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## **THE ECONOMY OF THE MAGHREB: REALITY AND HOPE**

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## INTRODUCTION

When a political and economic phenomenon is made the object of analysis, authors tend to omit a framework which serves as a reference for the analysis under consideration. In other words, the setting where the phenomenon occurs. Obligated by the limitations of space which any publication imposes, the analyst does not describe the setting but instead considers it to be understood. In our opinion, the case which we are going to analyse would be too loose and lack a base for comparison without a background framework. It would consequently be too weak to carry out a prospective analysis. For this reason, and at the risk of repetition, we are going to present a reference framework.

## GLOBAL ECONOMIC CONTEXT

The Twentieth Century is closing as it began, in deep crisis. This perception of the present situation is so accepted that one author has declared that we are facing the end of History<sup>1</sup>. Without entering into this debate, we can affirm that the world economic and political systems are undergoing a series of profound adaptations, especially in the distribution of power. This, then, is the most important characteristic of our times. Unlike the 18th and 19th century empires, which were based on military prowess, blocks are now being formed by the will of their member nations (EEC, Nafta...). The process of substituting economic for ideological confrontation is a consequence of the profound changes in the distribution of global power. Three great economic powers (3P) are now widely recognised: EEC, Nafta, Asian Group<sup>2</sup>. Readjustments are inevitable in this process. The change from a bilateral order to one of 3P is the result on the one hand of the USSR's profound economic crisis which incapacitates it to wield economic power. On the other hand, some authors consider the U.S.A. to be in a period of decline<sup>3</sup>. American hegemony, political as well as economic, has weakened both because of the disappearance of East - West confrontation and because of its economic crisis, which disenables it to impose conditions. During the Cold War, the U.S.A. could impose economic sacrifices on the western world in areas of confrontation. It could even impose these on itself. Today this agglutinating factor has disappeared, and no one is ready to make sacrifices. A good example of this change of mood is the slow pace of the GATT negotiations.

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<sup>1</sup>Fukiyama, Francis "The End of History" The Public Opinion, Dec. 1989.

<sup>2</sup>Lorca, A.V. "3P = 3M = 2R", IEA/CSIC/UAM, Madrid, 1985. Some authors like Attali have decided on two economic powers and do not include Nafta among these. See J. Attali, Milenio Seix y Barral, Barcelona, 1990. The authors believe it is more logical, at least in the medium range, to carry out the analysis with the inclusion of the American block. We call the Asian Group which emerges with Japan in Asia, the so called "Dragons and Tigers".

<sup>3</sup>Kennedy, P., The Rise and Fall of the Great Powers, Unwin Hyman, London, 1988.

Mercantilism is ruling international relations, and economic considerations are prevailing over those of security. Only if there is a credible nuclear threat, like that of the 50s or 70s, will we return to a situation where a loan leader can impose political and economic cooperation. A proliferation of missiles on the periphery of the 3P could possibly also force this cooperation. However, today these threats are not believable. Besides, the French and English nuclear forces could play a decisive role in the case of the EEC.

Sooner or later, we will witness modifications in the internal organisations which exercise economic and political power: the Security Council, IBRD, IMF, where more power will be attained by the European and Asian blocks. The objective will be ascribe relatively more political power to the countries or blocks which now have the preponderant economic power. It appears desirable to obtain an equilibrium between economic and political power.

Furthermore, the very nature of blocks composed of nation states requires territorial coherence in their respective political and economic spaces. In the case of the EEC, it is very clear that by the nature of its neighbouring territories global inter-relations between the centre and the periphery are necessary. We define the periphery as those countries bordering the Baltic, Black, and Mediterranean Seas. This periphery has significant differences in political regimes, economic systems, and cultural and religious backgrounds. In relation to political security, new generation weapons now make it easier to reach the centre, the EEC, and more expensive to intervene in the periphery. Global interdependence has become such a reality that isolated national solutions are no longer valid. As a minimum, solutions must be envisioned for regional levels and must be formed by orchestrating economic, security and political considerations. This is what we call a global focus.

The authors are convinced that a study of the Mahgreb must be approached from this global perspective.

There is another important characteristic which is a product of the block system. The periphery reacts by creating sub-blocks also<sup>4</sup>

It is no longer possible to find individual solutions for problems (economic, political, etc...) which are now regional or global. Consequently, these sub-blocks, or "small blocks", which form on the rims of the 3P try to coordinate their policies on an internal sub-block level. Without doubt, this process tends

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<sup>4</sup>The word "block" is widely used in the literature. Ambassador Ferreira suggests using "poles" instead. However, this is difficult for an economist because the latter is charged with economic implications. Consequently, in spite of recognising Ferreira's criticism, we will continue to use the term "block".

to stabilise the peripheries, and for this reason we defend the consolidation of these sub-blocks. Bilateral agreements between the EEC and its periphery lead to "asymmetric dependency"<sup>5</sup>, very clear in the case of the Mahgreb. At times EEC policies are too timid in backing sub-block relations..

### HISTORY OF THE GLOBAL MEDITERRANEAN POLICY

In 1978 the EEC decided that the Mediterranean was a peripheral zone of the Community and of political and economic interest. Consequently, a policy was designed to regulate the relations between the two. It was named the Global Mediterranean Policy. The policy has undergone many changes since its implantation and has been widely studied<sup>6</sup>. However, the meaning of Global has changed drastically with the opening of the East. Before, The Iron Curtain impeded relations with the East. The periphery was the Mediterranean. Today the East is in a period of desperate transformation, is an additional periphery. This change obliges the EEC to treat its entire periphery in a comprehensive and coherent manner. Various zones can be distinguished on the EEC's rim: an Islamic one on the Mediterranean, an orthodox in the Balkans and on the Black Sea, and a Catholic and protestant on the Baltic. Their characteristics are totally different. However, the EEC's policies of cooperation with the East today will, without doubt, affect its relations with the Mediterranean and vice versa. This is the first point that should be made for any analysis of the Mahgreb. The EEC does not need a GMP. What it needs is a Global Peripheral Policy (GPP). Therefore, we believe that any future analyses and proposed solutions should adopt this approach.

This concept is important from an economic point of view. The EEC, as well as the other blocks, is trying to obtain economic advantages by having access to a cheap labour force within its territory. This objective implies a spatial redistribution of its economic activity. In order to accomplish this, the market system must be implanted in the entire periphery. This would allow for the integration of the centre with the rim. This possibility is important if we take into consideration that we are now undergoing what is widely believed to be the beginning of a period of economic confrontation between the 3P. There are no longer ideological battles. Instead, we are observing capitalism against capitalism. The three are confronted by their different manners of interpreting and applying capitalism, and each attempts to obtain relative advantages. If this interpretation is accepted, then it follows that a harmonious cohesion of the

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<sup>5</sup>Lorca, A.V.

<sup>6</sup>Lorca, A.V. & R. de Andrés, "The Global Mediterranean Policy", Anales de la Academia de Geografia, Madrid, 1987.

territories within the EEC will serve as a strong foundation for building effective production and hence, economic strength. The stability of the periphery could be another important support for building its competitive capacity. It is a matter of promoting stability through policies which promote the 2Ds: Democracy and Development.

### THE BASIS FOR A GLOBAL PERIPHERAL POLICY

The Community has two peripheries on the east: Central Europe<sup>7</sup> and East Europe, which is primarily composed of republics of the former U.S.S.R.<sup>8</sup> The first group poses an economic problem. It is a question of political and economic adjustment to a free market system. This group is sometimes called the "Group of Hope" because of its advanced lead in comparison with others and its good possibilities for success. In the second periphery the problem is one of security. The causes are varied: nationalisms, border disputes, and ethnic and religious differences. Together they have created a climate of confrontation where conflicts are occurring at various points. Unfortunately, no end is foreseeable for this conflictive process, the only viable solution being a respect for minorities and the "spiritualisation" of ethnic and cultural boundaries.

The southern periphery is Moslem. There have been internal conflicts in this area, like the Gulf War, but at the present time the area is relatively calm. However, the EEC tends to be more aware of the threat from the South than from the East<sup>9</sup>. It is difficult to understand this attitude without taking into consideration the lack of dialogue and understanding between cultures, condition which plagues the EC's relations with the South. The EEC's eastern peripheries are European and possibly future members. The East is "We". This explains why massive aid is being sent there and why it has never been nor will ever be given to the South, who are "They". They cannot join the EEC due to the agreements of the Treaty of Rome. However, they must be integrated both politically and economically.

The EEC has a split approach to the South. In relation to the Middle East, it is a question of strongly promoting the peace negotiations. If the Palestinian

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<sup>7</sup>We consider this group to be composed of, Poland, Czechoslovakia, and Hungary.

<sup>8</sup>Here we would group: Belorussia, Moldavia, the Baltic countries, the Ukraine, Bulgaria, and Romania. Yugoslavia should be included in this group also. However, given its present situation, it should almost be in a category by itself.

<sup>9</sup>This seems strange when we consider the problems of the nationalities and the formation of political parties based on former communist structures, where those who held power before are regaining it now. All of these circumstances are slowing the process of transformation.

question is not resolved, it will be difficult for the community to penetrate the area. Economic cooperation is increasingly used as an important complementary diplomatic instrument here. For the other extreme of the Mediterranean area of the Mahgreb, Morocco was chosen for dialoguing and designing a "new partnership policy". Co-development and co-responsability are the basic concepts of this policy. The EEC found itself forced into this selection because of the Islamic movement in Algeria and Tunisia and by the blockage of the 5+5 group by the Libyan problem. Up to now no steps have been taken toward opening dialogue with the Islamic movement. France cannot abandon the europeanised elite in the Mahgreb, which remains in power but finds itself vulnerable to this movement. In addition, the latter is perceived as a threat to democracy by the West and, therefore, the EEC initiated the dialogue with Morocco with a special offer, which was extended to Tunisia later. Again, the solution was an economic one: the formation of an area of free trade within the framework of the "partnership policy", manifested in the Lisbon meeting<sup>10</sup>. This was an important step. However, the need for a comprehensive policy covering security and foreign policy is evident and should also be coordinated with commercial and cooperation policies.

Comprehensive coordination is urgent because as soon as negotiations are needed to settle economic disputes between the 3P, any decisions made will affect the the different territories of the blocks. This is actually a normal consequence, but any negotiation must now take into account the consequences for the periphery in relation to the new "partnership" concept. Presently, there are no adequate mechanisms for this task. The EEC needs to begin to consider the problems of the periphery as its own, coordinating multilateral, regional and bilateral policies. This is another aspect of the global perspective we are defending in this work.

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<sup>10</sup>EEC Commission, "L'Avenir des relations entre la Communauté et le Mahgreb", SEC (92) 401 final Brussels, 30 April 1992

## OBSTACLES TO DEVELOPMENT

Having situated the Mahgreb within its production space, we will now attempt to analyze the problems it is encountering for development and the obstacles it will have to overcome in the process.

Some major obstacles are due to the characteristics of the Arab state. The first is excessive economic intervention on the part of the state. Islamic states were traditionally paternalistic, probably because the temporal and spiritual were united in the figure of the Prophet. This tradition was continued in the Caliphate and has been maintained in most Arab countries<sup>11</sup>. Here, intervention obstructs the functioning of a free market and too often results in the implantation of a series of subsidies which increment budget deficits and foreign debt. This in turn necessitates financing for the balance of payments debt. This perverse relationship is also associated with chronic food shortages and strong demographic pressure, which makes it difficult for the ruling power to liberalise the first necessities market. Another manifestation of interventionism is a swelled, inefficient and lethargic bureaucracy. Some investors have been heard to complain that in order to do business in the Mahgreb you need more time than money. Insecurity, by-product of a slow and arbitrary bureaucracy, discourages western businessmen who are accustomed to a different mentality.

The concentration of power, common to the Arab countries, is a related factor. However, we must recognise the effort made by some countries to reform their systems, especially in the Mahgreb. Serious attempts in this direction have been made since the 80s, and most countries have changed from a one party to a multi-party system. This has been accomplished by Jordan, Egypt and Tunisia, Morocco having already made the change before. The case of Algeria is perhaps the only true failure. It cannot be denied that these changes were carried out

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<sup>11</sup>Some Arab philosophers do not accept this interpretation as an Arab tradition. They claim it is persian.

by ruling powers which used methods anything but transparent, but it is also true that in most countries the reforms have been a success and are working. Very frequently we Europeans are impatient with cultures which are not a true reflection of our own. However, we tend to forget that different cultures inherently impose perceptions and interpretations of concepts (i.e. democracy) which are unique to their circumstances. We should not forget that Europe's evolution toward democracy was a slow process dotted with pitfalls. Without pausing to consider the costs of this process, both political and economic, we are now demanding that other countries evolve rapidly

There are other characteristics of Arab states which are not understood by the West and consequently cause suspicion. Their justice system is one example, where there is a division between family law, under Islamic systems, and civil law which is under a civil administrative system. The concept of community, even of ownership, have slowed the entrance of private capital to these countries. Direct investments in Tunisia from 1967-87 only represent 5% of the country's revenues for the same period. They barely reach 1% for Morocco and Algeria. On the contrary, Brazil has a figure of around 9%. Direct investments in the Mahgreb by the Bank of France for the same period do not reach 0.5% of its investments in the developed countries. Private capital does not invest in these countries, which in itself is an important problem.

It is difficult to conceive of developing a country in our times without the intervention of private capital, which not only provides capital but also technology. Private capital requires a free market, political stability and generous for foreign investments. The Mahgreb has made a tremendous effort here, especially Morocco and Tunisia. Private businesses have timidly begun to invest in these countries but at a slower pace than they have done in the East. One reason for this is the great distance that exists between the written law and day to day reality. Governments need to narrow the gap here if they want foreign businessmen to come and help develop their economies.

In addition to the effort made in the economic field, some effort has been made to coordinate political freedom and economic freedom and to develop democracy. The results here have not been very satisfactory. These societies are in need of modernisation at every level. Our question is: Who will serve as the motor for this transformation? Until now, initiatives have always been made at the highest level with very little participation from society. It doesn't seem as if the elite is willing to relinquish power to other sectors of society. This could prove to be a grave problem. Frustrated by economic failure, the people are impatient with the ruling powers. It is evident that the privileged europeanised class has lost its credibility. This situation has given rise to the appearance of an alternative to established powers and to corruption and proclaims to have the solution for unemployment. The fundamentalists



message is attractive to a young population without hope. A solution capable of offsetting this challenge would have to be progressive, open and scandal free. There have been a diverse replies in the Mahgreb. Morocco and Tunisia are making an attempt. Algeria isn't. This situation is made all the more difficult by the need to implement austerity measures which are necessary for essential economic adjustments. The countries need to improve their infrastructures and balance of payments deficits. This cannot be accomplished without austerity measures and sacrifice. An elite lacking in credibility would probably not be capable of convincing the people to endure these sacrifices. Unfortunately, these countries are in a competitive race with other areas of production, and not only between themselves. They must compete with the EEC's entire periphery and especially with the East, not to mention the other peripheries of the 3p. It is a speed race<sup>12</sup>, and whoever arrives first will gain stability and possibilities for rapid growth. Those who arrive late will have difficulty competing with those who are already established in the market. Velocity, then, is essential, but velocity multiplies the costs. Not long ago it seemed like the East would easily win the race against the South. There are now some doubts. The transformation of the East is turning out to be much more difficult than expected at first. Countries such as Poland, which chose a rapid process, have been forced to slow down. The human and social costs are just too high. However, the East<sup>13</sup> is culturally closer to the EEC, even though its proximity to Russia and the CIS introduces a strong dose of instability.

Solid governments are essential for enduring this race of velocity, governments capable of convincing their people that the sacrifices required for economic adjustments and liberalisation will make development possible in the future.

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<sup>12</sup>Kessler, U., "El Futuro económico del Mahgreb". ICE No. 698, Oct., 1991

<sup>13</sup>We use the term "East" to describe Central Europe, composed of the former satellites of the USSR.

## MAHGREB - EEC: AN ASYMMETRIC DEPENDENCY

The two shores of the Western Mediterranean<sup>14</sup> are in unequal economic positions. The EC Mediterraneans account for 88% of the area's GNP, and their commerce represents nearly 90% of the total commerce of the zone, with exports at 89% and imports at 85%<sup>15</sup>. The countries of the Mahgreb account for only 4% of the area's GNP, and their foreign commerce is primarily directed to the EEC. This represents 70% of their total commerce. Intra-mahgreb commerce barely represents 2% of the total. Commerce with the Mahgreb is at 4% for the EEC. These figures clearly demonstrate the asymmetric dependency of the Mahgreb with respect to the EEC. The EC markets are vital to the Mahgreb. In contrast, the Mahgreb is only a marginal market for the EC.

The debt, result of a chronic commercial deficit, is a heavy burden for these countries. Defense spending is one factor which increases the deficit, and another is food shortages. Algeria must dedicate 35% of its revenues from oil sales to import food. This situation becomes progressively more acute due to an annual accumulative birth rate of over 3%. Its commercial coverage rates are constantly falling. The Mahgreb produces only 40% of the cereals that it consumes, circumstance which causes financial dependency on the EC. The EBI dedicates 46% of its financial resources to the zone, more than it allocates to the ACP. Their balance of payments cannot be compensated by two major sources of revenue: emigrant remittances, recently in decline, and tourism. Furthermore, the South Shore competes in northern EC markets with EC Mediterranean countries in several categories: in agriculture with Mediterranean produce; in industry with textiles; in services with tourism. The homogeneity of climate and soil of the zone causes these countries' productive structures to be substitutive. That is, they produce similar products which are sold in the same markets. Furthermore, it would be difficult to devise a complementary system.

Unemployment stands at around 40%, and 65% of the population is under 25. Their economic growth, although significant, is unable to create sufficient jobs to absorb the annual avalanche of new workers. The dynamics of the countryside - city emigration unleashes a social process that puts increasing pressure on social stability. City growth is disproportionate and uncontrollable; marginal

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<sup>14</sup>We define North Shore as Italy, France, Portugal and Spain. South Shore: Morocco, Algeria and Tunisia. The North Shore is formed by EC Mediterranean countries; in this context Greece is included. The South Shore is made up of the small Mahgreb. This geographical division in the analysis is due to the fact that Mauritania is included in the EC's ACP, but Libya does not have agreements with Brussels.

<sup>15</sup>These are UN figures for 1990

neighbourhoods are multiplying. As an example, almost 25% of Morocco's active population lives in the outskirts of Casablanca. These circumstances provide the perfect breeding ground for Islamic fundamentalism and social instability. Many of the jobless consider emigration to be their only alternative. This puts tremendous pressure on the southern border of the Community and on the populations that live there, where the immigrants must endure discrimination. This problem will only be more pronounced when a change in the demographic balance of the Mediterranean occurs, predicted for 2025 by the UN. Throughout history the population has been larger on the north shore, the south shore being no more than 35% in 1900. This proportion is changing rapidly. The northern population is graying. In a very short time the southern will account for 60% of the Mediterranean population, and we must not forget that 70% of its population will be under 25. If the southern shore's population is around 110 million in 1992, we can expect it to be near 300 million in 2025. The North's sensitivity to this phenomenon is beginning to create a climate of unease. Having overcome the East/West confrontation, it would be pernicious if the North were to categorise the South as a threat. Europe would consider the East as the area apt for cooperation and the South as an area of friction, a position which would relegate the South to an even more marginal position.

The contrast between the economies of the two shores can be illustrated by referring to the differences in i.c.p. for Spain, US \$10,000, and Morocco, US \$900. The differences are not diminishing. To the contrary, they tend to grow larger. In 1960 North Africa had an i.p.c. of US \$590. In 1990 its average income was US \$1,400, and the projection for the year 2000 is for US \$1,710. This is 7 times less than the European. If we use figures for the Mediterranean, in 1960 its i.p.c. was US \$924 and in 1990 it was US \$2,200. In 2000 it is expected to be US \$2,600, a growth rate much lower than for developed countries. It is true that there are important differences between the UMA countries themselves. For example, Algeria has an i.c.p. of US \$2,700, so first there should be internal convergence. When figures for population growth are introduced the scene clouds considerably. If to this condition we add the rise of radical islamism<sup>16</sup> and not only in Algeria with the electoral triumph of the FIS but also in Tunisia and Morocco, we shouldn't be surprised that the Spanish Foreign Minister Ordoñez called the situation a time bomb.

The figures are stubborn in pointing out that the income differences are constantly growing. However, if the countries of the Mahgreb are considered separately they show annual income growth rates of close to 4%. This means an absolute improvement in income, welfare, life expectancy, education, etc.

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<sup>16</sup> The criticisms which are made are not directed at religious movements which are taking place in all the monotheist religions but to the manipulation of religious sentiments as a means for obtaining political power.

However, the fragility of their systems make them very vulnerable to crises in the world economic system.

## CONCLUSIONS

Until now we have referred to military implications when speaking about security. The reason why is clear. The East-West confrontation imposed this context. The disappearance of the USSR, along with its ideology, its former leadership and mentality of confrontation should allow us to change this concept of security. The concept of threat, and consequently that of security, must be given a multi-disciplinarian approach. Without losing its importance, the military facet must leave room for others which are increasingly important: economics, demography, environment, etc. We are no longer faced with a short range confrontation between super powers. The challenge now involves a global conceptualisation of the problems and the need to resolve them with solutions which are valid for the long run. More than ever before, the concept of threat is multi-faceted, an integrated threat. This must be answered by policies based on integrated security, where the economic facet is not a direct threat. However, the disparity of income between the north and south shores of the Mediterranean, especially when we are referring to neighbouring geographical areas, spawn emigration and social and political unrest. Considered in this way, then, long range strategic policies should be multi-disciplinarian. The policies should be executed through a program of regional co-responsibility, and the active players must be the motor of the mechanism. These actors would be the civil societies, societies based on democratic principles and a respect for human rights. This mission could be led by organisations like the CSCM and the "5+5" with the express purpose of narrowing the economic differences between the two shores.

The conclusions of our work are clear. If the EEC ignores the Mahgreb because of its obsession with the East, the consequences will be dramatic for both the Mahgreb and for the EEC. The Mediterranean is becoming more unstable. However, the EEC should not conclude that the Mahgreb is an area of conflict and the East the area apt for cooperation. The EEC cannot consider the Mahgreb as a newly acquired enemy, as an excuse for justifying its military and foreign policies. On the contrary, it needs to approach and maintain a dialogue with this zone. This appears to be the option chosen by the Community's foreign ministers, although for us it has been too slow and timid in arriving. Recently, these same ministers have proposed the creation of an area of free trade in Morocco, which would later be extended to the other countries of the Mahgreb and to the Mediterranean. This is a desirable path if it implies a change in the

nature of the relations, a change toward more cooperation between countries and a concerted effort to coordinate policies which affect all the peripheries.

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