REGIONAL INTEGRATION AND DEBT

IN

MAGHREB REGION

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Regional Integration and Debt in North Africa
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List of Acronyms

AFRODAD  African Forum and Network on Debt and Development
AMAO  West Africa Monetary Agency
BAMICE  Maghreb Bank for Investment and Foreign Trade
CEA  Africa Economic Commission
CPCM  Maghreb Permanent Consultation Committee
ECOWAS  Economic Community of West African States
EU  European Union
FDI  Foreign Direct Investment
FTZ  Free Trade Zone
GDP  Gross Domestic Product
GNP  Gross National Product
HIPC  Heavily Indebted Poor Country
IMF  International Monetary Fund
PU  Payments Union
REC  Regional Economic Community
SAP  Structural Adjustment Programme
UEMOA  Economic and Monetary Union of West Africa
UMA  Arab Maghreb Union
UNCTAD  United Nations Conference on Trade and Development
Executive Summary

Regional integration since the 1960s has remained indispensable for the transformation and growth of postcolonial North African (Maghreb) economies, and implicitly for debt reduction. Regional integration in the Maghreb region has always provided a platform for addressing obstacles to development, common regional economic problems and external threats. The Arab Maghreb Union (UMA) is the regional economic community (REC) of North Africa consisting of Mauritania, Morocco, Algeria, Tunisia and Libya.

The first attempt at economic integration between the Maghreb countries took place in the 1960s with the establishment of the Permanent Consultative Maghreb Committee (CPCM). This committee failed to achieve its objectives because of nationalist rivalries and lack of political will among the newly independent countries.

Regional integration had a fresh start in 1989 with the Treaty of Marrakesh, founding the Union of Arab Maghreb (UMA). The treaty was to put in motion a process of integration in steps, from establishing a free trade zone, through a customs union, a common market and an economic union.

The question of the foreign debts of the member countries of that organisation, was not taken up in the statutes of the organisation nor in the Plan of Action adopted in 1989. Economic constraints and popular demands have made it difficult for the regional economic community of the countries of UMA to make a positive start. Political differences, conflicts and infrastructural problems all obstruct a real start to the integration process in the regional economic community. In the meantime no solution has been found to the serious debt problem in spite of more or less active efforts at debt management.

To help increase their capacity to repay their foreign debts, the UMA member countries adopted, as early as the 1980s, adjustment and austerity programmes. But, such programmes have mixed effects on regional integration. On one hand, trade liberalisation measures helped stimulate trade by reducing administrative regulations while, on the other hand, the deflationary effect of structural adjustment programmes (SAPs) caused a contraction of the domestic market and hence a reduction of the import capacity of the members of the integration zone.

This study of regional integration and the debt crisis in North Africa shows that the UMA has experimented with quite a number of alternatives to tackle regional difficulties that continue to militate against the attainment of meaningful regional integration. These have included domestic resource mobilisation, the resolution of structural imbalances, financing mechanisms, external borrowing, commercial transactions between countries of non convertible currencies, all of which are associated with the debt trap among its member states.

Due to the absence of the external debt overhang issue in the UMA treaties, protocols, and agendas on regional integration, individual member states have resorted to different responses to their external debt problems. These include debt recycling in the case of Tunisia with Sweden and Holland; conversion mechanisms with countries such as Morocco converting debt into public investments; Mauritania qualifying for the Heavily Indebted Poor Countries (HIPC) initiative, and Morocco’s swap of currencies with the World Bank in the times of exchange fluctuations. Nonetheless, all these efforts, the UMA countries, with the exception of Libya, continue to suffer under a heavy debt burden that weighs on their budgets, and limits their capacity for development.
In order to resolve problems associated with commercial transactions between countries with non-convertible currencies, the Unified Conventions for multilateral and bilateral payment agreements were introduced. The system has had its own administrative problems and results have shown that the conventions had limited effect in terms of stimulating intra-Maghreb commercial exchanges and monetary cooperation. Consequently, the need to repay their foreign debts orients the countries concerned towards giving preference to exports to the north at the expense of south-south trade and cooperation. The attempt by UMA to focus on export-oriented trade flux to generate enough foreign currency to service its external debt has not been very successful either as most of the regions raw materials have fetched low prices on the world market.

Efforts to have the payment conventions replaced by a more advanced payment union (PU) have been inadequate. Although a payment union is capable of saving hard currency, promoting intraregional exchanges and offering credit facilities, it is not sufficient to end the commercial transactions problems of heavily indebted poor countries like Mauritania. The system is not able to address balance of payment problems that are the sole cause of external debt for many African countries. Mauritania will not benefit since a PU will not be able to resolve structural imbalances and, if a country accumulates debt from within the union, it is neither authorised to use these funds to balance an external deficit, nor to pay for imports from non-union members.

Similarly, the proposed use of a common currency reserve that has been viewed as a viable solution to UMA’s economic integration problems and its mounting external debt is problematic. The system has a number of loopholes including the failure to procure the reserves themselves, the failure to address both the balance of payment problems and the debt overhang. The common currency reserve system was also, to a large extent, disrupted by external arrangements that have failed to address the region’s debt trap. A case in point is the implementation of the Bretton Woods SAPs in Morocco, Algeria and Mauritania that exacerbated the debt burden in these countries. Regional integration and debt reduction were impossible with structural adjustments disrupting the harmonisation of macroeconomic policies in the region.

The three large North African economies - Egypt, Morocco and Tunisia, which account for 25 percent of Africa’s GDP provide the greatest potential benefits for Africa in 2002. Macroeconomic conditions are favourable in all three countries: inflation is low, external reserves are adequate, debt has been reduced to more acceptable levels, and substantial progress has been made on structural reforms, particularly privatisation and price decontrol.

There is potential for the process of regional integration to reduce external debt in North Africa, especially through the introduction of a regional currency, integration of capital markets and the establishment of a regional bank. Debts of member countries will be reduced by creating export oriented trade, establishing intraregional monetary cooperation and reducing the need for hard currencies. However, the modest results so far achieved in regional integration between UMA member countries have not included the mechanisms that might have helped reduce the debt burden. An alternative, staggered approach could be adopted. This would involve starting with the creation of a monetary union, stabilising the rate of exchange between the different currencies, coordinating economic policies and, finally, creating an exchange unit which might eventually evolve from being a simple accounting tool into a regional payment tool.
Introduction

The history of regional integration in the North Africa subregion is a rich one – both from the point of view of ideas and practical experience. A number of important lessons can be drawn from the experience of the Arab Maghreb Union (UMA), especially the link between debt reduction and regional integration achievements. On the positive side, it is important to mention from the onset the attempt to reduce dependency on hard currency, the introduction of the Maghreb unified convention for bilateral payments, the payment union, economic dynamism geared towards export oriented trade and how these impacted on external debt. On the negative side, the region is not an exception when it comes to external debt problems associated with the failure to achieve significant structural economic transformation, and lack of capacity to generate momentum for development and withstand external shocks.

The subregion of North Africa accumulated foreign debt of US$ 114 billion (35.7 percent of the total African debt by the end of the 1990s. The service of this debt amounts to US$ 11 200 billion, which makes up almost 49 percent of the total debt service in Africa. The foreign debt of the five members of UMA – Algeria, Morocco, Tunisia, Libya, and Mauritania – reached US$ 67.8 billion, which is almost equivalent to 21.2 percent of the total debt for the whole continent. They pay US$ 9 billion in debt servicing annually, i.e. 37 percent of the service of the debt of the whole of Africa (ECA, 1999).

Several powerful factors lie at the root of the debt crisis in the Maghreb. Among these is the failure by UMA to take up debt issues in the statutes of the organisation, accumulation of the deficit of the central administration since the first petroleum shock in 1973, and arising from ambitious public investments together with a drop in internal consumption. The undertaking of such massive investments was made possible by the ease of obtaining international funding when internal savings were insufficient.

The introduction of structural adjustment programmes, designed to rescue debtors, (SAPs) in North Africa have deliberately squeezed every possible penny from the ailing economies and resulted in a massive build up of arrears in the 1980s and 1990s. The SAPs neither facilitated regional integration nor reduced Debt in those North African countries that already had fragile and weak economies. The implementation of SAPs has resulted in a diminution of inter African exchange of commodities and production factors as the emphasis of adjustment policies ran counter to regional integration policies. Financing budget deficits became a problem, heralding the financial crisis in several countries. Morocco and Egypt in particular had to undergo several rigorous structural changes at the recommendation of the International Monetary Fund.

Current regional integration problems that militate against debt reduction range from the low level of intra-African trade, the integration of unequal partners, the similarity of economic structures and products between countries and a weak industrial base. The capacity of the existing regional negotiation machinery on external loans and debt leaves a lot to be desired.

Although modest results have been achieved from the regional integration of UMA countries, the regional organisation still needs to set up mechanisms that might help reduce the region’s external debt burden. A country such as Mauritania has found it difficult to meet membership requirements and benefit from UMA due to being a Heavily Indebted Poor Country (HIPC). Otherwise, the need to repay foreign debts forces the countries concerned to give preference to exports directed towards countries of the north at the expense of south-south trade and cooperation.
A number of alternatives aimed at addressing economic constraints and popular demands that make it difficult for regional integration to alleviate the burden of external debt, and helping the UMA countries escape the trap of foreign financial dependence are discussed.
1. Current State Of Subregional Integration

1.1 A History of the Process of Regional Integration

The first attempt at economic integration between the Maghreb countries goes back to the 1960's, with the establishment of the Maghreb Permanent Consultative Committee (CPCM). At that time, regional integration was to be achieved through the interaction of commercial liberalisation and industrial harmonisation. To achieve this goal, the Maghreb countries undertook to realise the following measures over a period of five years:

1. Straight reductions of 10 percent per annum in customs duties and quotas restricting the exchange of commodities;
2. Establishment of an agreed list of industries whose products would be granted free circulation and access in the Maghreb market;
3. Foundation of a Maghreb Bank of Integration charged with financing projects of common interest, and promoting simultaneous and equitable industrialisation;
4. Establishment of a Payments Union;
5. Harmonisation of national commercial policies in regard to third party countries, as a prelude to the eventual establishment of a common external customs duty.

However, the work of the CPCM failed as it came into conflict with the nationalistic prejudices of the newly independent Maghreb countries. The process of constructing a unified Maghreb was launched in the late 1980s in the context of a changed environment both internally and externally. At the internal level, the national socioeconomic choices of the 1960s and 70s had reached their limits, having generated limited and dependent industrialisation, an agriculture industry incapable of guaranteeing food security, bureaucracy, runaway urbanisation and foreign debts. At the external level, the consolidation of the European Union by the formation of a Common Market, threatened to aggravate the imbalance between this economic giant and the Maghreb countries taken separately. Signed in February 1989, in Marrakesh, the Treaty creating the Arab Maghreb Union (UMA) shows some novel traits compared with the CPCM. UMA adopted an integration strategy with the following characteristics:

The Convergence Criterion in CEMAC and the Indicators of Multi-Lateral Supervision
- Ambition, as it aims at the full economic union of the Maghreb, through the creation of an integrated, well articulated economic sphere;
- Clear definition of priorities, which are common action to guarantee food security, development of human and economic resources and the pursuit of common policies in all spheres;
- Adoption of a progressive policy of economic integration.

The five steps of the progressive economic integration policy are:
1. Creation of a zone of free circulation for goods of Maghreb origin (came into force in 1992);
2. A customs union (came into force at the end of 1995);
3. A common market and an economic union, after achievement of the unification of the economic policies and common development;
4. Creation of a supranational body with a permanent secretariat in Rabat, Morocco; and
5. Establishment of a programme of action, defining priorities of spheres, and measures to be undertaken (Adopted by the Council of Presidents, 17 February 1989).
Table 1: Programme of Action Of Uma

<table>
<thead>
<tr>
<th>Shere of action</th>
<th>Measures taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Customs</td>
<td>• Harmonisation of economic and financial policies</td>
</tr>
<tr>
<td></td>
<td>• Financing of investments and exchanges</td>
</tr>
<tr>
<td></td>
<td>• Insurance and guarantees for investments</td>
</tr>
<tr>
<td></td>
<td>• Progressive harmonisation of monetary policies culminating in the use of a single currency</td>
</tr>
<tr>
<td></td>
<td>• Gradual harmonisation of customs policies culminating in the creation of customs union</td>
</tr>
<tr>
<td>Economy</td>
<td>• Generalisation of commercial preferences in matters of exchange and abolition of non tariff barriers</td>
</tr>
<tr>
<td></td>
<td>• Creation of commercial information sectors</td>
</tr>
<tr>
<td></td>
<td>• Actions undertaken to promote productive activities an services of infrastructure and communications</td>
</tr>
<tr>
<td>Education, Culture and information</td>
<td>• Unification of school and university curricula</td>
</tr>
<tr>
<td></td>
<td>• Promotion of a common programme for qualifying trainers</td>
</tr>
<tr>
<td></td>
<td>• Adoption of unified Maghreb University Card</td>
</tr>
<tr>
<td></td>
<td>• Creating a unified Maghreb industry for pedagogical material</td>
</tr>
<tr>
<td></td>
<td>• Development of scientific research</td>
</tr>
<tr>
<td></td>
<td>• Promotion of Maghreb publishing houses for publication and dissemination o Maghreb books and literature.</td>
</tr>
<tr>
<td></td>
<td>• Promotion of film industry</td>
</tr>
<tr>
<td></td>
<td>• Development of intense cooperation in matters of culture, youth, sports, information and communications</td>
</tr>
<tr>
<td>Social and Human Affairs and Security</td>
<td>• Measures to guarantee the freedom of residence, work and property</td>
</tr>
<tr>
<td></td>
<td>• Adoption of a convention regulating establishment in the different countries of the Maghreb</td>
</tr>
<tr>
<td></td>
<td>• Protection of the rights of the Maghreb community in Europe</td>
</tr>
<tr>
<td></td>
<td>• Creation of a single Maghreb identity card</td>
</tr>
<tr>
<td></td>
<td>• Harmonisation of security policies both internally and externally</td>
</tr>
</tbody>
</table>

Source: General Secretariat of UMA, Rabat

The Programme of Action of the UMA is outlined in Table 1. In the economic sphere, several conventions have been signed, of which the most important are:

- A convention on the exchange of agricultural products, signed on 23rd July 1990, aiming to enhance agricultural potential, and promote free movement of basic agricultural products in the region in order to guarantee food security. The parties undertake to exempt their own agricultural products from all taxes and customs, and protect them from the competition of subsidised products of other parties.

- A convention on commerce and customs, signed 11th May 1990, which stipulates the rules for free trade for all products of Maghreb origin. Products manufactured in one of the countries, with an input from third parties, are dutiable in the final importing country. Countries of UMA are invited to draw up a list of goods to be exempted from all non-tariff barriers and progressively enlarge this list in order to increase the effectiveness of the customs exemption.

Regional Integration and Debt in North Africa
A convention on bilateral payments between member countries of UMA (1\textsuperscript{st} April 1992), creating a new system of payments according to which all international transactions are covered by current accounts in convertible currencies in the commercial banks of each country. Such accounts are to be covered by corresponding accounts in each of the central banks of the member countries and the net bilateral balances of the accounts of the central banks to be settled within fifteen days of the end of each month.

1.2 Achievements in Regional Integration

The poor results so far achieved in terms of regional integration between the UMA countries are borne out by modest intra-Maghreb commercial exchanges and the poor convergence of macroeconomic policies.

Many indicators demonstrate the inability of the UMA treaty to infuse a new dynamism into the exchanges between its member countries. For instance, intra-Maghreb exchanges compared to the total commercial exchanges of the UMA countries do not exceed 3 percent for exports or 2.8 percent for imports in 1998, as shown in Table 2.

Table 2: Indicatory Structure of Exchange

<table>
<thead>
<tr>
<th>Imports</th>
<th>Exports</th>
<th>Commercial Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ Million</td>
<td>% Total</td>
<td>US$ Million</td>
</tr>
<tr>
<td>EU</td>
<td>20 207</td>
<td>61.2</td>
</tr>
<tr>
<td>USA/Canada</td>
<td>3 188</td>
<td>9.7</td>
</tr>
<tr>
<td>Japan</td>
<td>1 168</td>
<td>3.5</td>
</tr>
<tr>
<td>Arab league</td>
<td>759</td>
<td>2.3</td>
</tr>
<tr>
<td>UMA</td>
<td>929</td>
<td>2.8</td>
</tr>
<tr>
<td>Others</td>
<td>6 775</td>
<td>20.5</td>
</tr>
<tr>
<td>Total</td>
<td>33 026</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: UNCTAD Secretariat

This rate of intra-exchanges is even lower than that of the Arab interchanges which amounted to 10.15 for exports and 8.19 for imports for the same year, as Table 3 indicates.

Table 3: Intra-Arab Exchanges as a Portion of a Portion of Arab External Commerce (Percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8.7</td>
<td>9.05</td>
<td>10.15</td>
<td>8.72</td>
<td></td>
</tr>
<tr>
<td>8.92</td>
<td>8.91</td>
<td>8.19</td>
<td>8.52</td>
<td></td>
</tr>
</tbody>
</table>

Source: Unified Arab Economic Report

Regional Integration and Debt in North Africa
Most intra-Maghreb trade is in primary products, such as minerals, vegetables and fruits, while exchanges of manufactured goods remain very weak indeed. Table 4 illustrates this.

**Table 4: Composition of UMA Commercial Exchanges (US$ million)**

<table>
<thead>
<tr>
<th></th>
<th>UMA Imports from...</th>
<th>UMA Exports to...</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>World</td>
<td>EU</td>
</tr>
<tr>
<td>Meat, Fish, etc</td>
<td>1 024</td>
<td>510</td>
</tr>
<tr>
<td>Vegetables/Fruits</td>
<td>3 630</td>
<td>1 345</td>
</tr>
<tr>
<td>Fats/Oils</td>
<td>788</td>
<td>324</td>
</tr>
<tr>
<td>Food Products</td>
<td>1 534</td>
<td>750</td>
</tr>
<tr>
<td>Mineral Products</td>
<td>2 432</td>
<td>753</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2 683</td>
<td>2 050</td>
</tr>
<tr>
<td>Hides/Leather</td>
<td>169</td>
<td>166</td>
</tr>
<tr>
<td>Timber</td>
<td>626</td>
<td>418</td>
</tr>
<tr>
<td>Wood pulp</td>
<td>748</td>
<td>533</td>
</tr>
<tr>
<td>Textiles/Clothing</td>
<td>2 965</td>
<td>2 465</td>
</tr>
<tr>
<td>Shoes</td>
<td>180</td>
<td>105</td>
</tr>
<tr>
<td>Stone works</td>
<td>344</td>
<td>236</td>
</tr>
<tr>
<td>Real pearl</td>
<td>63</td>
<td>21</td>
</tr>
<tr>
<td>Common metals</td>
<td>3 148</td>
<td>1 998</td>
</tr>
<tr>
<td>Machines/Apparatus</td>
<td>6 891</td>
<td>5 281</td>
</tr>
<tr>
<td>Transport</td>
<td>2 169</td>
<td>1 598</td>
</tr>
<tr>
<td>Precision instruments</td>
<td>606</td>
<td>424</td>
</tr>
<tr>
<td>Arms/Munitions</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>345</td>
<td>245</td>
</tr>
<tr>
<td>Works of art</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Special usage</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31 707</strong></td>
<td><strong>20 707</strong></td>
</tr>
</tbody>
</table>

Finally, if we compare the intensity of the intra-exchanges between the members of the various regional economic communities (RECs) in Africa, we find that UMA occupies the ninth place among fourteen RECs studied for their relationship between the intra-community exports and total exports, as shown in Table 5.
Table 5: Exports to Members of Other RECS and to the Rest of the World (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>Individual intra-community exports to total intra-community exports</th>
<th>Intra-community exports to total African exports</th>
<th>Individual intra-community exports to total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage</td>
<td>Order</td>
<td>Percentage</td>
</tr>
<tr>
<td>CEMAC</td>
<td>1.1</td>
<td>10</td>
<td>0.1</td>
</tr>
<tr>
<td>SINSAD</td>
<td>12.8</td>
<td>3</td>
<td>1.3</td>
</tr>
<tr>
<td>CEPGL</td>
<td>0.1</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>COMESA</td>
<td>9.3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>EAC</td>
<td>4.7</td>
<td>7</td>
<td>0.5</td>
</tr>
<tr>
<td>CEEAC</td>
<td>1.3</td>
<td>9</td>
<td>0.1</td>
</tr>
<tr>
<td>CEDEAO</td>
<td>19.9</td>
<td>2</td>
<td>2.1</td>
</tr>
<tr>
<td>IGAD</td>
<td>4.4</td>
<td>8</td>
<td>0.5</td>
</tr>
<tr>
<td>IOC</td>
<td>0.7</td>
<td>11</td>
<td>0.1</td>
</tr>
<tr>
<td>MRU</td>
<td>0</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>SADC</td>
<td>31.3</td>
<td>1</td>
<td>3.3</td>
</tr>
<tr>
<td>UEMOA</td>
<td>5.9</td>
<td>6</td>
<td>0.6</td>
</tr>
<tr>
<td>UMA</td>
<td>8.6</td>
<td>5</td>
<td>8.6</td>
</tr>
</tbody>
</table>
Subregional Integration and Debt Reduction

The UMA is a particularly indebted regional group, with a total foreign debt of nearly 60 billion in 2000, representing a 27-fold increase since 1970. A breakdown of the debt and its service shows that two countries in particular, namely Algeria and Morocco, bear more than 72 percent of the total debt of UMA member countries and pay more than 78 percent of its debt service. Table 6 shows that UMA country debts greatly increased over the 1980s before stabilising in the 1990s.

Table 6: UMA Debt and Debt Service Payment, 1980-2000 (US$million)

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</thead>
<tbody>
<tr>
<td></td>
<td>Debt</td>
<td>Service</td>
<td>Debt</td>
<td>Service</td>
</tr>
<tr>
<td>Morocco</td>
<td>9,258</td>
<td>1,446</td>
<td>24,458</td>
<td>1,794</td>
</tr>
<tr>
<td>Algeria</td>
<td>19,365</td>
<td>4,084</td>
<td>27,877</td>
<td>8,803</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3,527</td>
<td>544</td>
<td>7,690</td>
<td>1,431</td>
</tr>
<tr>
<td>Libya</td>
<td>2,236</td>
<td>140</td>
<td>4,948</td>
<td>457</td>
</tr>
<tr>
<td>Mauritania</td>
<td>840</td>
<td>48</td>
<td>2,096</td>
<td>146</td>
</tr>
</tbody>
</table>

Source: GDF 1999 and CEA

The level, weight and structure of the debt vary considerably between UMA countries. There are examples of middle income and low income level countries that are heavily, moderately or slightly indebted. In 1999, the World Bank classified North African (UMA) countries as follows: one slightly indebted upper middle income country, Libya; one slightly indebted lower middle income country, Egypt; three moderately indebted middle income countries, Algeria, Morocco and Tunisia; and two heavily indebted low income countries, Mauritania and Sudan.

Conditions of indebtedness (share of loan term concessions, share of multilateral loans, interest rates, grace periods, maternity) not only differ between middle and low income countries, but also between middle-income countries. The debt conditions are harsher for Algeria and Morocco than for low income countries like Mauritania and Sudan or a middle income country like Egypt, which is granted preferential terms of loan concessions and important debt cancellations.

Despite the stabilisation of the external debt during the 1990s, UMA member countries have not managed to escape the debt trap. In fact, the need to finance development and alleviate poverty is on the rise. North African countries are faced with a substantial influx of external goods and services that may, directly or indirectly, increase indebtedness. In turn, paying off the debt increases the need for external resources, especially since North African countries pay a substantial price for debt servicing. The debt may turn into a long-term trap, particularly given that the region is highly exposed to exchange rate fluctuations, interest rate changes and exchange rate instability.

Regional Integration and Debt in North Africa
2.1 Modalities of Maghreb Integration and the Foreign Debt Crisis

Important to note in the modalities and statues of the UMA treaty and its action programme of 1989 is the absence of debt issues. There was no resolution on a concerted action about external debt and creditors. This could have been caused by the difference in the structure of the debt of the different countries and the fact that creditors (the World Bank, IMF, the Paris Club, the London Club) preferred to deal with them as individual countries rather than as a regional bloc. The negotiating power for better terms of servicing loans from the creditors remains weak for individual union members.

One possible reason for such an omission could be the belief in the ineffectiveness of concerted action against creditors. Another reason lies in the different structure of the debt in different countries and the different approaches adopted by the creditors to renegotiating the terms of servicing of loans contracted under IMF modalities.

However, the process of regional integration, if properly conducted, could have positive effects on foreign debt reduction for UMA countries. The mechanisms through which such an impact may be achieved are examined below.

2.1.1 Creation of export oriented trade

Regional economic treaties, especially the creation of a free trade zone or a customs union, engender two opposed effects, a diversion effect and a creation effect. The suppression of customs duties and quotas within the zone of integration creates new trade flows between the member countries. Consumers stand to gain because the prices fall, while the competitive producers of these countries also stand to gain because they will pay less for their imported intermediate commodities and may increase their production. Conversely, non-competitive industries will lose more and shed their workers.

This creation of trade is, however, accompanied by diversion of trade in as much as it is a result of the reorientation of pre-existing trade with non-member countries. Member countries are induced to substitute imports from the integration zone (produced at higher cost), for imports from the rest of the world (at a lower cost), provided the difference in price is less than the customs tariff of each country.

The greater the creation effects are and the less the diversion effects are, the more regional integration may raise the well being of the zone. As far as debt is concerned, the most important effect is the creation of new export oriented trade flows that generate enough foreign currency to service the debt. It is an accepted fact that one of the reasons for the aggravation of the debt situation in the countries of the south is the weak growth of their exports.

2.1.2 Creation of economic dynamism

The beneficial impact of the creation of export-oriented trade on debt reduction might be amplified by the dynamic gains associated with regional economic integration. The new theory of international trade has highlighted the effects of larger scale markets on the gains of trade. Also, the effect of competition related to trade liberalisation is to reduce the monopolistic rent of local producers and oblige them to reduce their costs by eliminating inefficiencies and accelerating the introduction of innovations.
2.1.3 Increased credibility and attraction for FDI

As shown by the example of the treaty and partnership between the European Union and the countries of the east and south of the Mediterranean, the perspective of regional integration is supposed to lower the risks to capital, thus attracting investment. The process of regional integration, when fully in motion, should confer credibility on the internal economic reforms initiated by member countries by highlighting and guaranteeing their adoption of a policy of openness. The reduction in the cost of transactions and access to the regional market may attract investments from outside. Foreign direct investments can be solicited in order to alleviate the debt burden. Generally, such investments are sought in the belief that:

- They contribute to productive capacity and creation of new employment, both of which are vital for growth;
- They help save and attract foreign currency and increase tax revenues;
- They constitute a new source of financing where indebted countries face difficulties in obtaining new bank loans;
- They are tied to a specific project; and
- They do not increase the debt burden.
3.1 Convergence as a Condition for Regional Economic Integration

To restore the capacity of UMA to repay foreign debts, programmes of structural adjustment were undertaken at the instigation of the IMF, causing the countries to apply rigorous macroeconomic policies aimed at establishment of macroeconomic equilibrium, liberalisation of monetary exchange, promotion of export activities and so on.

Theoretically, harmonisation of budgetary, monetary, trade, tax and social policies would result, especially as these were priorities of the UMA Plan of Action. In practice, any harmonisation that took place was the result of application of the SAPs, rather than any will to harmonise national policies on the basis of the UMA Plan.

This is borne out by the fact that, so far, the Maghreb countries have not set out the parameters for such a convergence. These parameters - which cover matters ranging from reducing inflation rates and financial and budget deficits, to reduction of the debt burden - are normally meant to help member states to attain and maintain an acceptable level of macroeconomic stability.

Table 7: Macroeconomic Indicators of Convergence in UMA (1980-2000)

<table>
<thead>
<tr>
<th></th>
<th>Inflation Rate %</th>
<th>Budget Deficit %</th>
<th>Debt/GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>10.2</td>
<td>16.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Morocco</td>
<td>9.4</td>
<td>7.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-</td>
<td>6.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Two contrasting tendencies can be noted from this table:

1. Convergence of the inflation rates between all three countries, indicating a certain control over rising prices due to the adoption of stiff monetary policies within the structural adjustment programmes; and

2. Marked divergence concerning reduction of budgetary deficits such that, while Algeria shows a comfortable budget excess in the year 2000, Morocco, and to a lesser extent Tunisia, show deficits that are significantly higher.

The same divergence can be noted in the case of the debt burden. While Morocco has succeeded in reducing its debt burden during the last decade, Algeria's debt fluctuated during the same period around a mean value of 45 percent. Tunisia reduced its debt burden from 62.4 percent of GDP in 1990 to 54.5 percent in 2000.
3.2 Barriers to Regional Integration as a Debt Reduction Mechanism

There are many reasons for the slow pace of economic integration of the countries of the UMA. These can be grouped into several categories, all of which demonstrate the obstacles in the way of financing intraregional trade and the problem of harmonising economic policies.

3.2.1 National external debt burden

It is to be noted that the debt crisis of the poor country, Mauritania, has made it impossible for that country to meet its obligations towards the other members of UMA as the balance has to be settled in hard currencies. Thus, the implementation of the convention between Bank Al-Maghrib and the central bank of Mauritania has been suspended, as from May 1995, because of the arrears in settling the credits due to the Moroccan Emission Institute since August 1994. According to certain sources, the arrears had risen to US$ 2.1 million by May 1995. After several requests, to the central bank of Mauritania, a payment of US$ 1 million was effected in 1996 but the balance has not been settled to date.

Under such conditions, the integration of Mauritania into the Maghreb economic space continues to be slow and difficult. It also necessitates the creation of compensation mechanisms, and specific measures to help this country to accomplish its economic restructuring. The debt situation of Mauritania does not favor the development of exchanges with the other Maghreb countries.

3.2.2 Political and structural factors

There are also some structural obstacles to the efforts towards integration, mainly due to the similarities between the structures of industrial, agricultural and commercial production of the Maghreb countries. Instead of specialising in different lines of production and taking advantage of a wide market, they compete among themselves over internal and external markets. Nevertheless, the development of informal commercial exchanges across the borders of the Maghreb countries does suggest a certain degree of complementarity between these neighbouring economies.

The weakness of regional infrastructure and the persistence of restrictive practices, such as non-tariff and administrative barriers, show the lack of real political will to promote economic and commercial cooperation between Maghreb countries. The lack of diversity and economic cooperation has led most countries in the region to prefer trading with northern partners to regional neighbours but at the risk of incurring external debt.

The continued political conflict between Morocco and Algeria, has obstructed the development of a climate of confidence and cooperation between two important members of the Maghreb and consequently blocked implementation the UMA Treaty, as well as the numerous conventions aimed at the establishment of an integrated and cooperative economic region.

3.2.3 The Need for Hard Currency

The need for hard currencies to repay foreign debts encourages the UMA countries to give preference to trade with the industrialised countries, especially the EU, at the expense of south-south trade. It should be stated that, in this regard, the foreign debt crisis hampers intra-Maghreb trade.
Commercial transactions that take place with different non-convertible currencies made trade and economic cooperation difficult for UMA members until they resorted to experimenting with some payment agreements to be discussed later in this report. The fact that most countries need foreign currency to service their external debt to multilateral institutions and other creditors makes regional integration and debt reduction difficult.

3.2.4 Regional payment mechanisms

The regional payment mechanisms now in force, prevent the UMA indebted countries from taking part in intra-Maghreb trade because no credit facilities are available to them. This is the case in Mauritania that is one of the HIPC countries.

The foreign debts of countries like Mauritania prevent them from participating in intra-regional trade, suggesting that the time has arrived for the replacement of the unified bilateral payment convention by the more advanced payment union.

3.2.5 Structural adjustment programmes and Maghreb integration

SAPs that had been designed to rescue debtors have deliberately squeezed out every possible penny from the ailing economies in the region, making regional integration impossible as most debtors turned to the IMF and World Bank to rescue their failing economies. North Africa’s debt crisis arises from the fact that, in the 1980s and 1990s, most countries struggled with worsening trade and financial deficit, decreasing international reserves and domestic budget deficit.

Following the debt crisis at the beginning of the 1980s, the UMA countries - in particular Algeria, Morocco and Tunisia - were obliged by the IMF to adopt more or less stringent structural adjustment measures. Thus:

- Morocco started a stiff structural adjustment programme in 1983 comprising a strictly balanced budget, devaluation of the Dirham, deregulation of prices (with the exception of some food items), privatisation of public sector companies, liberalising foreign trade and favouring exports.
- Tunisia set up austerity plans in 1986, following the depletion of its foreign exchange reserves due to the drop in oil prices, a bad harvest, and low income from tourism and, in 1987, received a credit from the IMF and two loans from the World Bank for the restructuring of its industry and agriculture.
- Algeria, suffered a great deal because it relied heavily on credit facilities during the period of low oil prices. In 1986, it had to renounce its policy of limiting indebtedness because of low oil prices and the drop in the value of the dollar. It was only in 1994, under more stringent financial constraints, that it adopted fully-fledged macroeconomic stabilisation and structural adjustment programmes with the support of the international financial institutions.
- The implementation of structural adjustment policies in a context of deterioration of the terms of trade of Mauritanian exports, has led to a significant contraction of the domestic market, lowering of solvable demand and deterioration of the standard of living of the population. The size of the financial imbalances has retarded the convergence of the economic policies of Mauritania with those of the other members of the Maghreb.

With SAPs, creditors and debtors found themselves in a vicious cycle in which the former gives and the latter receives, thus reproducing and increasing the debt. The structural adjustment
programmes in the Maghreb countries were hardest on the less privileged classes which experienced lowered purchasing power, unemployment and layoffs. They soon expressed their anger in revolts, in Morocco in 1981, 1984 and 1990, in Tunisia in 1984 and 1987, and in October 1988 in Algeria.

On the economic level, there appeared a 'three speed economy', engendering more inequalities:

1. An export oriented economy, expected to be more competitive because of the devaluation of the currency and other measures prescribed by the international financial institutions;
2. An economy for the local market, which stagnated because of the increase of the price of imported semi finished products used as inputs of the local industries and the lower purchasing power;
3. An informal economy, in full bloom (making up to 60 percent of GNP) that gave the Maghreb companies a new lease on life.

The effects of structural adjustment within a generally globalising context are still ambiguous. On one hand, liberalisation measures could stimulate regional commercial exchanges by alleviating regulatory and administrative procedures. Also, they create an environment favorable to private initiative, notably in the commercial sector which plays a leading role in promoting trade in commodities. However, the deflationary effect of structural adjustment policies – further aggravated by the slumping prices of raw materials and the rising debt burden – is to cause a contraction of internal markets by reducing demand, resulting in a reduction of imports.
Regional Currency, Monetary Integration And Debt

A monetary union is defined by the adoption of fixed rates of exchange, and unlimited convertibility among the members of the union, which implies that current transactions and movement of capital within the union are subject to no exchange controls whatsoever. Such a formulation of monetary union is equivalent to the adoption of a common currency where the exchange rate is permanently fixed. Naturally, the establishment of such a union implies the coordination of economic policies, particularly budgetary and monetary policies.

The UMA’s integration strategy does not clearly mention any mechanisms for setting up a common Maghreb currency. This discretion on the part of Maghreb leaders gives grounds to suppose they expected this should follow the economic union. However, the embryonic state of intra-Maghreb trade means that the establishment of a common market for commodities, let alone services, is not to be expected in the near future.

Another factor that may also delay monetary union is the political factor. Indeed, in spite of the existence of a rich fund of structural community (history, common language and religion), political relations between the member states suffer tensions sometimes, for example the case of the tensions between Algeria and Morocco over the question of the Sahara. The confrontation between these two nationalities makes it difficult to expect a common understanding on monetary questions, given that such questions touch directly on the issue of national sovereignty.

This leads to the conclusion that monetary union is a protracted process, that cannot be reached before a certain number of steps are taken, the most important of which are:

1. Creation of a regional chamber of payments and settlements (the payments union discussed below);
2. Abolition of all measures of control of exchanges which may adversely affect current transactions between UMA countries;
3. Stabilisation of rates of exchange between the different currencies of the subregion, which presupposes coordination of exchange policies through adoption of a common exchange system, establishment of liaison between currencies at a fixed exchange rate and close consultation on economic policies (inflation, interest rates, budgetary policy); and
4. Creation of a regional unit of account, the value of which will be determined through the money exchange houses and which may, in practice, evolve from a simple accounting tool into a subregional payment tool.
In favour of regional integration, it can be noted that while intra-Maghreb trade is only a small part of the total foreign trade of UMA countries, their foreign debt shows some stability as there was a small decrease (7.8 percent) in the 90s and debt servicing has stabilised at around US$ 10 billion. The rate of indebtedness (relationship between debt and GDP) has improved for Morocco and Tunisia but remained practically constant for Algeria, while the rate of debt service to GDP has improved for both Tunisia and Algeria (due, it seems, to the rise in oil prices) but worsened for Morocco.

### Table 8: Evolution of Foreign Debt indicators of UMA Countries, 1990–2000 (US$ millions)

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>24,458</td>
<td>19,856</td>
<td>1,794</td>
<td>3,534</td>
<td>94.7</td>
<td>59.3</td>
<td>20.1</td>
<td>27.5</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Algeria</td>
<td>27,877</td>
<td>25,002</td>
<td>8,803</td>
<td>4,467</td>
<td>62.4</td>
<td>54.5</td>
<td>24.1</td>
<td>20.2</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Tunisia</td>
<td>7,690</td>
<td>10,610</td>
<td>1,431</td>
<td>1,921</td>
<td>44.9</td>
<td>46.9</td>
<td>65.4</td>
<td>19.4</td>
<td>2.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Libya</td>
<td>4,948</td>
<td>3,859</td>
<td>457</td>
<td>*185</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>2,096</td>
<td>2,453</td>
<td>146</td>
<td>*114</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>67,069</td>
<td>61,780</td>
<td>12,631</td>
<td>10,221</td>
<td></td>
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<td></td>
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</tbody>
</table>

### 5.1 Financial and Monetary Integration to Escape the Debt Trap

To escape the trap of foreign debt, UMA countries have an interest in gradually building a regional financial space, to be able to mobilise internal resources. The resulting integration of capital markets will constitute one step towards monetary integration that, through the use of a single currency, will reduce the need for third currencies in intraregional trade, thereby reducing the need for foreign financing. However, as Rachid remarks in his study of monetary integration in the Maghreb, "If we are to speak of monetary integration in Maghreb, it cannot but assume a partial aspect in the short term."

Partial monetary integration would consist of a series of measures, moving from coordinating monetary policies and rates of exchange, to the integration of capital markets, passing by common currency reserves and a payment union. The last two measures are directly related to saving currency made possible by monetary coordination on the regional scale.

#### 5.1.1 A Unified Convention for Bilateral Payments

In order to highlight the constraints due to financing, it is necessary to review the payment mechanisms in the UMA agreement to settle the current transactions between member countries. Although it would not constitute a real institution for financing commerce within the region, the multilateral payment agreement aims to improve the conditions under which commercial transactions take place between partners with different, non-convertible currencies. Such mechanisms are based...
on the principle of clearing of settlements and seek to:

- Promote the use of national currencies in the commercial and non-commercial transactions between member countries;
- Reduce the need for foreign currencies for settlements of intraregional transactions;
- Encourage the members of the compensation mechanism, if it exists, to liberalise the trade between members; and
- Encourage monetary cooperation between member countries.

The emergence of the financial difficulties in the Maghreb is closely associated with the international environment after the oil shock of the 1970s and the atmosphere of euphoria it generated. The rise in prices of their exports (oil and phosphates) encouraged the adoption of ambitious projects. At the same time, financing for such projects was easily available from foreign financial institutions when internal savings were lacking.

In Algeria, the rise in oil prices made possible high rates of sustained growth (7.5 percent on average) from 1965 to 1980, and financing of ambitious petrol and gas centered projects through foreign debts. At a macroeconomic level, Algeria enjoyed, till 1985, a favorable balance of trade that helped reduce its foreign debt during that period from US$ 18 billion to US$ 15.6 billion.

As with Algeria, Morocco's public sector helped activate strong economic growth over the period 1965-80, at an average of 5.4 percent annually. This growth was sustained, first, by high prices for phosphate (the principal export), then by easy and increasing amounts of foreign credit over the period 1973 to 1978, as prices of phosphate fell. This soon led to serious internal structural imbalance and a chronic payments crisis. By 1982, the budget deficit reached 13.9 billion Dirham, the balance of payments deficit had reached 13 percent of GDP, and 70 percent of export earnings were consumed by debt service.

Due to its structural reliance on imports, particularly of food commodities, Tunisia suffers from permanent payments imbalance. The average rate of growth over the period 1965 to 1980 was 6.6 percent but it was accompanied by a chronic commercial deficit. From 1970 to 1985, exports covered imports to a rate of only 60 percent. However, Tunisia did not fall into the trap of indebtedness as deeply as its two neighbors. Its debt situation worsened in the late 1980s but was helped out by its western partners' aid.

There are many obstacles to the development of trade anyway and the situation is aggravated by the lack of adequate traditional financing mechanisms, such as financing through banks or multilateral settlements systems. In addition, the foreign debts of countries like Mauritania prevent them from participating in intraregional trade. The establishment of a payment union could be the panacea to such problems.

5.1.2 Conditions for the realisation of a Payment Union

A PU includes two intricately linked components, a clearing agreement and automatic credit facilities. These two processes are supervised by an institution responsible for the function of different operations (compensation, credits, transfers). Within any PU, deficits incurred by one country towards the other members of the group are, during compensation operations, settled by credits granted by the compensation house. The chamber is, likewise, responsible for collecting any given surplus. Generally, however, there is a planned ceiling for both credits and surplus funds.
The advantage of a PU derives from the fact that member countries are not obliged to reimburse credits according to a fixed schedule. In practice, it generally happens that, once credit and debit balances are settled, things tend to equalise.

The member countries also have the possibility of collectively rationalising agreements between themselves. Among the most important advantages of the PU is its potential to favour the development of intraregional exchange. The PU avoids transfer to another currency, thereby reducing intermediary financing costs. An additional advantage is the effective saving of hard currencies since payment is made according to the credit/debit balance. Moreover, the compensation system allows each country to benefit from automatic interim credits, i.e. the provision of credit facilities in between scheduled reimbursement periods. Finally, a PU does not necessitate the coordination of the member countries’ economic and national policies, although experience has shown that it can contribute to the resolution of balance of payment problems brought on by trade liberalisation.

However, a PU will not resolve structural imbalances in the balance of payment. Accordingly, a country that accumulates debts from within the union is neither authorised to use these funds to balance an external deficit, nor to pay for imports from non-union members. It is, therefore, important for concerned countries to work hard to achieve better equilibrium within the union. Nevertheless, it is important that this aim should not produce blockages. Differences between credits and debits may be maintained and can be negotiated between union members.

For a PU to function well its members have to find long-term solutions to certain problems relating to the region’s structural deficits. They would also have to negotiate procedures regulating the duration and amount of credit. In reality, the UMA’s success greatly depends on the richer countries’ will and capacity to grant payment facilities to poorer nations.

5.1.3 A Common Reserve Fund for the Maghreb.

The establishment of a reserve fund requires the total or partial transfer of gold and/or monetary reserves of countries in order to constitute a capital base. Each country may withdraw funds according to conditions, established through accords or by the institution in charge of managing the reserves. Every member is authorised to withdraw funds when facing balance of payment problems either with regional or external partners. The common administration of reserves offers one group of countries mutual credit facilities when facing temporary imbalances in their balance of payments. The fund, therefore, effectively supports the PU system and contributes, to a great extent, to resolving credit and debit imbalances following compensation.

At the same time, the fund resolves restrictions in intraregional trade caused by the lack of hard currencies. A pool of reserves allows a reduction of the median level of reserves for each country relative to the required level in the absence of a mechanism to regulate fluctuations in given payments. The fund eases financial constraints in relation to funding, in particular in regard to foreign loans. Moreover, it assures a greater level of security while providing for the same amount of reserves.

Two conditions must be met if the reserve pool is to succeed. The first is related to fluctuations in the balance of payment of member countries. If they are not synchronised, then we may assume that neither deficits nor surpluses occur at the same periods or with the same amplitude. Such a situation would enable the reserve funds to act as shock absorbers of conjectural imbalances in the balance of payment of deficit-ridden countries and thus reduce external indebtedness. On the other hand, if member countries do not hold sufficient reserves, they would be less tempted to join such...
According to Rachid’s (1992) study on currencies and economies, based on fluctuations in the balance of payment in the Maghreb, we may deduce the following in regard to the possibility of reducing debt through regional integration:

1. Despite the progress realised in implementing SAPs, it appears that in Morocco, Mauritania and Tunisia the state of the current balance of payments remains fragile, while Algeria’s current balance between credits and debits is sometimes positive and sometimes negative, making its balance of payments the least stable in the group. Libya’s balance of payments also tends to fluctuate.

2. The measure of the degree of synchronisation between different current balances of payment shows a significant level of correlation between the latter and the GNP of Morocco, Mauritania and Tunisia. The study shows that these three countries require payments at approximately the same periods. This renders the establishment of a reserve fund rather difficult and/or less useful since the said partners will require reserve payments simultaneously and will not be in a position to provide surplus funds.

On the basis of these results, it seems that the probability of establishing a common fund that will pool each country’s total reserve remains uncertain. A prerequisite for instituting such a fund is the collection of sufficient reserves and consolidation of the improvement of external balances. A more realistic approach and a more feasible project at this time would be to establish a partial reserve pool instead. But even a partial reserve fund would be more likely to succeed if a more prosperous country like Libya joined, given its relatively stable financial situation.

5.1.4 The Financial mechanisms of integration

To insure the financial independence of UMA, it is important to develop mechanisms for mobilising domestic resources for the Maghreb’s integration. To attain this, the founders of UMA foresaw the founding of the Maghreb Bank for Investment and Foreign Trade (BAMICE), which is conceived as a multilateral institution of exclusively Maghreb membership. Its capital is owned in equal parts by the UMA governments, and investors. Its operations are essentially targeted towards promoting, implementing and financing productive projects of common interest that are economically viable and financially profitable.

The second field of activity of BAMICE is the development of trade and settlement of accounts bound with it. The Bank may conduct research to help extend the possibilities of intra-Maghreb trade. It may also finance such trade and participate in companies that contribute to the promotion of mutual benefit.

To fulfill its obligations, the Bank may use its own resources (capital of US$ 500 million). It may also resort to procuring loans from domestic and international financial markets and accepting deposits exclusively in convertible currencies.

The establishment of the Maghreb Bank, was greatly delayed due to the difficulties that confronted the setting up of the structures of UMA itself. It was only in 2001 that the Bank was officially inaugurated.
The Maghreb financial field would be greatly strengthened if the banks and financial institutions of the member countries were allowed to operate in all five states of the Union. But this undoubtedly needs harmonisation of the rules that guide their activities and, to a certain extent, their financial commodities, coordinating the regulations governing movement of capital between member states, and mutual investment within the Union.

5.2 The Difficulties of Harmonising Economic Policies in the Maghreb

Among the obstacles that confront the development of regional commercial exchanges, the disparity between economic policies seems to be the most difficult to surmount. From this point of view, if SAPs have led Morocco and Tunisia to apply somewhat converging policies, they have also led Mauritania to carry out ‘an adjustment from below’, while Algeria is still hesitating to undertake the policies of liberalisation and openness. Libya, for its part, seems to have suffered greatly from the effects of the recent plunge in oil prices.

5.2.1 Limited policy convergence between Morocco and Tunisia

Having been among the first to adopt structural adjustment programmes, Morocco and Tunisia have achieved some real progress on the way towards economic and financial restructuring and openness. In particular, customs barriers have been lowered significantly, leading to some development in Morocco-Tunisian trade. However, the non tariff barriers are still significant and act as a brake on already unequal bilateral exchanges.

Similarly, we note a certain convergence in matters of control of internal and external deficits, financial reform, readjustment of fiscal policies, and convertibility of national currencies. However, there is still some way to go before both countries can consolidate their reform of macroeconomic control, which still remains at the mercy of external factors, and in taking further steps in structural reform. Such an evolution, if it were to take place, would further consolidate bilateral trade.

5.2.2 Mauritania’s adjustment from below

The economic and financial situation of Mauritania does not favor the development of exchanges with the other Maghreb countries for two main reasons:

1. The implementation of SAPs in the context of deterioration in the terms of trade of Mauritanian exports has led to significant contraction of the domestic market, lowering of demand and deterioration of the standard of living of the population, producing an increase in domestic debt and a ballooning external debt; and

2. The size of the financial imbalances retards the convergence of the economic policies of Mauritania with those of the other members of the Maghreb.

Under such conditions, the integration of Mauritania into the Maghreb economic space continues to be slow and difficult and would necessitate the creation of compensation mechanisms and specific measures to help this country to accomplish its economic restructuring.
5.2.3 Algeria, a difficult adjustment with uncertain content

The degree of financial imbalance and the level of external debt, together with the structural reforms to be undertaken and the amount of social resistance encountered, lead to the conclusion that structuring of the Algerian economy will be slow and show many deviations from the standards recommended by the international financial institutions. The harmonisation of the economic policies of Algeria with those of countries like Morocco and Tunisia, the necessary condition for the creation of a Maghreb free exchange zone, will not be easy to achieve and this presents a risk of the process of integration as a whole being retarded.
The Impact Of External Arrangements

6.1 IMF/World Bank Sponsored Structural Adjustment

Among UMA members, several countries were affected by the debt crisis of the 1980s. Consequently, most of them undertook structural adjustment programmes and rescheduled their debt payments.

The results of the SAPs are summarised below:

- **Morocco** Following a decade of structural adjustment and rescheduling of its foreign debt, succeeded in considerably improving its economic and financial indicators and putting an end to the rescheduling cycle in 1993, although the weight of the foreign debt remained heavy at close to 30 percent of the current account. A policy of active management of its foreign debt was adopted in 1996 with the aim of reducing debt servicing to a level compatible with the country’s payment capacity.

- **Algeria** After consistently refusing to reschedule its external debt, opting instead to attempt redefining its terms with France and Italy, Algeria started to change its policy in 1994 by turning to the IMF. The result was a one-year standby agreement (1994), followed by a three year contract (1995). In early 1994, the country also embarked on a structural adjustment programme.

- **Mauritania** Due to extreme deterioration of its indebtedness ratios became eligible to be included in the HIPC initiative.

Structural adjustment programmes should, theoretically, favour the convergence of the economic and financial policies of the partners in the integration process and, as such, constitute a strong stimulant to the intra-community exchange of goods. However, in practice, it appears that the disparities between economic policies persist because of the different times of application of SAPs, the degree of pressure from social groups and the relative negotiating strength of the countries with the international financial institutions. Moreover, the fact that certain countries (Morocco and Tunisia in the case of the UMA) are more advanced in their restructuring and the liberalisation of their economies gives them a competitive advantage over other countries and raises the risk of a self defensive reaction from these countries that might undermine regional trade.

6.2 Bilateral Arrangements

Some of the debt of the Maghreb countries is bilateral. Member countries have dealt with the issue of indebtedness differently:

- **Morocco** To find funding at more favourable conditions than those available through the international money market, Morocco contracted loan agreements with countries seeking investment opportunities. It has also accepted concessionary loans from some Arab countries and, the World Bank and the African Development Bank to fund some projects and to support structural adjustment programmes. The country’s US$ 75 million debt to France and its US$ 100 million debt to Italy were converted into public investment projects. The
reimbursement of debts to France and Austria (formerly at commercial rates) has been renegotiated at ‘development bargain’ rates.

- **ALGERIA** The agreement with the IMF has allowed for the rescheduling of the foreign debt through consolidation agreements with the Paris Club (1994 and 1995) and an agreement with the London Club (1996) for the commercial debt, representing US$ 15 billion in savings over four years. In future the country intends to adopt a policy of debt conversion in exchange for active industrial concessions.

- **TUNISIA** Adopted an approach aimed at unifying the current revenue account currency with the balance of payment currency. Accordingly, Japanese Yen loans were converted into US Dollars. Tunisia has also concluded debt-recycling contracts with both Sweden and Holland.

- **MAURITANIA** By 1999, was getting ready to engage in tripartite discussions with the Bretton Woods institutions, the Paris Club and other lenders towards renegotiation under the HIPC initiative.
Recommendations

A number of recommendations can be drawn from this study:

- For regional integration to contribute towards releasing the UMA countries from the trap of foreign debt, care must be taken that each of the steps undertaken in accordance with the 1989 Marrakesh Agreement strengthens the collective independence of the Maghreb countries, improves the international competitiveness of their economies and strengthens their power of negotiation with the rest of the world.

- Accelerating the establishment of a Maghreb free trade zone is likely to reduce the commercial dependence of the UMA countries on the European Union, which dependence is a source of impoverishment and reproduces foreign indebtedness.

- Such a free trade zone would be of great benefit as it would improve the international competitiveness of UMA and create new waves of export oriented trade that would generate sufficient revenue in convertible currency to service the existing debt. To attain such a goal, the obstacles that stand in the way of intra-Maghreb trade, such as non tariff barriers, weak alignment of export structures to intraregional demand, lack of regional transport infrastructure and high cost of transport, must be lifted gradually.

- At the same time, regional multilateral payments must be established within the framework of an eventual payments union, with mechanisms for credit facilities for countries in deficit, in order to surpass the unified agreement on bilateral payments currently in place within the UMA. The evolution towards a Maghreb economic union, in which there is free circulation of goods, capital and persons, may strengthen the economic and financial independence of UMA countries in several ways, for instance by enhancing production efficiency through the advantages of economies of scale, increasing the credibility of the Maghreb region and its attraction for foreign direct investment and establishing a regional financial space for the mobilisation of internal resources.

- To maximise the benefits of the regional economic union, take advantage of the savings in foreign currency and reduce the needs for foreign financing, it is desirable to establish a monetary union for debt reduction.

- UMA needs to seriously address regional integration bottlenecks associated with limited infrastructure and networks particularly in energy, transport and communication. The missing links of trans-North African highways supposed to integrate Maghreb states within and between the regional economic community has to be realised if regional integration is to help achieve sustainable development and debt reduction.
Conclusion

UMA monetary union will not be achieved in the near future because it presupposes the abandonment of an essential aspect of sovereignty and the renunciation of autonomous monetary policies. Hence the importance of proceeding by stages: first, creating a regional chamber of payments and settlements, then partial convertibility of local currencies (for current transactions), followed by stabilisation of the rate of exchange of local currencies of the subregion (which implies coordination of macroeconomic policies and of exchange), and creation of an accounting unit which may eventually evolve from a simple accounting tool into becoming an instrument of payment for the subregion.

As a final remark, it should be stressed that no real progress can be made towards debt reduction in UMA without the establishment of a strong economic and monetary union of the Maghreb countries. UMA should put a high premium on macroeconomic convergence by introducing parameters ranging from reduction of inflation rates as well as fiscal and budgetary deficits, to lessening the debt burden. UMA, like many regional economic communities, apart from having to cope with the ambitious mandates entrusted to it in its treaties and protocols, needs to seriously address the financing gap and especially the debt overhang if it is to contribute meaningfully to sustainable development in North Africa.
Notes and References

1 As an example, Morocco’s rate of indebtedness was 97 percent in 1982 and 123 percent in 1985.
Bibliography


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