

MPRA

Munich Personal RePEc Archive

Economic Development in the Maghreb States in the Context of their Relations with the EU

Genchev, Vassil
CEU

13. December 2005

Online at <http://mpra.ub.uni-muenchen.de/4132/>
MPRA Paper No. 4132, posted 07. November 2007 / 03:41

Economic Development in the Maghreb States in the Context of their Relations with the EU

Introduction

The Maghreb states (Morocco, Tunisia and Algeria) have income levels well above the African average and their growth rates in recent years have been considerable.¹ The greater part of their trade is with the EU, while they are also engaged in the Euro-Mediterranean partnership leading to gradual opening up of their markets to imports from Europe. Integration of the small Mediterranean economies into the EU economy is expected to promote their growth.² Despite growth and increased cooperation with the European Union, the Maghreb countries are faced with a number of challenges that affect not only their domestic economic situation and social balance, but are also of high relevance for the stability and security of the whole Mediterranean region. Given the geographic proximity of the Maghreb to the EU's southern member states, the Union has been quick to recognize the region's economic development and political and social stability as a high priority matter.³ Thus, by providing structural assistance, liberalizing trade and inducing reforms through conditionality, Europe has aimed to help its neighbors and secure its own backyard. However, genuine political, social and economic transformation in the Maghreb is an arduous task, going against the interest of a number of stakeholders and veto players. In this regard, fully fledged reforms would entail an overhaul of the current social contract; drastic transformation is likely to upset the majority of the population which is dependent, to a greater or lesser extent, on government redistribution.

This paper examines a number of key factors that have an impact on economic development in the Maghreb. While growth indicators have been favorable in recent years, a consideration of the inequitable distribution of wealth and the precarious employment situation paint a different picture. Furthermore, the Maghreb economies have remained over-regulated and plagued by a host of structural constraints, prominent among which is the excessive role of

¹ *Algeria*, African Economic Outlook 2004/05. *Morocco*, African Economic Outlook 2004/05. *Tunisia*, African Economic Outlook 2004/05. OECD, Online: <http://www.oecd.org/dev/aeo>

² A. Riess, P. Vanhoudt and K. Uppenbergh, "Further Integration with the EU: Just One Ingredient in the Reform Process," *EIB Papers*, 6, No. 2 (2001): 58-86.

³ "The Euro-Mediterranean Partnership," Online: http://www.europa.eu.int/comm/external_relations/euromed

the state. Present practices of redistribution by governments introduce rigidities in the labor markets that have adverse implications for job creation, the viability of the private sector and the quality of human capital.⁴ In addition, productivity in the Maghreb has remained low, confronted with a number of challenges such as lack of transparency in the business environment, inadequate legislative and regulatory frameworks, and state subsidies for a number of inefficient monopolies. Finally, the record of the Euro-Mediterranean partnership has also been mixed. Critics have stated that it is compromised by turf battles within the EU, which render it incapable of providing the right solutions for the Maghreb states' problems.⁵ Notably, while agriculture is a central pillar of the Maghreb economies, accounting for a sizeable portion of total employment, it has not been adequately addressed in the Euro-Mediterranean Association Agreements (EMAAs), as the emphasis has been on industrial liberalization instead.⁶

This paper starts with a discussion of the social discrepancies in the Maghreb which have not subsided despite economic growth and government poverty-reduction programs. Social inequality in the Maghreb is to a large degree structured along gender and urban-rural lines. In the next section, the present social contract in the region is described, considering the negative implications of the excessive role of the state for productivity and employment. The last section of this paper surveys the Maghreb states' trade relationship with the European Union which is set within the framework of the Euro-Mediterranean Partnership. This is followed by a brief discussion of agriculture – a key component of the Maghreb economies, which is nonetheless sidelined in the Euro-Mediterranean Association Agreements. It is argued that a failure to tackle agriculture as an issue of prime importance for poverty reduction may exacerbate present inequalities and social imbalances in the Maghreb.

Economic Growth and Social Inequality

⁴ Paul Dyer, "Labor Supply, Unemployment and the Challenge of Job Creation in the Maghreb," draft report, World Bank Sources, Online:
<http://siteresources.worldbank.org/INTTUNISIA/Resources/Rapport+WB+Maghreb+EmploiANGLAIS.pdf>

⁵ Crescenzo Dell' Aquila and Marijke Kuiper, "Which Road to Liberalization? A First Assessment of the EuroMed Association Agreements," Working Paper No.2 (Oct. 2003), ENARPI: 25.

⁶ Ibid.

The Maghreb states have attained continuously high levels of economic growth in recent years. There are number of causes for this successful development – some of them are common for the three countries, while others come as a result of distinct characteristics. The region’s growth has been to a large extent shaped by increased trade with the European Union. In addition, agriculture has retained an important role; it accounts for less than 20 percent of the GDP but employs as much as 45 percent of the workforce in the case of Morocco. The low degree of economic diversification is present in all three of the Maghreb states, but it is especially manifest in Algeria’s dependence on the export of fossil fuels. The supremacy of one sector has benefited the net income through windfall revenues in recent years but it has ultimately failed to generate adequate distribution and capital flows within the country. For example, while the Algerian oil sector accounted for 36.5 percent of the GDP in 2004, it employed only 3 percent of the workforce.⁷

Against the backdrop of high and sustained growth rates, the Maghreb countries have suffered from the condition common for most developing countries – lack of equitable distribution. It is important to point out that, contrary to claims by the most vehement critics of free trade and globalization, economic growth has raised the welfare of the poor, even though a lot more needs to be done. For example, the poverty reduction rate (3.76 percent annually) in Tunisia during the 1990s has surpassed the growth rate, albeit with a small margin of less than one percent.⁸ In Algeria, poverty levels have gone down from 14.1 percent (affecting four million people) in 1995 to 12.1 percent (3.7 million people) in 2000.⁹ As evident from these figures, while there has been improvement of social welfare, it has taken place at a relatively slow pace. In addition, poverty reduction in Algeria has been largely based on higher government spending and improved economic indicators due to windfall revenues from oil exports in recent years. The volatility of poverty reduction in the Maghreb, and the over-reliance on certain sectors, is further attested for by the slowdown of Moroccan growth, which hit the country’s agricultural sector during a four-year period of drought. This has led to an increase of rural poverty from 27.2 percent in 1999 to 28.8 percent in 2001.¹⁰

⁷ *Algeria: African Economic Outlook 2004/05*, 3.

⁸ While annual GDP growth in Tunisia, for the 1990-2000 period, has averaged 3.03 percent, the corresponding figure for annual poverty reduction has stood at 3.76 percent, and the Gini coefficient has increased slightly with 0.20 percent annual change. This shows that growth has been beneficial for the poorest, but levels of inequality have also increased slightly. Source: *Pro-Poor Growth in the 1990s*, Operationalizing Pro-Poor Growth Research Program (2005), IBRD/World Bank Publication: 21.

⁹ *Algeria: African Economic Outlook 2004/05*, 2.

¹⁰ *Morocco: African Economic Outlook 2004/05*, 4.

The main aspects of social inequality in the Maghreb can be structured, to a large extent, along urban-rural and gender lines. Thus, people living in rural areas and women are over-represented among the poor. This situation is further complicated by two main factors. First, as suggested in the preceding paragraph, agriculture in the Maghreb is often affected by negative occurrences such as drought or pestilence. This leaves farmers, who typically lack access to modern technology that could improve their yields even in bad years, in a particularly vulnerable position. Second, private and public investment programs tend to favor urban over rural areas. Infrastructure development and technology transfers have predominantly targeted larger cities, especially in the case of Morocco.¹¹

In recognition of these structural problems, the Maghreb governments have drafted and started implementing different strategies for a more balanced economic development. The Algerian government has taken advantage of the recent high growth rates and subsidized micro-credit programs to support private initiative in backward regions.¹² In Morocco, the elimination of urban poverty has been advanced as a key priority in recent years. The “Cities without Shantytowns” program has been launched in 2003, envisaging slum clearance in 67 cities by 2008. To support this, the government has set up two guarantee funds, aiming to allow low-income households to buy their own houses.¹³ In addition, the governments in the Maghreb have enacted a number of reforms in health care, education and infrastructure. Such measures have been co-funded by the World Bank and the EU and have managed to bring about an improved quality of life.

While the progress made by governments in the Maghreb is a welcome development, a lot more remains to be done. Van de Walle has pointed out that data collection on poverty reduction and the provision of social services has been largely insufficient, or altogether absent at the household level.¹⁴ As infrastructure has improved in urban areas, rural communities have been largely left on their own, without government assistance or sufficient access to foreign structural aid. This has led to discrepancies in economic development within

¹¹ Dominique van De Walle, “Do Services and Transfers Reach Morocco’s Poor? Evidence from Poverty and Spending Maps,” World Bank Policy Research Working Paper 3478 (Jan 2005), Development Research Group, World Bank: 4.

¹² *Algeria*: African Economic Outlook 2004/05, 9.

¹³ *Morocco*: African Economic Outlook 2004/05, 19.

¹⁴ Van de Walle, 4.

the Maghreb states, and especially in Morocco, as run-down regions have failed to attract investment, thus falling behind in employment and income levels.¹⁵

The Social Contract, Unemployment, and Low Productivity in the Maghreb

The dominant development paradigm of the past, envisioning economic “take-off” through modernization and GDP growth, has been replaced by a more balanced view, prevalent among scholars and policy-makers alike, which heeds the importance of governance and institutions for successful reforms.¹⁶ During the 1990s, the Maghreb states have gone through a period of political instability, communal strife, territorial disputes and an all-out civil war in the case of Algeria. Despite of impressive growth rates in recent years, the region’s record in human rights, the rule of law and democratization has been at best mixed. Martin-Munoz has argued that the democratic deficit in the Maghreb has minimized the positive effects of liberal economic reforms. He suggests that the social costs of restructuring can lead to political destabilization unless states attain high levels of political credibility and institutional efficiency.¹⁷

The social contract in the Maghreb has its roots in the struggle for decolonization and reflects the ideal of the emerging nation-states: domestic economic growth coupled with modernization and equitable distribution of wealth. However, with the waning of revolutionary fervor and optimism, the ethos of independent development has been replaced by the realities of corrupt and inefficient governance, the emergence of clientele networks, and growing social disparities. Paul Dyer, in a draft study for the World Bank, has defined the core features of the social contract in the Maghreb: a preference for redistribution and equity in economic and social policy, dominance of states over markets in managing national economies, and an encompassing vision of the role of the state in the provision of welfare.¹⁸ He posits that the predominant role of governments in redistribution has led to an “authoritarian bargain”, luring different segments of society into accepting economic gains in exchange of political freedom.¹⁹ In this sense, some of the Maghreb economies’ most serious shortcomings, such as limited private initiative and a business environment plagued by

¹⁵ Van de Walle, 4.

¹⁶ Damien Kingsbury et al., *Key Issues in Development* (Houndmills: Palgrave Macmillan, 2004).

¹⁷ Gema Martin-Munoz, “Political Reform and Social Change in the Maghreb.” In Álvaro Vasconcelos and George Joffé (eds.), *The Barcelona Process*. (London: Frank Cass Publishers, 2000), 97.

¹⁸ Dyer, 8.

¹⁹ Dyer, 8

nepotism, corruption and unclear regulatory mechanisms, can be attributed to excessive, and to a large extent unregulated, intervention by governments. Vested interests, secured by client-patron relations and the formation of entrenched elites, serve as an impediment to genuine political and economic reforms.

Dyer further asserts that the social contract in the Maghreb has affected negatively the prospects of lasting increase of employment. The excessive role of governments in job provision, providing high wages and job security to a cohort of state employees, has distorted labor market incentives, leading to increased growth of the informal sector.²⁰ Dyer argues that increased wage expectations and government-guaranteed hiring breed unemployment. The reason for this, he posits, is that educated labor market entrants prefer the sinecure of the public sector and are not willing to take up private jobs in the absence of similar benefits.²¹ Increased employment in the public sector, rather than in more productive spheres of the economy, reflects a preference for social security and continuous involvement over higher wages and greater job mobility in the private sector. This also affects the quality of education, as university curricula in the Maghreb tend to emphasize on preparation for employment in the public sphere. Because most of the courses taught are generally obsolescent and lack practical value, young graduates usually lack the skills that would allow them to join private enterprises.²² The excessive role of Maghreb governments in employment creates a vicious circle – the pressure of increasing workforce pushes for further expansion of the public sector, which in turn leads to declining productivity and bloated budgets.

Unless greater productivity is achieved and sustained, and private sector employment increases rapidly while the public sector shrinks, the number of jobless young people will continue to rise. This is highly significant as the labor force for the 2000-2020 is projected to expand at about 2.4 percent per year, notwithstanding the progress made by the Maghreb states in bringing down population growth. Thus, 16 million jobs over this period of twenty years will have to be created in order to absorb the workforce at these levels of growth.²³ The pressure for job creation is increased by otherwise auspicious developments such as women's rising participation in the labor market and growing education attainments across the

²⁰ Ibid., 5

²¹ Ibid. 21

²² Ibid.

²³ Dyer, 10

Maghreb.²⁴ While female unemployment is 36 percent higher than that of men in Morocco and 5 percent higher in Tunisia, the policy of favoring women for jobs in the public sphere has led to the reverse situation in Algeria. Nevertheless, the sheer size of female public employment in Algeria – amounting to the staggering 85 percent of all women at work – indicates the disproportionate role of the government in job creation. It is important to point out that Morocco and Tunisia have managed to reduce government intervention in the labor market, which has led to a more dynamic private sector and low unemployment levels in the case of Tunisia.²⁵ However, worker output levels have remained low throughout the Maghreb and most of the employment generated in recent years has not been in high value-added spheres such as manufacturing or services.²⁶

The implications of the constraints imposed on the labor market by excessive government intervention are alarming. The gravity of the situation is compounded by the combined pressures of low productivity and an increasing working-age population. Productivity is also undermined by other factors such as lack of diversification (excessive reliance on fossil fuel exports in Algeria, predominance of the primary sector in Morocco), discrepancies in the economic development of different regions, over-regulation of the private sphere, and the existence of state-subsidized monopolies in a number of sectors. A good example of the negative effects of state-owned monopolies on private enterprises is given by Dell’Aquila and Kuiper.²⁷ They point out that most of the quotas on olive oil exports, agreed between the EU and Tunisia, are allotted to state companies, which forces private producers to seek other markets, leading to increased transport costs and lesser profits. Furthermore, in a recent study of North African countries, Agénor, Nabli and Yousef have illustrated that the productivity of capital is limited in countries with high levels of public investment.²⁸ The authors point out that the inefficient state monopolies responsible for infrastructure have failed to deliver the expected accumulation of physical capital despite sizeable government funding. An emphasis on quantity rather than quality has dominated most public infrastructure projects. While this has generated jobs in the short run, it has not been a factor in increasing private investment.²⁹

²⁴ *Morocco*: African Economic Outlook 2004/05, 4. *Algeria*: African Economic Outlook 2004/05, 3. *Tunisia*: African Economic Outlook 2004/05, 4.

²⁵ *Tunisia*: African Economic Outlook 2004/05.

²⁶ Dyer, 4.

²⁷ Dell’Aquila and Kuiper, 38.

²⁸ Pierre-Richard Agénor, Mustapha K. Nabli, and Tarik M. Yousef, “Public Infrastructure and Private Investment in North Africa,” World Bank Policy Research Working Paper 3661 (Jul 2005), World Bank: 3

²⁹ Agénor et al., 3.

Despite their increased trade with the European Union and commitment to gradual liberalization, the economies of the Maghreb states have retained one of the highest tariffs in the Middle East and North Africa (MENA) region, far surpassing the average level of protection for developing countries.³⁰ While this has been criticized by proponents of free trade, with encouragement for greater liberalization coming from the WTO and the World Bank, the region has successfully attracted foreign investment in recent years. In 2003, FDI has made up 1.4 percent of Algeria's GDP, while in Morocco and Tunisia it has amounted to as much as 3.2 percent.³¹ This positive trend has been largely due to propitious measures taken by governments in the Maghreb. Morocco has been aligning its legal and fiscal framework to international standards, contributing to an even playing field for domestic and foreign investors. The government has enacted an Investment Charter, securing the right to invest, to transfer profits, and to transfer capital gains under certain conditions.³² Tunisia has also improved its business environment by restructuring the banking and financial system, reforming the legislation and modernizing government services.³³ The Algerian government has induced private investment by the micro-credit subsidies discussed in the previous section. This is of particular relevance for the nascent SME sector in the country, which has been virtually non-existent before the 1990s. In addition, the government has set up an investment guarantee fund, aiming to provide a safeguard against the risks of insolvency and bankruptcy of some of the state-owned enterprises earmarked for privatization.³⁴ Foreign Direct Investment is of crucial importance for the Maghreb states because it may raise the capital required for cushioning the impact of structural reforms in the short run. Nevertheless, it is questionable to what extent the current growth in FDI can be sustained and increased, given the multitude of constraints that undermine the business environment.

The Euro-Mediterranean Partnership: Implications for Growth, Employment and Distribution

Euro-Med and the Maghreb States

³⁰ Dyer, 34.

³¹ Ibid.

³² *Morocco*: African Economic Outlook 2004/05, 10.

³³ *Tunisia*: African Economic Outlook 2004/05, 3.

³⁴ *Algeria*: African Economic Outlook 2004/05, 10.

The Euro-Mediterranean Partnership was initiated in 1995 with the Barcelona Declaration signed by the EU and ten Mediterranean states. It aims to create a zone of shared peace, stability and prosperity, and to encourage understanding between cultures and increase exchanges between civil societies.³⁵ Hence, it is an essentially holistic initiative in which economic and political concerns overlap with cultural and social factors. The establishment of a Euro-Mediterranean Free Trade Area (EMFTA) by 2010 is commonly cited by the EU as a central goal of the Barcelona Process. Despite the rhetoric of EU officials, some have suggested that this deadline is more likely to serve as an anchor, giving partner states a sense of commitment and direction, without demanding strict compliance.³⁶ The Maghreb states have been among the forerunners in increasing the amount of their trade with the EU and following up on the priorities of the partnership process. The EU is their biggest trading partner – 81 percent of Tunisia’s exports go to Europe, with the figures for Algeria and Morocco being 55 and 75 percent accordingly.³⁷ Trade and cooperation between the Maghreb states and the EU are carried out within the framework of bilateral Association Agreements, with the exception of Algeria whose agreement is still in the process of ratification.

The emphasis on “dual conditionality” – combining political and economic requirements as preconditions for increased cooperation and EU assistance – has made the second-generation Euro-Mediterranean Associations Agreements (EMAAs), signed over the last decade, more ambitious and encompassing than the Trade and Cooperation Agreements of the past. They entail conditionality in both economic liberalization and political reform. Through the provision of benefits tied to progress made by partner countries (the carrot-and-stick approach), the European Union aims to achieve greater political and economic convergence between the Mediterranean North and South. Zaafrane and Mahjoub have suggested that the process of adjustment to free trade will set the countries of North Africa on a path of increasing convergence to the EU at the level of institutions.³⁸ They argue that the gradual move towards an FTA would necessitate the creation of a political institutional structure that

³⁵ “The Euro-Mediterranean Partnership,” online.

³⁶ Zaafrane and Mahjoub. Zaafrane, Hafdth and Azzem Mahjoub. “The Euro-Mediterranean Free Trade Zone: Economic Challenges and Social Impacts on the Countries of the South and East Mediterranean.” In Álvaro Vasconcelos and George Joffé (eds.), *The Barcelona Process*. London: Frank Cass Publishers, 2000.

³⁷ *Europa – Trade Issues*, “Mediterranean Region,” Online:
http://europa.eu.int/comm/trade/issues/bilateral/regions/euromed/index_en.htm

³⁸ Zaafrane and Mahjoub, 15.

reinforces independent judiciary and the rule of law, political pluralism, financial and political transparency, and government accountability.³⁹

What seems to follow from this argument is that increased convergence with European institutional norms and standards should bode well for the Maghreb economies. This is so, in line with Paul Dyer's analysis discussed in the preceding section, because the challenge of job creation and growth can only be met by a new social contract, with a diminishing role of the government and a leaner public sector, coupled with transparent and accountable governance and institutions.⁴⁰ Thus, the creation of the EMFTA may provide the necessary impetus for reforms in the Maghreb. However, two important questions need to be addressed in relation to the Euro-Med partnership and the gradual progress towards a free trade area. First, what will guarantee that governments in the Maghreb commit adequately and genuinely to their partnership with the EU and do not attempt to free-ride? Second, what are the adverse consequences of the Euro-Med partnership for the Maghreb and are there ways to ameliorate them?

The Maghreb states have been receptive to the EU's demands for liberalization of certain sectors of the economy, gradually adopting trade concessions and lowering tariff and non-tariff barriers.⁴¹ However, the main impediments to sustained economic growth and job creation are found at home – excessive government intervention, low productivity and inadequate regulatory and legislative framework are largely unaffected by FTA-oriented measures. Dell'Aquila and Kuiper point to “policy lock-in” as a possible source of increasing transformation at the domestic level and going further than increased foreign trade exchanges.⁴² They argue that by setting trade liberalization as a key priority, governments lock-in a public sector reform, which, as evidenced in previous sections, is an essential prerequisite for growth in the Maghreb. The level of success of domestic reforms depends on the domestic political and social alignments. The redistributive role of governments in the Maghreb is excessive and has a direct impact on political stability. In addition, while providing a minority of workers with secure employment, over-stretched public expenditure leads to declining wages and standards of living, thus increasing social inequality.⁴³ Lay-offs

³⁹ Ibid.

⁴⁰ Dyer, 7.

⁴¹ *Europa* – Trade Issues, online.

⁴² Dell'Aquila and Kuiper, 35.

⁴³ Dyer, 7.

and closures in public establishment are likely to provoke unrest among significant parts of society, thus governments would naturally be wary of much-needed reforms. However, unpopular measures may be brokered as part of the deal with the EU and dampened by structural assistance funds. While this should lead to greater productivity and less government expenditure in the long run, the short-term effects will be difficult to deflect. Furthermore, the existence of strong client-patron networks, deeply rooted in the state administration and involving influential policy-makers, presents a further impediment to reform.

Thus, there are potent forces acting to preserve the current social contract in the Maghreb. While increased trade and the availability of funds under the MEDA program have been beneficial for countries in the region, it goes without saying that governments will be reticent to rapidly implement comprehensive reforms, regardless of their relevance and necessity. Zaafrane and Mahjoub have suggested that significant reductions in the redistributive role of governments would be possible only if a considerable amount of FDI is attracted, thus cushioning the effects of sizeable cuts in public spending.⁴⁴ However, it is uncertain whether the establishment of the EMFTA will attract foreign investors to the Maghreb. It will provide no new opportunities and greater incentives than those already in place under the current EMAAs.⁴⁵ Indeed, the “hub-and-spoke” structure of Euro-Med cooperation, with minuscule levels of intra-regional trade⁴⁶, has induced most companies to base their activities in the EU and trade with the Mediterranean partner states from there.⁴⁷ Paradoxically, and yet in line with the rational logic of international investment, the gradual elimination of tariffs under the EMAAs has allowed European enterprises to trade from home without maintaining their own offices and supplier networks in partner countries. Thus, while trade between the EU and the MEDA region has increased, the expectations of an upsurge in FDI have not been sustained in reality.⁴⁸

It seems to follow from this short discussion that the effects of political and economic convergence with the EU have the potential to induce the necessary reforms in the Maghreb, thus creating a better business environment, which would spur productivity, increase growth

⁴⁴ Zaafrane and Mahjoub, 25.

⁴⁵ Ibid. 13

⁴⁶ The levels of intra-regional trade within MEDA are negligible. Efforts at the creation of a Greater Arab Free Trade Area (GAFTA), which have led to the signing of the Agadir Agreement, could be the first step towards reversing this trend.

⁴⁷ Dell’Aquila and Kuiper, 39.

⁴⁸ Ibid., 43

and create the jobs needed to keep up with the pressure of the expanding workforce. However, the consideration of some of the pitfalls of the Euro-Med seems to pose several important factors that militate against a successful transformation in the Maghreb. First, domestic opposition to reforms is deep-seated and there are complex linkages between various segments of society that hamper genuine commitment to reforms. Second, the current social contract, with excessive redistribution by the state at its core, is not likely to be replaced given the high social costs that a comprehensive change would incur. Therefore, and this is a significant factor that can shape the future course of the Euro-Med, the European Union needs to commit itself to a general and comprehensive relationship with the Maghreb states, adding a calculation of long-term costs and benefits to the current equation of security, stability and prosperity. The remainder of this paper argues that the EU has favored a piecemeal approach towards the Maghreb countries, undertaking certain policy actions that have been beneficial, but with limited or no capacity to stimulate lasting transformation and convergence. Thus, what follows is a brief discussion of agriculture within the context of the partnership between the EU and the Maghreb states. Agriculture is an issue of primary concern in the Maghreb, constituting an important source of employment, and thus providing livelihood for a large rural population. Despite of this, an adequate commitment to its management has been conspicuously absent in the EMAAs.

Agriculture

While the EMAAs envisage a gradual liberalization of trade in agriculture, there are concerns from both sides as to what degree this is desirable and feasible. On the one hand, the Maghreb states have retained a significant degree of protection, involving tariff and non-tariff measures, as well as subsidies, in order to safeguard their domestic agricultural producers from the competitive pressures coming from European exporters. On the other hand, the European Commission does not officially consider Mediterranean imports as having possible harmful effects for agriculture at home.⁴⁹ Despite of this, producers in the southern European member states have expressed their opposition to liberalization of imports of Mediterranean products, which they have dubbed “sensitive.”⁵⁰ However, it must be noted that European farmers have much better access to modern technologies, as a result of sizeable subsidies under the CAP, and are therefore far more competitive than their counterparts in the Maghreb.

⁴⁹ Dell’Aquila and Kuiper, 36.

⁵⁰ Dell’Aquila and Kuiper, 36.

Thus, the main criticism extended to the EU-sanctioned reciprocal liberalization in agriculture is that such an approach is highly asymmetric.⁵¹ The logic of this argument is that Europe does not stand much to lose from agricultural liberalization since its markets are to a large extent open for exports from the southern Mediterranean. The real losers will be small-scale farmers in the Maghreb whose only source of revenue will be jeopardized by strong competitive pressures from EU exporters. This will act to exacerbate poverty in the Maghreb where the share of the population employed in agriculture is 20 percent, compared to 5 percent in Europe.⁵²

It is important to note that the depiction of agricultural liberalization as completely detrimental to the Maghreb economies amounts to an over-simplification. Indeed, the activity of farmers in the region is primarily undermined by structural constraints, such as lack of credit facilities and access to modern technology; this greatly hinders their ability to enter domestic markets, even in the absence of competitive pressure from Europe.⁵³ Arguably, those who benefit the most from agricultural protection in the Maghreb are state monopolies, which, as discussed in the previous section, fill up the bulk of the export quotas, facing little pressure from European competition in the domestic markets. Nevertheless, one cannot disregard the adverse short-term effects that would be triggered by the elimination of agricultural protection in the Maghreb. The shocks can be dampened by increased assistance for structural reforms provided by the European Union under the MEDA program. However, the EU has so far been reluctant to grant any concessions as an incentive for Mediterranean partner countries to liberalize.⁵⁴ Dell'Aquila and Kuiper have argued that:

Paradoxically, the distinguishing feature of the EMAAs – which is their reciprocal nature – allows the EU to ask MPCs to open their (highly protected) manufacturing markets, while keeping the MPCs' agricultural and other 'sensitive' products out of its own market.⁵⁵

In this sense, the EMAAs have accrued benefits to Europe disproportionately, while imposing high adjustment costs on small-scale farmers in the Maghreb. In line with the argument that increased economic cooperation will not attract increased FDI in the absence of wide-ranging structural reforms, it is feasible to attribute a worsening of rural poverty to precocious

⁵¹ "Euro-Med: Seeds of a raw deal?," Oxfam Briefing Note, Oxfam International (Apr 2004).

⁵² "Euro-Med: Seeds of a raw deal?," Oxfam Briefing Note, Oxfam International (Apr 2004): 2.

⁵³ Dell'Aquila and Kuiper, 12.

⁵⁴ *Ibid.*, 42.

⁵⁵ *Ibid.*

liberalization in agriculture. Hence, asymmetric liberalization, with the EU opening up its markets, while granting redemption periods and increased structural assistance to the Maghreb countries, seems like a feasible answer to the imminent threat of increased poverty. Indeed, state protection for domestic farm producers has been the main factor behind the revival of the primary sector in Morocco after four consecutive years of drought.⁵⁶ Despite of this example of successful state intervention, it should also be noted that governments in the Maghreb have largely focused their poverty reduction and development programs on urban areas, which has left rural habitants to struggle with dwindling incomes and decrepit infrastructure.⁵⁷ Thus, even as governments are not pressured to liberalize agriculture, they have not undertaken sufficient measures to stem the increase of rural poverty. Considering this, and in the context of the overall need for far-reaching reforms in the region, the EU might be confronted with the necessity to find the right balance in inducing transformation of the current economic and social edifice in the Maghreb, while to a large extent offsetting the short-term costs for the population.

Conclusion

The countries of the Maghreb are fairly well-off for Africa's abysmal standards and their economies have been growing in recent years, with exports to the European Union also on the rise. However, as in many developing countries, prosperity and increasing affluence are a characteristic of longstanding elites rather than of the general population. The problems of social inequality in the Maghreb are compounded by security concerns over the rise of Islamic radicalism and the mounting number of disenchanting youth in the cities – a highly volatile mixture that is a cause of concern for Europe. While the EU has espoused stability and prosperity as mutually reinforcing goals in its Euro-Mediterranean partnership, its record of progress in engendering auspicious reforms has been mixed. European aid and investment have often been channelled within ubiquitous patronage networks, reinforcing the entrenched political and economic elites who pose a barrier to genuine transformation. Thus, even if propitious developments are in place and the Maghreb economies have benefited from a number of reforms, the biggest challenges – job creation and sustained growth – may prove insurmountable if the present political and economic order remains unaltered.

⁵⁶ *Morocco*: African Economic Outlook 2004/05, 3.

⁵⁷ *Tunisia*: African Economic Outlook 2004/05, 1.

References

Agénor, Pierre-Richard, Mustapha K. Nabli, and Tarik M. Yousef. “Public Infrastructure and Private Investment in North Africa.” World Bank Policy Research Working Paper 3661 (Jul 2005), World Bank.

Algeria, African Economic Outlook 2004/05. OECD, Online: <http://www.oecd.org/dev/aeo>

Dell’Aquila, Crescenzo and Marijke Kuiper. “Which Road to Liberalization? A First Assessment of the EuroMed Association Agreements.” Working Paper No.2 (Oct. 2003). ENARPI.

Dyer, Paul. “Labor Supply, Unemployment and the Challenge of Job Creation in the Maghreb.” Draft report, World Bank Sources. Online: <http://siteresources.worldbank.org/INTTUNISIA/Resources/Rapport+WB+Maghreb+EmploiANGLAIS.pdf>

“Euro-Med: Seeds of a raw deal?” Oxfam Briefing Note. Oxfam International (Apr 2004).

Europa – Trade Issues, “Mediterranean Region.” Online: http://europa.eu.int/comm/trade/issues/bilateral/regions/euromed/index_en.htm

Kingsbury, Damien et al. *Key Issues in Development*. Houndmills: Palgrave Macmillan, 2004.

Martin-Munoz, Gema. “Political Reform and Social Change in the Maghreb.” In Álvaro Vasconcelos and George Joffé (eds.), *The Barcelona Process*. London: Frank Cass Publishers, 2000.

Morocco: African Economic Outlook 2004/05. OECD, Online: <http://www.oecd.org/dev/aeo>

Pro-Poor Growth in the 1990s. Operationalizing Pro-Poor Growth Research Program (2005). IBRD/World Bank Publication.

Riess, A., P. Vanhoudt and K. Uppenbergh, "Further Integration with the EU: Just One Ingredient in the Reform Process." *EIB Papers*, 6, No. 2 (2001).

"The Euro-Mediterranean Partnership," Online:

http://www.europa.eu.int/comm/external_relations/euromed

Tunisia: African Economic Outlook 2004/05. OECD, Online: <http://www.oecd.org/dev/aeo>

Van De Walle, Dominique. "Do Services and Transfers Reach Morocco's Poor? Evidence from Poverty and Spending Maps." World Bank Policy Research Working Paper 3478 (Jan 2005). Development Research Group, World Bank.

Zaafraane, Hamed and Azzem Mahjoub. "The Euro-Mediterranean Free Trade Zone: Economic Challenges and Social Impacts on the Countries of the South and East Mediterranean." In Álvaro Vasconcelos and George Joffé (eds.), *The Barcelona Process*. London: Frank Cass Publishers, 2000.