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Introduction

The Maghreb—Algeria, Libya, Mauritania, Morocco, and Tunisia—faces multiple political and economic challenges as both feeble economic performance and lurking political instability damage the region's ability to attract trade and investment.

Average annual GDP growth in the region was 2.5 percent in 2001–05, a disappointing record compared with South and East Asia. Constraints include rigid economic structures, slow productivity growth, and modest investment levels. Intraregional trade among the Maghreb countries was only 1.3 percent of their total merchandise trade in 2007, one of the lowest rates in the world. Intraregional investment is similarly low. While many tariffs have been reduced, Maghreb countries still have numerous nontariff and regulatory barriers that impede trade and investment flows. Moreover, the countries do not look to their immediate neighbors as markets or sources of supply, largely because each nation has its own historical links to the rest of the Arab world, the rest of Africa, and Europe. Political tensions between Algeria and Morocco—which together account for 77 percent of the region's population and 66 percent of the region's GDP—are a major obstacle to economic cooperation.

Unemployment is high and terrorism is on the rise; both forces undermine confidence and stability. To combat the terrorist threat, countries have tightened border restrictions on the movement of people and goods, further reducing commerce and depressing economic activity. The United States and the European Union have encouraged the Maghreb countries to escalate their antiterrorism efforts; this focus has had the unintended consequence of taking the spotlight off economic reform. Without substantially faster growth, long-term political stability will remain elusive.

The Maghreb countries could reap significant benefits by pursuing enhanced integration, both within the region and with the global economy.

There have been numerous political attempts to achieve Maghreb integration, but most have failed. Political tensions between members, internal resistance to liberalization, and differences in political systems are all factors that limit progress. However, this study emphasizes that similar hurdles were surmounted by regional integration initiatives in Central America and Southeast Asia. As in those areas, international technical assistance may be essential to success in the Maghreb.

This study has a dual focus. First, it analyzes the gains from closer economic integration among the Maghreb countries. Second, it examines the additional benefits of closer economic ties between the region and the world economy, in particular the United States and European Union. The modeling is carried out with two econometric tools: a gravity model and a computable general equilibrium model. In addition, the study examines four key economic sectors: energy, banking and insurance, transport, and food.

In 2008 the Maghreb countries are trying to put their differences aside and work together to address common challenges. To that end, the authors outline a series of recommendations to accelerate the integration process. Maghreb countries need to cooperate not only in reducing tariff barriers—which they have done—but also in eliminating nontariff barriers and harmonizing regulatory regimes. The authors propose sector-specific measures that could realistically be achieved in the short term and yield significant benefits.

The authors also urge the United States and European Union to work with their Maghreb partners, in a flexible fashion with respect to institutions, but in a manner designed to enhance regional integration. Bilateral trade and investment agreements, regional arrangements, and financial assistance are all potentially appropriate vehicles. The Maghreb countries stand to benefit from working with the United States and the European Union to transform their economies, fostering new industries and service activities with the goals of creating more jobs and promoting faster growth.