Helpdesk Report

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Trade integration in North Africa: impediments and opportunities

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18 September 2020

Question

What are the barriers to regional cooperation in North Africa on trade and market integration?

- *To what extent do national political systems in North Africa influence the ownership and control of industries that have the potential to increase cooperation at the regional level or between states?*
- *Are there specific sectors or industries where greater regional cooperation and integration may be possible?*
- *What opportunities does integration present for better participating in value chains?*

Contents

1. Summary

North Africa has the lowest level of regional trade integration in the world with significant lost opportunity in terms of trade growth. Reasons for this poor performance are plentiful, covering tariff and non-tariff measures, poor infrastructure, intra and inter-state conflicts, diverging political economies and state-business relations, and the ‘hub and spoke’ trade arrangement that prioritises trade with Europe.

The difficult diplomatic relationship between Algeria and Morocco is a very significant obstacle to integration across the region and within the Maghreb (Algeria, Mauritania, Morocco, and Tunisia). It impedes integration policy cooperation and erects a physical barrier in the form of a closed border. As prerequisites for renewed progress on integration, diplomatic détente and development of appropriate governance are necessary. The interdependence between business and ruling elites has also meant that any movement towards integration that may hurt short-term gains is rejected. In addition, the absence or weakness of civil society groups that can push for, and gain from, North African integration is an impediment. North Africa could benefit from integration through the creation of regional value chains, participating better in global value chains, and specialisation in a range of products and industries including automotive, oil and gas, and iron and steel.

Overall, the literature identified for this review is current, with most sources from 2016 until the present. It is strongest in identifying impediments to integration. It is weaker on the real-world effects of business-state relations, even while it presents a good theoretical framework. The literature makes a clear explanation for the state of Algeria-Morocco relations and how it impedes integration. It is somewhat better in terms of identifying opportunities for integration. In terms of geographical coverage, the Maghreb countries are best addressed compared to the region as a whole; questions around Libyan integration into the region are not well treated and may be occluded by the issues connected to ongoing conflict. Quality of evidence is mixed; empirical studies rely heavily on imperfect or limited data and qualitative studies vary in their level of nuance and relevance.

This review focuses on impediments to trade integration, taking a deeper dive on the effects of state-business relations and the Algeria-Morocco relationship. It concludes by relaying some possibilities for integration in terms of governance and industries.

2. The state of integration

Overall, the state of integration in North Africa is very poor. It remains the least integrated region in the world despite attempts at cooperation through several trade deals and economic communities. There are several elements that make integration between these countries desirable including economic, political, and security gains. In this section, the various attempts at and the benefit of stronger regional integration will be detailed. The next section will discuss why meaningful cooperation failed in the region.

Regional Economic Communities and projects

Countries in the region belong to half a dozen Regional Economic Communities (RECs) and cooperation treaties. However, only one unites them – the League of Arab States (LOAS) – a multiregional cooperation spanning North Africa, Sub-Saharan Africa and West Asia. The most significant REC in the region is the Arab Maghreb Union (AMU), comprising Algeria, Mauritania, Morocco and Tunisia. The AMU was established in 1989 with the aim of removing trade barriers and allowing the free movement of goods, services, and people by the year 2000 (Verdier-Chouchane, Ben Ali and Karagueuzian, 2016).

The most significant project for regional integration is the Trans-Maghreb Multimodal Corridor, comprising roads, expressways, motorways, passenger railway, freight railway, airport and multimodal logistics platforms (CETMO, 2018). This includes the Trans-Maghreb Motorway Axis, also known as the Maghreb Unity Highway. The Highway comprises an Atlantic section from Nouakchott to Rabat, and a Mediterranean section from Rabat to Tripoli (Libya), through Algiers and Tunis and onto Cairo (African Development Bank, 2020).

The poor performance of integration efforts

However, despite this REC 'spaghetti bowl' arrangement, North Africa is the world's least integrated global region with a "dismal" record (Verdier-Chouchane et al, 2016). Only 7-8% of its trade is interregional, constituting only 3.5% of the region's GDP (Mohamed-Chérif and Ducruet, 2015). On the level of the Maghreb region (Algeria, Mauritania, Morocco, and Tunisia), about three-quarters of trade is with the EU, while only around 5% is intraregional (IMF, 2018). In comparison with North Africa, intraregional trade in Africa, Latin America and Asia stands at 16%, 19% and 51% respectively (IMF, 2018).

Indeed, the AMU is far from achieving its integration goals, and it may be abandoned altogether. In 2017, King Mohammed VI proclaimed to an African Union Summit that the AMU was "dead", repeating his point at an African Union - European Union later in the same year (Boukhars, 2018). No AMU summit has taken place since 1994, although a 2012 AMU meeting witnessed Foreign Ministers making fresh pledges (Hernando Laramendi, 2018); the current AMU Secretary General pushed for a new summit in 2019 and again in 2020.

The importance of integration

Several elements make integration in North Africa desirable. As a block, it constitutes a strategic geographic location between Europe, Sub-Saharan Africa, and the Middle East, providing it with a unique opportunity to diversify its trade markets. Greater integration would mean higher economies of scale for the region, attract more Foreign Direct Investments (FDIs), strengthen individual countries against global shocks, and create an overall bigger and stronger market. Integration will also mean the development of regional value chains, better integration with global value chains, and stronger negotiation capacity for trade deals with other partners (IMF, 2018). The region's shared history, cultural attributes, language, and a popular desire for integration underlines the great potential for integration (al-Nawi and Ramzy, 2018).

Besides these economic benefits, stronger regional integration may be a key ingredient for sustainable security. In theory, economic interdependence promotes peace by accelerating economic growth and prosperity, aligning incentives between trading countries, and undermining domestic powers that benefit from conflict. El Anis (2018) studies this hypothesis in relation to the broader Middle East and North Africa region and finds that integration does have a pacifying effect through increased trade and interactions with commercial institutions, even if the effect is limited.

Estimating the cost of poor regional integration, gravity modelling underlines the trade-reducing effect of crossing borders in the Maghreb. It marks Algeria with the highest trade reduction border effect, with total trade being reduced by a factor of five in 2011-2012, and Tunisia with the lowest, with total trade being reduced by a factor of two in the same period (Chebbi, Abbassi and Tamini, 2016).

3. Overview of impediments to integration

Protectionism, tariffs, and non-tariffs barriers

To varying degrees, most countries in North Africa have taken steps to liberalise their trade. However, the legacy of protectionism remains, especially in the form of high tariff and nontariff barriers. The reasons behind these liberalisation partial reforms are rooted in the countries' political economy; trade reforms are often negotiated to benefit the ruling elites who depend on policy-induced rents to sustain legitimacy at the expense of long-term economic gain (Eibl and Malik, 2016). According to Henry (2010), one of the most important determinants of economic reform and openness was the state-business relationship in these countries at critical points of their development. This is discussed in detail in the section 'State-business relations'. Algeria and Libya are the least open with high tariff and nontariff barriers and a narrow range of exports. On the other hand, Morocco and Tunisia, are better integrated in the global market and export a wider range of goods, especially to Europe (IMF, 2018; Rouis and Tabor, 2013).

Generally, tariff and nontariff barriers to trade in Maghreb countries are high. Average tariff duty in the region amounts to 14% and is lower with Europe than between Maghreb countries. They range from 19% (Algeria) to 12% (Morocco and Tunisia). The tariffs are especially high in some sectors like agricultural products in Morocco and Tunisia and have been increasing in some sectors in Algeria since 2018. Regarding non-tariff barriers (namely average cost and time to export as a result of roadblocks, delays at border crossings, and the length and shortage of customs clearance procedures), the Maghreb region has one of the highest levels in the world but there is a large discrepancy between the most efficient countries in the region (Morocco and Tunisia) and the least efficient (Libya, Mauritania, and Algeria). Overlapping REC memberships also complicate rather than facilitate trade as each has its own rules and obligations (Verdier-Chouchane et al 2016).

Mevel, de Alba and Oulmane (2016) forecast that the removal of tariff barriers on goods within Africa and an expansion of intra-African trade (predicted to reach nearly 70 billion US dollars in 2020), could mean 20% gains for exporters in North Africa, 53% of which is due to increase in intra-North African trade. This is contingent, however, on substantial improvement in energy and transport infrastructures as well as the removal of all non-tariff barriers.

Infrastructure

The literature converges on the identification of poor infrastructure as a major factor in poor integration, and on the need for its improvement (Verdier-Chouchane et al, 2016; Rouis and Tabor, 2013; Saadi, 2017). The Trans-Maghreb Multimodal Corridor is completed in sections but lacks key land border crossings (African Development Bank, 2020) – most notably the Algeria-

Morocco border, which was closed in 1994. Algerian and Libyan infrastructure is considered a particular issue because it is especially poor and because these countries lie at the centre of the region (Verdier-Chouchane et al, 2016). When it comes to maritime connectivity, Maghreb ports have had insufficient investment (Mohamed-Chérif and Ducruet, 2015).

See: Trans-Maghreb multimodal corridor, Source: CETMO (2018), p.12, https://www.unescwa.org/sites/www.unescwa.org/files/events/files/the_trans-maghreb_multimodal_corridor.pdf

Trade complementarity

There is some disagreement about the levels of trade complementarity, and whether it represents an impediment to integration. The IMF considers trade complementarity within the Maghreb to be high (IMF, 2018); the consequences of this for value chains and integration are considered in the section 'Opportunity for integration'. Others argue that there is a low level of trade complementarity in the region and that this acts as an impediment to integration. According to this argument, because countries tend to have similar resources, production capabilities and export structures, they are disincentivised to trade with each other (Verdier-Chouchane et al 2016). The weakness in productive capacities and lack of tradable products in both manufacturing and services presents problems for the linear model of regional integration as modelled by the European Union (EU) (Saadi, 2017). However, this could be overcome by the development of intra-industry trade and overall, it appears to be secondary to structural issues covering political economy, trade policy, and poor infrastructure (Verdier and Chouchane, 2016). The case of the manufacture of Logan automobiles bears this out theoretically: vehicles are built in Romania and distributed in Algeria - even while an appropriate assembly plant in Morocco has been operational since 2012 (Mohamed-Chérif and Ducruet, 2015).

Trade relations with the EU

The EU is the Maghreb's most important trading partner. And, as the world's most integrated REC, has set a reference model for integration in the region (Louis and Pinfari, 2017). It has demonstrated a course from free trade area to customs union, common market, monetary union and political union. However, the trade relationship of the Maghreb with Europe functions as both a symptom of, and a factor in, poor regional integration. The imbalance of trade between the Maghreb and Europe is mentioned above and is a product of the fact that it is cheaper for North African countries to trade with the EU than with each other (Verdier-Chouchane et al, 2016). Successive agreements have made trade with Europe cheap, and drawn away incentives for regional integration. Meanwhile, European negotiators do not encounter a united Maghreb front with which to deal, and so make separate deals with each country.

Louis and Pinfari (2017) argue that the EU's cooperation instruments have aimed at trade liberalisation and infrastructure development (with an accompanying rhetoric of regionalism) but have actually shifted trade towards bilateralism. This argument sees the European Neighbourhood Policy as encouraging bilateralism as it pushes North African countries to seek 'advanced status' one by one. According to this argument, the Barcelona process was hampered in its regionalisation goal by its wide geographical scope and its inclusion of Israel-Palestine. The resultant trade pattern between the EU and North Africa is widely described as "hub and spoke" (Louis and Pinfari, 2017) rather than networked, wherein trade is oriented North-South rather than across the compass. While certain authors consider this to be an intentional European strategy (Louis and Pinfari, 2017), suggesting a divide and rule approach, others consider it more a matter of strategic inconsistency (Al Mosly, 2019).

State-business relations in individual countries on the one hand, and regional insecurity within the Algeria-Morocco relationship on the other, are discussed in more detail below.

4. State-business Relations

State-business relationships are drivers of economic performance. When they interact effectively, they can create more wealth and allocate resources efficiently. However, the failure of state and businesses to cooperate, or the practice of harmful collusion, can result in the accumulation of wealth in the hands of a few. This is particularly pertinent in the context of North Africa where state-business relationships are dominated by rent-seeking and crony capitalism (Chekri and Diwan, 2014).

The effect of these types of state-business relationships on economic performance, one of which is international trade, is highly context specific because it depends on actors' powers and interests as well as their preferences and perception. Unfortunately, there are very few papers that discuss this relationship in the context of North Africa. The best is Henry (2018), a source written in 2010, but published in 2018. This describes state-business relationships in Algeria, Morocco, and Tunisia, and outlines the consequent establishment of three distinctive political economies, and its effect on regional cooperation. In Tunisia and Morocco, patronage depends on direct interaction between the state and the private sector. While Tunisia had a newly formed, less concentrated business class who depended on the state, Morocco's businesses were controlled by oligarchs with a direct connection to the ruling elite. As for Algeria, patronage was derived from the state command of the treasury (from natural resources), meaning it has a much less developed private sector and state-business relationships.

According to this argument, one of the main hindrances to a union between the Maghreb countries is the absence of active, autonomous interest groups that can discover shared interests and push states into a 'depoliticised' and functional cooperation. Such interest groups were a major driver in the establishment of the EU. Henry (2018) presents two catalysts that could pave the way for cooperation, putting Algeria at the centre of a potential union. Firstly, if the political elite in Algeria moved to transform their political influence into economic ventures, they would be incentivised to protect their interests through improving property rights and other legal frameworks. This would drive Algeria's political economy to a model closer to that of Morocco, eliminating the tension that arises from the difference in their ruling regimes. Secondly (and to emphasise that Henry is writing in pre-2011 context), if regime change in Tunisia led to a 'liberated' judiciary, Algerian elites may follow the same example to protect their new economic ventures. Both of these are business friendly reforms that can pave the way for a union where oligopolies become more competitive. The mixed record of the Tunisian Uprising in creating a liberated judiciary makes testing this theory difficult.

Ruiz and Zahrnt (2013) discuss the political economy of regional cooperation among the AMU more generally. Here, the desire for integration is driven by the political elites, who see it as a way to derive power and legitimacy. This incentive, however, is weakened by concerns about short-term social unrest that regional cooperation could generate, even if in long-run there is net welfare gain. This is where the private sector should come in, but unlike in other countries, business elites do not play a pro-integration role. This is because they are interdependent with the political elite, with business sectors entirely in the hand of the ruling parties and ex-public monopolies privatised in a discretionary, opaque manner to the benefit of privileged groups. Liberalisation in that sense does not take the form of deregulation but re-regulation. Concerned about their lack of international competitiveness, firms owned by the business and political elite opt to remain protected. The authors point to civil societies as the main advocate for regional integration but recognise their marginal position in the face of repression.

There are some country-specific studies that discuss cronyism and trade but do not discuss it in terms of the issue of regional integration. Saadi (2019) conducts a quantitative analysis on Moroccan cronyism and its effect on indicators of economic growth and competition. He finds that firms with close ties to the ruling elite use their political connectedness to pressure the government into implementing tariff and non-tariff protection to preserve their rent position, giving examples of the ceramic and steel industries. Chekir and Diwan (2014) conduct quantitative analysis on firm-level dataset and regulations in Egypt and find that industries with politically connected firms are more likely to be protected by non-tariff barriers. Rijkers Baghdadi and Raballand (2017) focuses on businesses that were directly owned by the deposed Tunisian president Ben Ali (constituting 5% of private sector profits) and finds higher protections and entry restrictions in the sectors that they operate.

5. Regional security and Algeria-Morocco Relations

The instability after the Arab Uprisings of 2011 and onwards, in terms of intra- and inter-state conflict and civil unrest has obstructed integration efforts. This is especially true in Libya, where infrastructure has been severely damaged (Saadi, 2017). However, surprisingly, the sources under study do not particularly emphasise civil or inter-state conflict as an impediment to integration. The exception to this is the difficult relationship between Algeria and Morocco, which is the most commonly cited blocker to the objectives of the AMU (Louis and Pinfari, 2017; IMF, 2018). Indeed the closure of the 1,427km border, at the centre of North Africa, is a potent symbolic and practical barrier to trade, cutting across the Trans-Maghreb Highway and making it impossible to transport goods from Libya, Tunisia, and Algeria to Morocco or Mauritania by road (IMF, 2018).

A major issue in this contention is the question of Western Sahara. This issue finds its roots in the Kingdom of Spain's concession of the 'Spanish Sahara' in the mid-1970s to Morocco and Mauritania. Despite Spanish pledges to the UN, a self-determination referendum was not held before the withdrawal. The POLISARIO Front, backed by Algeria, has fought for an independent region under Sahrawi sovereignty against the Moroccan and Mauritanian states since. Today there are five immediate parties to the conflict, counting Algeria, Morocco, Mauritania and the POLISARIO Front, even while international law only recognises Morocco and the POLISARIO Front as parties (Louis and Pinfari, 2017). In broad terms, Algeria supports the Sahrawis' claim to self-determination, while Morocco considers the issue a question of national sovereignty (Hernando Laramendi, 2018). While Algeria insists that the question is part of diplomatic détente, Morocco insists that it remains out.

The vicissitudes of the AMU's history can be tied to fluctuations in the Algeria-Morocco relationship, acting largely as a spoiler and somewhat as an enabler (Hernando Laramendi, 2018). During moments when the Moroccan and Algerian administrations both had a sense of vulnerability, diplomatic détente allowed progress on integration. This was the case in the 1980s, when both administrations faced domestic legitimacy issues, leading up to the creation of the AMU. A similar moment of shared vulnerability emerged through 2011 in the initial period of the Arab Uprisings. In this year, Algeria signalled flexibility on reopening the border, and in 2012, AMU foreign ministers held a meeting making a series of agreements. However, when these perceptions of insecurity are not shared, as had tended to be the case for the majority of the lifetime of the AMU, the rivalry tends to intensify. For instance, when the Islamic Liberation Front's victory in the Algerian elections became imminent in 1991, Morocco moved to increase its control over the Western Sahara, prompting the closure of the border in 1994.

This rhythm continued into the 2010s, opening new geographies of competition, and remaining a barrier to integration. In response to conflict and insecurity in Libya and Mali, Morocco and Algeria have not taken a cooperative stance, despite shared threats including terrorism. Morocco sees an opportunity to present itself as a security partner to international partners and an avenue to build international support for its position on the Western Sahara. As a result, the 2010s saw further hardening of the border, with a wall being built on stretches on both sides (Hernando Laramendi, 2018). Diplomatic relations took on a particularly fraught tone in 2017, when a senior Algerian diplomat accused prominent Moroccan businesses of laundering drug money in Africa (Boukhars, 2018).

6. Opportunity for integration: governance and industries

Governance and policies

Several studies mention the importance of domestic and regional trade liberalisation (e.g. elimination of tariff and non-tariff barriers) as part of or overlapping with the wider process of integration. However, one study (Hadili, Raab and Wenzelburger, 2020) challenges the record of past liberalisation in terms of its supposed positive effects (e.g. increased regional trade) and makes the case for governance measures instead. Looking at the effects of liberalisation efforts in the period 1995 to 2009 in the AMU, this source finds that trade liberalisation had no impact on export growth. From this point, it postulates that it was the absence of governance measures (improving business regulations and anti-corruption) that rendered liberalisation ineffective.

While Hadili et al's (2020) postulation is counterfactual and hypothetical, it is supported by more rigorous empirical evidence from sources with a Middle East North Africa (MENA) scope and an international (rather than regional) trade focus. One combines a gravity model with indicators on the six World Bank governance areas for 19 MENA countries and their 189 trading partners in the period 1996-2013 (Martínez-Zarzoso and Márquez-Ramos, 2019). It shows that five out of six governance areas have a positive impact on exports from MENA. This makes a good, albeit proxy, case for governance measures that improve specifically: Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and the Control of Corruption. (The governance measure with no effect on MENA exports is Voice and Accountability.)

Sectors and industries

Many studies point to the benefit of integration in creating a regional value chain and in helping the region participate better in global value chains. Few, however, go into details regarding how integration will do so and in what sectors or products. A report by United Nations Economic Commission for Africa (2016) did a sector-based mapping for the potential creation of regional value chains in North Africa, focusing on the automotive and aeronautics sectors as well as oil and gas, iron and steel, and renewable energy. While the report gives extensive information on North Africa's position in global value chains, its treatment of the five aforementioned sectors is general, especially in the context of regional integration.

Regarding the automotive industry, Morocco and Tunisia are the most well-equipped to climb the value chain in the region; integration can facilitate knowledge transfer and learning between the two countries and the usage of more regional input in the industry. Morocco, Tunisia, and Egypt manufacture basic components and have the potential to climb the value chain through integration, shared knowledge development, and the implementation of policies that attract investments.

With regards to oil and gas, Egypt, Libya, and Algeria are the main players with large reserves of differing sizes. This presents an opportunity to develop competitive upstream regional value chains through transforming oil and gas and linking it to existing value chains including producing electricity to export to Europe as well as plastic, synthetic fibres, and fertilisers. Regional integration would facilitate this process if it were accompanied by supportive regulations and investments. The literature is not robust with respect to renewable energy, except to point out the countries' potential for generating electricity for Europe and their incapability as individual countries to develop this business without integration. Finally, for the region to develop a strong iron and steel industry, it would require integration activities that would process Mauritanian iron ore using gas from Algeria, Libya, and Egypt. This can provide the automotive and other industries with flat steel.

According to the IMF (2018), Maghreb countries have a complementary index between each other that is comparable in magnitude to that between the Maghreb and the EU. As mentioned however, there is disagreement in the literature as to what extent these complementarities exist and facilitate integration. Morocco has a comparative advantage in phosphates and its derivatives and Tunisia and Algeria in fertilisers and liquified natural gas. There is also potential for higher comparative advantage in several products; for example, Morocco could make use of its comparative advantage above Tunisia in transportation, chemicals, metals, food, and services. It could also do so in minerals and metals, above Algeria, and Libya, respectively. Tunisia has the potential for comparative advantage in minerals, vegetables, and woods over Algeria, Morocco, and Mauritania, respectively. Generally, substantial additional trade flows are possible among all Maghreb countries, with Morocco being the most competitive country in the region and Mauritania the least.

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Acknowledgements

We thank the following experts who voluntarily provided suggestions for relevant literature or other advice to the author to support the preparation of this report. The content of the report does not necessarily reflect the opinions of any of the experts consulted.

- Cesar Ducruet, Centre National de la Recherche Scientifique, Paris
- Clement Henry, The University of Texas at Austin
- Jean-François Arvis, World Bank Group
- Yezid Sayigh, Carnegie MEC, Beirut

Suggested citation

Walsh, Alex and Boustati, Alma. (2020) *Trade Integration in North Africa: Impediments and Opportunities.* K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

About this report

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