Is There a New Vision for Maghreb Economic Integration?

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** The content of this paper is based on a fuller report which provides methodological and empirical details of the analysis.
1. Introduction

Past attempts at implementing the Maghreb\(^1\) regional economic integration project left the region largely with just that- a project. Past research has looked at the reasons behind the disappointing record of regional economic integration and has assessed the obstacles to and merits from, deeper regional integration. But there are a number of questions that remain open in the minds of policy-makers and are debated in the region’s academic circles: Can the future be any different from the past? How can Maghreb policy-makers shape their medium-term policy reform agenda to reap the full potential of regional integration? What role can service sector policy reforms play? What does the evidence say in terms of the potential gains from regional economic integration in the Maghreb? These are the broad questions addressed in this paper.

The search for answers to these questions is more pressing than ever before in the Maghreb, as global competition has become stiffer and as their rates of growth are not keeping up with the growing labor force. In recent years, the Maghreb countries have made significant strides toward more economic prosperity. Stable macroeconomic conditions, some progress on economic reform, and the on-going trade integration with the EU have attracted higher flows of foreign investment, and have led to a significant rise in per-capita incomes.

But these three countries still face a daunting challenge. They all need to build up momentum in policy reforms to make a sustained reduction in unemployment by accelerating growth. The magnitude of this challenge is evidenced by two facts. First, if the three countries were to maintain the annual real GDP growth rates of around 4-5 percent that they experienced during the last five years, it would take more than 20 years to reach per-capita income levels close to those now prevailing among lower-tier OECD countries. Higher growth rates are needed in Algeria, Morocco, and Tunisia to accelerate their economic transformation. Second, unemployment rates, although declining, remain very high: 18 percent in Algeria, 11 percent in Morocco (19 percent in urban areas), and 14 percent in Tunisia, with youth-unemployment exceeding 20 percent in all three countries. To reduce unemployment much more rapidly, GDP growth needs to be raised. Deeper regional integration could help the Maghreb countries in achieving higher growth.

Regional integration in the Maghreb could contribute to higher growth for two main reasons. First, there are ‘scale and competition’ effects. Removal of trade barriers is like a market enlargement, as separate national markets move toward integration in a regional market. This allows firms to benefit from greater scale and stimulates investment for which market size is important. Removing barriers also forces firms from different member countries into closer competition with each other, possibly inducing them to make efficiency improvements. Maghreb integration would create a regional market of more than 75 million consumers, similar in size to many leading trading nations, and large enough to exploit economies of scale and make the region more attractive for foreign investment.

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\(^1\) The Maghreb region in this paper is limited to Algeria, Morocco and Tunisia. Data availability did not allow inclusion of Libya and Mauritania who are the other two members of the Maghreb Union.
Second, regional integration would make the region more attractive for foreign investors by reducing the so-called hub-and-spoke effects between the EU and the Maghreb. These hub-and-spoke effects emerge when a large country or a region, the hub, signs bilateral trade agreements with several small countries—the spokes.

Gains from regional economic integration would be greater in the area of services. Liberalizing merchandised trade, without complementary reforms in the area of services, would only bring about marginal gains. The cost and accessibility of services are a key determinant of the success of regional integration efforts, as they affect firm competitiveness and productivity. Service policy reforms (or the lack of thereof) help explain the differences in trade performance and FDI flows in countries around the world. Pursuing services sector reforms in the Maghreb in parallel with merchandise trade liberalization can facilitate entry of new firms (domestic and foreign) and generate employment opportunities for both skilled and unskilled labor. Because certain services cannot be traded, obtaining access to new technologies and products will involve FDI in services. This proposition is supported by econometric evidence that assesses the links between investment, trade, services sector development and economic growth. The income gains from a reduction in the protection to services are estimated to be multiples of those from trade liberalization of goods.

But the benefits from deeper regional integration are not automatic. Several worldwide studies have advanced the idea that weaknesses in the investment climate not only make imports and inward foreign direct investment difficult, they also deter exports from enterprises operating in the country’s domestic economy. Service liberalization requires complementary policies and effective regulation (ranging from prudential regulation in financial services to pro-competitive regulation in telecommunications).

This paper argues that the benefits from regional integration (in terms of larger markets, greater competition and the realization of economies of scale) will depend in part on the extent to which Maghreb countries go for deeper regional integration, that is, extending regional integration to service markets and regulatory regimes. A comprehensive behind-the-border policy reform agenda (focusing on improving services and the overall investment climate) can help attract much-needed private investment and improve trade performance, bringing about more substantial economic gains than those derived from merchandise trade liberalization.

2. Disappointing Record in Intraregional Trade and FDI

Maghreb trade structures share similarities particularly those of Morocco and Tunisia. Algeria has the biggest population and economy’s size and is a net oil-exporter. Tunisia and Morocco have greater degree of trade openness than Algeria and are net oil-importers. Morocco and Tunisia also share similar factor intensities of exports (mostly labor-intensive). Algeria’s exports are mostly natural resource-intensive.
Despite recent export performance, Maghreb countries remain poorly integrated in the global economy. Over the last few years, Maghreb countries lowered both trade and non-trade barriers and increased their trade integration. However, their share of non-oil exports in GDP is lower than in any other region. The contribution of non-oil exports to GDP remains around 15 percent compared to 20 percent in Latin America and 40 percent in East Asia. It also remains less than one third of that of the more dynamic regions of Europe and Central Asia.

Figures 1 & 2: Maghreb vs comparators: non-oil exports to GDP (in percent), 1980-2004

Maghreb intraregional trade remains limited and compares unfavorably with other regional blocs. Merchandise trade within the Maghreb (as a share of total merchandise trade) is the lowest among comparator regional trading blocs. In addition, intraregional trade in the Maghreb has declined from already a small starting base in 1990 (2 percent of total merchandised trade) to 1.2 percent in 2004. A number of factors may have affected the prospects of Maghreb intraregional merchandise trade. These include: low intraregional trade complementarity reflecting similarities in trade structures (particularly Morocco and Tunisia); small markets; low export diversification; little integration into global production chains, which in turn has constrained the diversification of exports and limited the expansion of high valued added manufacturing activities.
Foreign direct investment into Maghreb countries, while on increasing trend, is also lower than comparator countries. In the 1990s the level of inward FDI in the Maghreb was significantly higher than in Central and Eastern European countries (CEEC). But the transition from socialist to market-led economies, with heavy privatization programs involving sales to foreign investors, led to By 2004, FDI stock to GDP in the Maghreb countries was lower than in the CEECs. While still lower than comparators, inward FDI to the Maghreb has increased in the 1990s. Tunisia is has attracted more FDI relative to its size compared to Algeria and Morocco. Tunisia’s stock of FDI on average has exceeded 66 percent of its GDP since the 1980 compared to 25 percent in Morocco and 7 percent for Algeria. The stock of FDI to GDP in Algeria has remained stagnant over this period, rising slightly after 2000. In 2004, Tunisia held FDI stock worth nearly 78 percent of GDP, relative to 45 percent and 11 percent in Morocco and Algeria respectively.
Contrary to what would be expected, the potential for Maghreb intraregional merchandise trade appears limited. Intuitively one would expect relatively high potential for intraregional merchandise trade, given the low levels of Maghreb intraregional trade. However, according to recent empirical evidence, the potential for Maghreb intraregional merchandise trade appears limited. Using a panel gravity trade model drawing on a sample of 170 countries over the period 1980-2004, we find that, on average, Maghrebian countries are over-trading with each other (see Table 2).

Table 2: Annual Average Intra-Maghreb Merchandise Trade Potential, 1980-2004 (millions USD)

<table>
<thead>
<tr>
<th></th>
<th>Algeria</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>n/a</td>
<td>-14.3</td>
<td>-70.7</td>
</tr>
<tr>
<td>Morocco</td>
<td>-69.4</td>
<td>n/a</td>
<td>-15.6</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-81.0</td>
<td>-27.6</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: World Bank’s calculation using results of gravity trade regression with 2004 data. Note: Negative coefficients imply that a country is over-exporting to its trading partner, i.e. the actual trade flows exceed the predicted values.

Since these results are intriguing, we investigate the model further. The outcomes hold even after running several robustness checks and tried alternative variations in the model specification. We also run the model drawing on data from the most recent period (2000-2004). The model still shows limited intraregional merchandise trade potential, with the exception of Morocco’s exports to Algeria (during 2000-2004 Morocco’s actual exports to Algeria were on average 15 million USD lower per year than potential). We then investigate whether other regional trading blocs are also over-trading. The model reveals considerable heterogeneity of trade potential across regional trading blocs. Contrary to the results for the Maghreb, when the model is applied to MERCOSUR and ANDEAN pact, we find evidence of intraregional trade potential among their respective partners countries. For example, Argentina is found to be under-trading with two of its regional partners (Chile and Uruguay). Ecuador is also found to be under-trading with its ANDEAN pact partners. Finally, we investigate the relative average contributions of each of the determinants of Maghreb’s intraregional merchandise trade potential. The size of bilateral GDP seems to play the largest role in predicting the level of intraregional trade, compared to the relative contributions of other factors included in the model (such as common language, distance, colonial history, similarity of economies’ size, and time and country specific effects).

The potential for intra Maghreb FDI also appears limited. According to empirical results from panel gravity FDI model, the potential for intra Maghreb FDI also appears limited (see Table 3). While the model suggests that Algeria has over-invested in Morocco by 2 percent of Morocco’s GDP relative to what is predicted by the model, Tunisia is receiving less-than predicted FDI from its neighbors Algeria and Morocco (equivalent to 0.33 and 0.4 percent of Tunisia’s GDP, respectively).
Table 3: Intra-Maghreb FDI Stock Potential (percent of GDP)

<table>
<thead>
<tr>
<th>Under (+) / Over (-) Investment into:</th>
<th>Algeria</th>
<th>Morocco</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>n/a</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>Morocco</td>
<td>-0.02</td>
<td>n/a</td>
<td>-0.01</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.33</td>
<td>0.40</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: World Bank’s calculation using results of gravity FDI regression with 2002 data.

Note: Negative coefficients imply that a country is over-investing in the host country i.e. the actual FDI stock exceed the predicted values.

While the track record of intraregional trade and investment has been undoubtedly disappointing, a closer look to recent trends helps in nuancing this overall gloomy picture. Since the 1990s, Tunisia and Morocco have attracted higher FDI inflows, averaging 2 percent of GDP. Turning to intraregional trade patterns, a closer look to recent trends in the Maghreb’s merchandise exports, particularly to Tunisia and Morocco, reveals some encouraging trends:

(i) Signs of export diversification. High level of market and product concentration is a source of vulnerability for the Maghreb economies. But there has been a positive improvement in international competitiveness of Morocco and Tunisia in recent years, which has had an expansionary impact on their exports. There are signs of export diversification for Morocco and Tunisia, especially since the 1990s. In Tunisia, market diversification has brought the product concentration index to a level 20 percent lower in 2004 that the one that existed in 1980. A closer look to Maghreb’s manufacturing exports reveals some diversification into high to medium-intensity of technological use in manufacturing (particularly for Morocco and Tunisia), although the pace of high-tech export diversification is slower than other comparator countries.

(ii) Signs of export dynamism. Tunisia and Morocco’s export performance has been commendable in recent years. Fast growing export products, defined as those with at least an average 10 percent annual increase during the period 1990-2004, represent more than 30 percent of total exports. These include wearing apparel, electrical equipment, footwear and some agriculture products, including vegetable oils. In Tunisia, for example, exports of telecom equipment and insulated wires and cables show a steady increase over the last ten years. More importantly, exports of these dynamic products have consistently increased over the last ten years, suggesting that Maghreb exporters were successful in establishing long-run business relationships with foreign importers. Recent analysis on Maghreb countries’ revealed comparative advantage and export specialization also reveals that Tunisia’s exports of beverages have a strong comparative advantage in the Maghreb market whereas Algeria displays a strong comparative advantage in the regional market for exports of refined fuels and chemicals.
Despite the recent vigorous performance of Tunisian and Moroccan exports, their penetration in external markets has merely kept pace with the world’s increase in exports. In fact, the impressive recent export performance disguises export vulnerabilities which are the consequence of the still high level of trade protectionism. This protective blanket has converted the Maghreb countries into one of the ten most highly protected regional markets in the worlds in terms of the simple average of Most-Favored Nation (MFN) tariffs.

Export prospects in the Maghreb depend on furthering trade policy reforms, including the reduction of tariffs and non-tariff barriers and the simplification and gradual harmonization of current trade agreements. But the process of trade expansion not only depends on trade policy reforms; it also involves a phase of investment supply response that is in turn influenced by the elimination of ‘behind the border’ barriers and the quality of the investment climate. The investment climate refers to the burden of regulations upon business activity, the transaction costs encountered in trade-related business activities such as clearing goods from customs and shipping goods overseas, the expenses involved in routine business operations for telecommunications, and electricity and the cost of finance. The investment climate affects both domestic and foreign firms. The location of multinationals is crucially affected by the scope for effective sourcing of inputs and the ability to move inputs quickly and cheaply across national boundaries. Behind-the-border barriers that increase production costs, such as weak transport infrastructure and limited competition in the provision of backbone services, reduces the Maghreb region’s attractiveness to multinational enterprises when it comes to investment and input sourcing decisions.

3. The Way Forward: Toward open regionalism

Maghreb’s regional integration efforts need to go beyond the reduction of tariffs and the integration of merchandise trade. One option is to focus on liberalizing service sectors and FDI flows. Deeper regional integration efforts that go beyond merchandise trade and focus on service liberalization and investment climate reforms have the potential to generate more substantial economic gains than those obtained from integration of goods markets.

Scenarios and Methodological issues

Regional integration efforts could be thought of as a continuum, ranging from integration of goods to the integration of services and investment flows. We review four forward-looking scenarios from 2005 to 2015 according to the relative degree of regional integration efforts (ranging from zero additional efforts, that is, maintaining the status quo, to deeper regional integration efforts that include service liberalization and domestic reforms aimed at improving the investment climate).

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2 Due to data limitations we do not include in the analysis the impact of labor mobility
The methodologies used to construct these scenarios are essentially based on the simple idea of applying to Maghreb countries some kind of average behavior as shown by data drawing on panel regression analysis. The scenarios are not based on specific simulations of how the various integration schemes would work specifically in each Maghreb country and affect their economic performance. Such an approach would require much more effort and resources than was possible to prepare this paper. What we do is to use statistical relationships as they emerge from world wide experience which show the typical impact of such integration schemes in the world and assume that they would apply on average to the Maghreb situation as well. These scenarios should be seen as illustrative of the kinds of gains which the region can expect from regional integration rather than actual predictions on the likely impact. The figures shown comparing the economic performance in 2015 for the various scenarios should be interpreted in that sense as illustrative.

**Scenario 1. Maintaining the status quo**

In the absence of further efforts to integrate the Maghreb economies, GDP per-capita growth between 2005 and 2015 (based on average annual per-capita growth rates as observed between 2000 and 2004) would increase by 30, 41 and 27 percent (in constant 2000 USD) for Algeria, Tunisia and Morocco respectively.

![Figure 7: Real per-capita income under Status Quo](image)

**Scenario 2. Merchandise trade liberalization: Maghreb vs EU integration**

In this scenario we try to assess the economic gains from a Maghreb regional integration scheme focused on merchandise trade. Since typical Regional Trading Arrangements (RTA) focus on merchandise trade, the quantitative models and proxies that we use to assess the impact of RTA capture the effects of merchandise trade integration. Drawing on the results from panel regression analysis reflecting worldwide experience we estimate the annual average impact of RTA on income growth.

**Impact on per capita income.** Given the limited prospects of intraregional merchandise trade, it is not surprising that the gains from integrating merchandise goods markets are very small: 0.01 additional percentage points of per-capita annual growth on average in
each Maghreb country. Real GDP per-capita in 2015 would be very similar to what is shown for Scenario 1.

**These gains with regional Maghreb integration can be compared to the gains from Maghreb integration with the EU.** Forming a Maghreb trading bloc (reflecting merchandise trade liberalization) with the EU would yield greater economic gains. The EU is the main source of exports and import destination for the Maghreb countries, constituting over 65 percent of total Maghreb trade by 2004. Assuming that the countries of the Maghreb are able to form a trading bloc with the EU, it would generate 1.5 percentage points of additional per-capita growth for each member country of the Maghreb. Assuming an immediate implementation of the RTA which will bring about additional 1.5 percentage points growth per year, this would increase real per-capita GDP in 2015 by an additional 23, 11 and 27 percent for Algeria, Morocco and Tunisia respectively, compared to the growth rate reported in Scenario 1.

![Figure 8: Real per-capita income under Maghreb RTA with EU](image)

**Impact on exports.** Integrating the good markets of Maghreb countries will have a marginal impact on real non-oil export value: between 2005 and 2015, real non-oil export values would increase by 3 percent in each Maghreb country. However, if the Maghreb forms a trading bloc with the EU, this will expand the market size substantially: between 2005 and 2015, real non-oil export value would increase by nearly 2.5 times in each Maghreb country.

![Figure 9: Non-oil Exports Value from Maghreb-EU RTA](image)
Scenario 3. Deeper Maghreb Integration: Service Liberalization and Investment Climate Reforms

Given the limited magnitude and potential for intra-Maghreb merchandise trade, complementary regional integration approaches are needed. One option is to focus on deeper integration with a particular focus on the service sectors. Regional integration efforts that focus on services have the potential to generate gains that would be a multiple of those that could be obtained from preferential merchandised trade liberalization.

Data on trade in commercial services in the Maghreb show that they are not significant exporters or importers in world trade (See Figures 10 and 11). Barriers to trade in services in Maghreb countries are clearly important. Several country studies have shown that domestic distortions inhibiting export expansion in the Maghreb reside in the inefficient regulation and lack of competition which generate costly and low quality services. This translates into higher insurance premiums and high port service costs as well as low-quality transport and lack of storage facilities. A regional agreement which allows free entry into services activities should help domestic services companies to expand to regional markets before venturing into the more competitive world markets.


The practice of liberalization shows that in general it is difficult to separate domestic liberalization from cross-border liberalization of services. Measurement of services liberalization tends also to lump together both domestic and cross-border liberalization. Therefore, this scenario examines whether policy reforms which consist of liberalizing cross-border services as well as reforming the domestic policies and regulations for services would matter for increased domestic private investment and FDI in the Maghreb.

Figures 12, 13 and 14 illustrate Maghreb’s reform progress in liberalizing the financial and infrastructure sector services (telecommunications, transport, energy and water) and in improving the overall investment climate. Service sector reforms cover a mix of deregulation (dismantling barriers to entry and the promotion of competition) and improved regulation (putting in place an appropriate legal environment, strengthening regulatory agencies and increasing their independence). Infrastructure service reforms

Note: MGB= Maghreb countries (Morocco, Algeria, Tunisia) ; SEE= Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Serbia & Montenegro; CEE = Central and European countries (Poland, Hungary, Czech and Slovak Republic, Slovenia). Source: WDI, 2004.
include reforms that aim at increasing the efficiency of providing regulated infrastructure services: (i) allowing entry of new domestic and foreign providers; (ii) where feasible, the opening the domestic market to imports of such services; and (iii) the establishment of an independent regulator, which is a key determinant of regulatory effectiveness. Investment climate reforms include progress on privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system and competition policy. Morocco is ahead in reforming the financial and infrastructure sector. Tunisia has made the highest progress in reforming its overall investment climate. Algeria lags behind Tunisia and Morocco in reforming the investment climate.

Figures 12, 13 and 14. Maghreb’s Progress in Reforming the Service Sectors (Financial & Infrastructure Sectors) and Investment Climate

Note. The reform progress indices range from 0 to 4.3 (where the maximum value of the index, 4.3, illustrates that countries’ service sector policies and investment climate are approaching ‘best practice’ standards).

Results from a panel growth regression reveal that a one unit point increase in the progress reform index in the infrastructure, financial sectors and the investment climate is associated with an increase in per-capita growth rate of 2 percent, holding inflation and the change in investment to GDP ratio constant. It is interesting to note that the growth impact of service policy reforms in the Maghreb is lower compared to the outcomes in other Eastern European countries which appear to gain the most from the reform progress.

Table 4: Impact of Unit Increase in Service Reform Index on Annual Per-Capita Real GDP Growth (%)

<table>
<thead>
<tr>
<th>Service Sector</th>
<th>Maghreb (MGB)</th>
<th>South-East Europe (SEE)</th>
<th>Central and Eastern Europe (CEE)</th>
<th>Former Soviet Union (FSU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>2.08</td>
<td>3.77</td>
<td>2.90</td>
<td>11.04</td>
</tr>
<tr>
<td>Financial services</td>
<td>2.20</td>
<td>5.84</td>
<td>4.00</td>
<td>11.08</td>
</tr>
<tr>
<td>Investment climate</td>
<td>2.06</td>
<td>7.35</td>
<td>5.87</td>
<td>9.66</td>
</tr>
</tbody>
</table>

Impact on per capita income. Assuming that each of the Maghreb countries gradually reforms its service sectors and its regulatory framework to achieve complete service liberalization and an investment climate that is in line with international best practice by 2015 (i.e, the reform index reaches its maximum value of 4.3 by 2015) real per-capita GDP between 2005 and 2015 would rise an additional 34, 27 and 24 percent for Algeria, Morocco and Tunisia respectively, compared to the growth rate described in Scenario 1.
**Impact on exports.** With gradual service liberalization (completed by 2015), real non-oil exports value between 2005 and 2015 of Algeria, Tunisia and Morocco would grow by 138.1, 85.8 and 85.7 percent respectively.

**Impact on FDI.** A unit increase in the progress reform index on financial service sector and investment climate index respectively rises on average, the stock of FDI stock into the Maghreb countries by 6.7 and 6.0 percentage points respectively. Using the average growth rate observed between 1994 and 2004, the level of FDI stock between 2005 and 2015 in the absence of service sector reforms is expected to grow by 301, 96 and 248 percent for Algeria, Morocco and Tunisia respectively. Assuming a progressive implementation of service reforms completing by 2015, the level of FDI stock between 2005 and 2015 is anticipated to rise by an additional 342, 128 and 211 percent for Algeria, Morocco and Tunisia respectively, compared to the growth predicted without further reforms.
Scenario 4. Combined impact of EU-RTA and deeper regional integration

This scenario assumes that the Maghreb countries form a trading bloc with the EU and in addition, they deepen integration efforts, by gradual liberalization of services and by furthering investment climate reforms to achieve international best practice by 2015. The expected average annual per-capita growth between 2005 and 2015 is 6.2, 5.8 and 5.7 percent for Algeria, Tunisia and Morocco respectively. Per-capita real GDP between 2005 and 2015 would rise an additional 57, 38 and 51 percent for Algeria, Morocco and Tunisia respectively, compared to the growth rate reported in Scenario 1. This calculated additional growth may overstate the potential gains as we assume that the benefits from scenario 2 (integration with EU) and scenario 3 are additive, which may not be the case as some of the channels which produce the gains are partly the same in the two scenarios.
4. Conclusions

The disappointing track record of Maghreb intraregional merchandise trade is explained by a number of factors, including the small size of the markets, low trade complementarity, non-dynamic and poorly diversified exports. But the picture is less gloomy when one looks carefully at recent trends. There are signs of export dynamism and diversification, and increased FDI flows, particularly in Tunisia and Morocco, which points to untapped markets.

When contemplating regional integration efforts, the Maghreb’s ultimate objective is to reap the gains from trade arising from comparative advantage, scale economies, import competition, knowledge spillovers, and FDI flows. Besides the reduction of tariffs or quotas, a multitude of non-tariff barriers increase transaction costs. The paper recommends to take a fresh look to regionalism and proposes an ‘open regionalism’. The objective should be to achieve deeper regional integration so as to remove a wider range of policy distortions gradually over time. From a political economy viewpoint, an advantage of the proposed open regionalism is that it provides a compelling long-term vision (full economic integration with the region and global markets) but that it can be implemented selectively and gradually.

In principle, multilateral integration through the WTO would be preferable to regional integration. The reason is that it minimizes trade diversion, increases transparency for traders, and it gives countries recourse to the dispute settlement mechanisms of the WTO. On the other hand, there are also important arguments in favor of a parallel process of regional integration and global integration. This paper proposes the Maghreb countries to pursue a type of ‘open regionalism’ with the Maghreb’s giving priority to multilateral liberalization and complementing it through carefully selected deeper integration efforts at the regional level.

The pursuit of ‘open regionalism’ would imply that the Maghreb countries’ regulatory frameworks are in line with international best practice. For instance, this deeper market integration process does not necessarily require the full adoption of the **EU acquis communautaire**, but it does require a targeted removal of tariff and non-tariff barriers to facilitate trade in goods and services and the adoption of domestic reforms to improve the investment climate and the cost-effectiveness of backbone service sectors (such as transports, telecoms, financial services). The idea is that multilateral commitments are topped up by regional integration in sectors where the GATS framework is poorly developed or where multilateral negotiations are progressing slowly (e.g. air transport and electricity). In services sectors, regional integration offers the greatest potential. Geographical and cultural proximity to the EU markets are an important source of comparative advantage for the Maghreb countries. Removing non-tariff barriers to these markets –including inefficiencies in the backbone services- is critical to exploit these advantages. Achieving the full gains of deeper regional integration will require the
effective adoption regulatory reforms at the national level (to achieve economic efficiency) and a high degree of regulatory cooperation at the cross-border level.