

## Seminar on the Potential Impact of the African Continental Free Trade Area on Maghreb Economies

Rabat (Morocco), 11-12 November 2019

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### Concept Note

#### I- Background

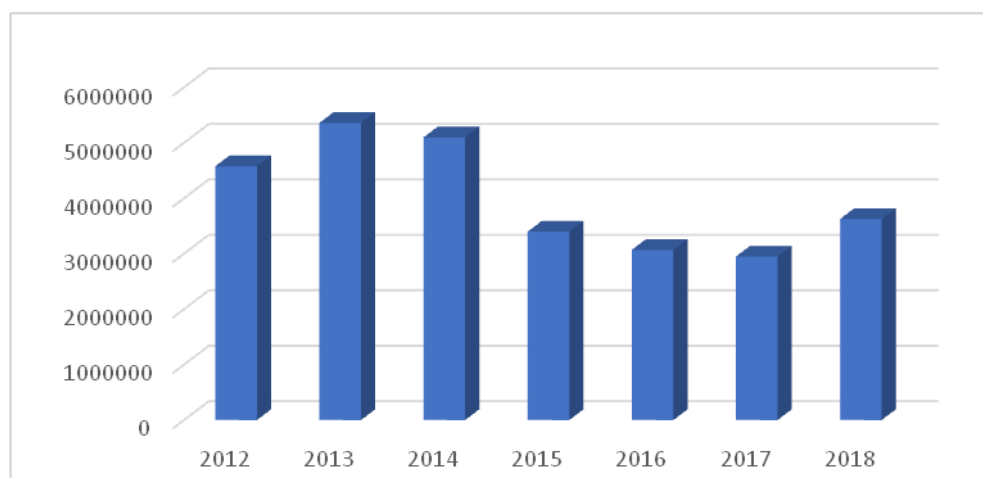
##### *The Maghreb, the least integrated geographical area in Africa*

1. The Maghreb is the sub-region with the lowest level of economic and trade integration in Africa. As it stands, the Maghreb Arab Union's (UMA) economic grouping is characterized by very limited trade within its borders. In 2018, only 3.34% of exports from UMA member countries were aimed at the Maghreb market, accounting for an extremely small proportion when taking into account the performance achieved by other African regional economic communities and the sub-region's potential. With the exception of 2018, the past few years have witnessed a decline in intra-Maghreb trade, with a steady downward trend since 2013.

2. In 2018, intra-Maghreb trade amounted to \$3.6 billion. However, this sharp pick-up of 23% from 2017 happened on the heels of a steady downward trend over the 2013-2017 period during which the volume of intra-Maghreb trade dropped below the US\$3 billion mark in 2017, losing more than 45% in comparison with 2013.

3. Conversely, it is a fact that the structural transformation of Arab Maghreb Union economies requires a shift in their economic structure, from a predominantly commodity-producing economy with little or no processing to an economy whose growth is driven by industry with a focus on higher value-added products. **Increasing the production and sale of** manufactured products is therefore a vital condition for the economic take-off Maghreb countries are aiming for to happen.

Chart: Evolution of intra-Maghreb trade between 2012 and 2018



Source: Calculations by the author based on the UNCTAD data base.

4. While the share of manufactured articles in intra-Maghreb trade seems to be growing in relative terms, in absolute terms however, it has declined by nearly 15% in 2018 compared to 2013. The growth of fuel exports, which account for nearly 45.7% of the intra-Maghreb trade, remains the main determinant of the trade integration process in the Maghreb.

#### *A true potential for greater Maghreb integration and a key role on the regional market*

5. The subregion's economic and industrial development potential is most probably the highest on the continent, owing to its countless attractive factors over the other subregions. In fact, Maghreb countries are geostrategically well-positioned in the immediate vicinity of the European market, which is the primary outlet for most of these countries' exports<sup>1</sup>. The cost savings made possible by the short distance and leveraged by trading partners on both sides of the Mediterranean are making the expansion of activities on North African soil and the development of regional value chains, as part of the existing North-South partnership, promising.

6. In addition, some Maghreb countries are fairly well equipped with transport infrastructure. According to the African Development Bank, two of these countries are among the ten African countries with the best road transport infrastructure<sup>2</sup>. To some extent, the business environment is propitious to regional economic integration, owing to the availability of cheap labour<sup>3</sup>. Maghreb countries also share a common language, which can facilitate the management of economic activities across countries.

7. There is nevertheless a clear paradox between the current status of intra-Maghreb trade and the potential for intra-regional trade. The ECA studies mentioned above (2016, 2017) confirm that there is a potential for intra-regional trade growth in the Maghreb of around 70%, assuming that the necessary regulatory conditions are in place to facilitate cross-border trade, by simplifying and harmonizing trade rules in goods and services, alongside those related to enhancing investment, competition and intellectual property policy.

#### *The development of regional value chains as an engine of integration and structural transformation*

8. Several manufacturing sectors could be developed as part of regional continental value chains. The identification of these sectors is based, on the one hand, on pre-existing trade and, on the other hand, on the fact that regional trade in these sectors can in some cases greatly exceed the current level of regional trade. The objective would thus be for the Maghreb countries to intensify these activities by increasing the local capacity to meet regional demand.

9. The implementation of the AfCFTA will be key to achieving the objectives, in terms of attracting new investments and attaining other milestones in the product value chain, in the Maghreb region.

10. Additionally, with regard to the strategy to be developed by the sub-region's authorities and private actors, sector-based synergies are to be developed, in particular with the department of marketing and sales, transport and distribution. There are synergies to be pursued between the automotive, textile and electrical equipment sectors, as well as between aeronautics and electricity. Through such dynamics, Maghreb countries can improve the quality of regional integration on the economic front.

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<sup>1</sup>The European Union is the largest export market for 21 African countries, including Algeria, Libya, Morocco and Tunisia. For its part, Mauritania is doing more trade with developing economies in Asia.

<sup>2</sup> According to the African Development Bank's 2016 Index, AfDB (2016), *the Africa Infrastructure Development Index 2016, May*, this is already the case for Algeria and Libya. In Libya's case however, recent events caused by political instability may have had a negative impact on the quality of the existing infrastructure.

<sup>3</sup> According to the World Bank's 2017 Doing Business Report, at least two of the countries in the sub-region (Morocco and Tunisia), are among Africa's top ten countries for business facilitation, which includes the creation of businesses, the attribution of building permits, property transfers, investor protection, cross-border trade, etc.

### *The AfCFTA, a conducive framework for effective sub-regional and continental trade integration*

11. The African Continental Free Trade Area (AfCFTA), of which the Agreement was signed by the Heads of State of the African Union, meeting on 20 and 21 March 2018 in Kigali, Rwanda, seeks to lower tariff and non-tariff barriers and harmonize trade rules between member countries, thereby substantially reducing transaction costs in the flow of goods and services. This will foster regional integration through the development of trade activities on the continent.

12. AfCFTA negotiations were initiated in June 2015 and are now being conducted in two phases. The first phase involves the development of regional trade rules for goods and services. The second phase focuses on the adoption of rules on cross-border investment, intellectual property rights and competition policy. Negotiations for the first phase have now been completed, the agreement has come into force on 30 May 2019 and the implementation phase was officially launched at the Extraordinary Summit in Niamey in July 2019. The second phase of the negotiations will culminate in the completion of all the rules governing the AfCFTA.

13. The AfCFTA is expected to drive an increase of more than 60% in Africa's domestic trade (amounting to 42 billion dollars in volume)<sup>4</sup>. Estimates by ECA suggest that this increase would mainly affect manufactured industrial products.

14. The ECA study (2017) on industrialization through trade in North Africa indicates that the implementation of trade facilitation measures, in addition to AfCFTA, would have a particularly positive impact on intra-regional trade. The results are notably showing a considerable increase in intra-North African trade. As it stands, the rise in intra-African exports would mainly apply to manufactured industrial products. In the particular case of North Africa, sub-regional industrial trade is projected to increase by a proportion that is even greater than that estimated for the continent - i.e. around 70%.

15. Through its leverage for growth, AfCFTA could help mitigate the development challenges Maghreb countries are faced with, particularly with regard to the lack of investment, poor connectivity and security-related challenges.

16. A second ECA study on value chains (2016) further indicates that access to chains entails prerequisites, particularly in the areas of logistics and the institutional and legal environment. The study concludes that the prevailing lack of regional integration in the Maghreb and the absence of horizontal value chains are primarily due to the lack of a regulatory framework allowing for effective regional cooperation. One such implication would be a strong focus on global value chains.

17. Thus the emergence of the Continental Free Trade Area seems to be essential in laying the foundations for effective sub-regional and continental trade integration, through the harmonization and streamlining of procedures involving key aspects of external trade, such as the regulation of trade in goods and services, investment, intellectual property and competition policy.

18. When addressed and applied uniformly by Maghreb countries, these aspects can be expected to lead to lower transaction costs that would facilitate the promotion of trade and manufacturing industrialization and their coordination at the regional grouping level.

19. To foster the sharing of experiences and expertise among member countries and with senior experts, the Office is hosting a seminar on AfCFTA's potential impact on Maghreb economies. Discussions will focus on the opportunities but also on the challenges confronting Maghreb countries in light of their economic situation and their development priorities.

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<sup>4</sup> The State of Play of regional Integration in Africa, UNECA, 2016.

## II- Objective

20. The purpose of the seminar is to contribute to advancing African continental integration and improving the positioning of Maghreb economies in the single market building process.

## III- Expected outcomes

21. The seminar will also provide Maghreb countries with an opportunity to carry out a thorough review of their regional and continental integration policies. The aim will be to contribute through the formulation of new, more integrated and coordinated strategies, grounded in stronger political will, enabling the reform of approaches and the mobilization of more resources to fulfill the aspirations of the people.

22. The meeting will help improve knowledge and facilitate the sharing of experiences between member countries in connection with the continental integration project through the creation of a forum for informed dialogue and exchange.

## IV- Participants

23. Representatives from the five (5) member countries, alongside experts and observers, will be invited to take part in the seminar, which will be moderated by experts from the Arab Maghreb Union General Secretariat, the ECA and other contributing resource persons.

## V- Date and venue

24. The Seminar will take place at Hôtel Golden Tulip Farah in Rabat (Morocco), on 11-12 November 2019.

## VI- Working languages

25. The working languages of the Seminar are English, Arabic and French.

## VII- Contacts

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