give their agreement.

**Article 18:** The terms of this Treaty may be amended at the proposal of a Member Country. The amendment will come into force after its ratification by all of the Member Countries.

**Article 19:** This Treaty will come into force after its ratification by the Member Countries, according to the procedures prevailing in each Member Country.

The Member Countries undertake to take all necessary measures to this effect within a maximum period of six months starting from the date of signature of the present Treaty.

Marrakesh, Friday, 10th Rajab 1409 H.
(corresponding to February 17th, 1989)
## AMU Institutions Established by the Treaty of Marrakech

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<tr>
<th>Institutions</th>
<th>Membership and powers</th>
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<tr>
<td>Presidential Council</td>
<td>Decision-taking institution made up of heads of the member states. Rotating chairmanship every six months—now changed to one year.</td>
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<tr>
<td>Council of Ministers of Foreign Affairs</td>
<td>Preparation of Presidential Council sessions, consideration of questions submitted by the follow-up committee and the specialized ministerial committees</td>
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<td>Follow-up committee for Union affairs</td>
<td>Each state appoints a member of its Government for Union affairs; he is a member of this committee. There are four:</td>
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<tr>
<td>Specialized ministerial committees 1/</td>
<td>1. Specialized ministerial committee on economy and finance.</td>
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<td>2. Specialized ministerial committee on infrastructure.</td>
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<td>3. Specialized ministerial committee on food security.</td>
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<td>4. Specialized ministerial committee on human resources.</td>
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<tr>
<td>General Secretariat</td>
<td>Made up of a representative of each member state; the headquarters moved with the chairmanship, until 1993 when it was permanently established in Rabat.</td>
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## AMU Institutions Established by the Treaty of Marrakech (concluded)

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<tr>
<th>Institutions</th>
<th>Membership and powers</th>
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<tr>
<td><strong>Advisory Council</strong></td>
<td>Includes ten members of each state chosen by the legislative bodies of the member states, which meet in an ordinary session every year. The Advisory Council gives its opinion on all proposals for decisions submitted by the Presidential Council and it can issue recommendations to the Council.</td>
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<tr>
<td><strong>Judicial authority</strong></td>
<td>Made up of two judges from each state, appointed for a six-year period, half of the members are renewed every three years. This body is competent to rule on disputes concerning the interpretation and application of the treaty and agreements in the framework of the Union. It also gives advisory opinions on the legal questions submitted by the Presidential Council.</td>
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1/ The specialized ministerial committees were created by the Presidential Council at the first meeting in Tunis on January 28, 1990. These committees were established by Article 10 of the Treaty instituting the AMU.
Chart 1

AMU: EXPORTS AND IMPORTS BY MEMBER COUNTRY, 1988-92
(In billions of U.S. dollars)

Source: Various IMF documents.
Chart 2

AMU: REAL GDP AND INFLATION BY MEMBER COUNTRY, 1988-92
(In percent)

REAL GDP GROWTH

Source: Various IMF documents.

1/ Data are not available for Libya in 1991-92.
Acronyms 1/

ACM: Arab Common Market
AfDB: African Development Bank
AMU: Arab Maghreb Union
ASEAN: Association of South East Asian Nations
CACM: Central American Common Market
CEC: Commission of European Communities
EAC: East African Community
ECOWAS: Economic Community of West African States
EU: European Economic Union
FADES: Fonds Arabe de Développement Economique et Social
GATT: General Agreement on Trade and Tariffs
GCC: Gulf Cooperation Council
IFAD: International Fund for Agricultural Development
LAFTA: Latin American Free Trade Association
LAIA: Latin American Integration Association
NAFTA: North American Free Trade Association
PTA: Preferential Trade Area for Eastern and Southern Africa
UMOA: West African Monetary Union
UNDP: United Nations Development Programme
WAEC: West African Economic Community

1/ For details about the economic unions listed above, see de la Torre and Kelly (1992).
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