

Research Paper

Mohamed El Dahshan and Mohammed Masbah  
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# Synergy in North Africa Furthering Cooperation



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HOUSE

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# Contents

	Summary	2
1	Introduction	3
2	Security	5
3	The Economy	15
4	Conclusion and Recommendations	27
	About the Authors	30
	Acknowledgments	31

## Summary

- North African integration is not a new idea. However, countries in the region have so far struggled to form a cohesive bloc with deep political, economic and social ties. Political instability has effectively deprioritized North African integration. A focus on thematic (political, economic and security) ‘synergies’ may provide a better framework for cooperation than seeking opportunities for all-encompassing ‘deep’ and ‘comprehensive’ integration.
- Governments of North Africa dedicate considerable resources to domestic security. Much of their efforts are conducted at the national-level and directed towards threats from terrorists, insurgents and militias. Improved security cooperation would achieve better outcomes and economies of scale, including efforts to tackle human trafficking.
- A new generation of jihadis has emerged in North Africa since 2011. Nearly 27 per cent of the 30,000 fighters who travelled to Syria are from the Maghreb. While government counterterrorism operations have been effective, countries have failed to address the root causes of radicalization.
- Border economies have suffered as a consequence of a security focus on terrorism and smuggling, which has rendered many previously accepted cross-border trade activities illegal. States have struggled to provide alternative livelihoods for those who have lost this source of income. Border forces tend to lack the right combination of capacity, training and equipment to secure borders and often resort to heavy-handed tactics.
- New thinking is required to develop a more human-centric and proactive approach to migration issues in the region, which continues to witness huge flows of migrants. The migration policy of Morocco, introduced through legislation in 2014, could be a model for North Africa.
- The countries of North Africa have varying economic profiles, ranging from economically diverse Morocco to oil-and-gas-dependant Libya. However, they all face similar challenges including unemployment (particularly among the young), poor public-service delivery, low FDI levels, an oversized public sector, ineffective tax collection, and high informality.
- Fostering entrepreneurship and the development of small and medium-sized enterprises (SMEs) are priorities for North African countries, particularly regarding job creation. Regulatory cooperation – such as harmonizing SME definitions, legislation and support institutions – across North Africa is an obvious area where further integration would encourage the development of start-ups and small businesses.
- With the advent of the fourth industrial revolution, North African governments must address their technological gaps and work to improve public–private cooperation. In some sectors, such as the fintech industry, North African countries can build upon nascent synergies that have developed organically, such as those of start-up incubators and angel investors that work across the region.
- Renewables, particularly solar energy production, are a promising development for North Africa. While regional initiatives, such as Desertec, have stalled due to political differences between countries, the sector has witnessed exponential growth in Tunisia, Egypt and Morocco, where the involvement of the private sector has proved successful.

# 1. Introduction

In the last two decades, discussions of North African integration have evoked ideas of a shared identity and a common destiny in the region. However, recent attempts to build regional blocs in North Africa, including the Arab Maghreb Union established in 1989, have been unsuccessful and remain firmly in the public consciousness. Discussions on integration have failed to overcome existing challenges that have so far thwarted attempts at North African integration. These challenges are likely to continue to frustrate any efforts at deepening political, economic, financial and social relations between the countries of the region.

This paper builds on the conclusions of the North Africa Dialogues (NADs), a series of expert roundtable discussions held in cities across North Africa, between December 2018 and July 2019. The NADs initiative sought to create a forum for constructive, policy-driven dialogue among leaders from Morocco, Algeria, Tunisia, Libya and Egypt to debate areas of mutual economic interests and resilience. The meetings sought to explore the shared challenges and potential areas of collaboration and integration of these countries.

Rather than focus on conventional regional integration and the related challenges, this paper examines the benefits of a ‘synergistic’ approach to North African cooperation. Gradual approaches and piecemeal sectoral cooperation are a more effective way of generating opportunities and benefits than insisting on developing fully fledged plans that address all of the many obstacles and challenges at once. The synergistic approach is more practical and likely to provide a window of opportunity for broader cooperation and integration. After all, some of the world’s strongest regional organizations and major trading blocs started life as projects for industrial cooperation on one or two commodities.

**Gradual approaches and piecemeal sectoral cooperation are a more effective way of generating opportunities and benefits than insisting on developing fully fledged plans that address all of the many obstacles and challenges at once.**

While it is difficult for governments in the region to build ‘strong’ and ‘formal’ mechanisms of cooperation, local economic, political and institutional actors – such as municipalities, small and medium-sized enterprises (SMEs) and civil society organizations (CSOs) – may provide alternative ways of achieving non-state-led cooperation. This bottom-up approach enables smaller actors to share experiences and build transnational networks that may become sustainable structures for cooperation between North African non-government organizations.

An objective of this paper is to discuss and uncover areas of ongoing cooperation and synergy, where collaborative action across these countries allows actors to extract value, share knowledge, harmonize standards and develop joint ideas. These areas of synergy can occur on a large, national scale – for instance, joint infrastructure projects, addressing taxes and non-tariff barriers, dialogue between customs officials, and cooperation on counterterrorism – or on a smaller scale, such as collaboration between business associations, academic institutions or civil society.

A synergistic approach can free up the capacity of North African countries allowing them to consider joint action within larger forums. For instance, all North African countries are signatories to the African Continental Free Trade Agreement (AfCFTA);<sup>1</sup> all have joined China's Belt and Road Initiative;<sup>2</sup> and, with the exception of Libya, all have economic association agreements with the EU.<sup>3</sup> These North African countries also have strong security cooperation links with the G7. As a result, there are multiple platforms and opportunities for joint-planned action within these various forums, which may act as a launch pad for greater cooperative and mutually-beneficial action.

This paper highlights areas of current interest to policymakers. Firstly, security, including counterterrorism (CT), counter violent extremism (CVE), border security and trafficking. It then covers economic interests, looking at private-sector development, specifically SMEs, and the potential of the fourth industrial revolution and new technologies in the region. Following a discussion of possible synergies within extra-regional agreements, the paper concludes with a reflection on the future of North African cooperation.

Political context presents a formidable obstacle for further integration and cooperation in North Africa. Across the region there are tensions between governments, differences of political systems, and the prevalence of nationalist authoritarianism. However, this should not detract from the importance of advocating cooperation and the pooling of resources to achieve sustainable development across the region and foster more open social and political systems.

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<sup>1</sup> African Union (2019), 'Agreement Establishing the African Continental Free Trade Agreement', <https://www.tralac.org/documents/resources/cfta/3009-agreement-establishing-the-afcfta-status-list-july-2019/file.html> (accessed 16 Dec. 2019).

<sup>2</sup> HKTDC Research (2019), 'The Belt and Road Initiative: Country Profiles', <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative-Country-Profiles/obor/en/1/1X000000/1X0A3610.htm> (accessed 16 Dec. 2019).

<sup>3</sup> European Commission (2019), 'Negotiations and Agreements', [https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/index\\_en.htm](https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/index_en.htm) (accessed 16 Dec. 2019).

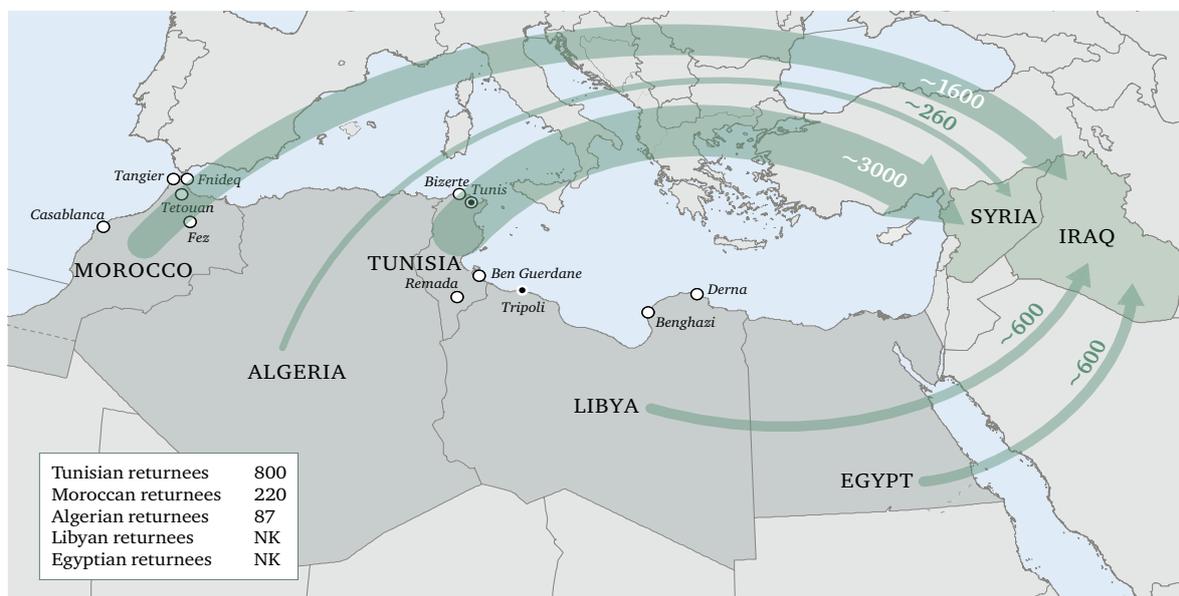
## 2. Security

North African governments dedicate considerable resources to national security. These efforts are directed towards threats from insurgents, terrorists and militias operating within the countries of the region and along their borders. Most of the governments in the region have extensive internal security agencies tasked with controlling civil society and suppressing dissent. Smuggling and human trafficking are also major challenges for North African security services, which tend to carry out unilateral actions. Regional security cooperation remains weak and is one area where North African countries could unify their efforts. There is also a strong case for closer coordination between the countries of the region and authorities in Europe to tackle human trafficking.

### Counterterrorism and counter violent extremism

Following the 2011 uprisings across North Africa, a wave of extremism gained ground in the region, which became a hub for a new generation of jihadis. In fact, half of the world’s top 20 sub-national recruitment hubs are in North Africa and nearly 27 per cent of the 30,000 fighters who travelled to Syria are from countries of the Maghreb.<sup>4</sup>

**Figure 1: Foreign fighters from North Africa who travelled to Syria and Iraq since 2011**



Source: Watanbe, L. (2018), *The Next Steps of North Africa’s Foreign Fighters*, CSS Analyses N° 222, <https://css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/pdfs/CSSAnalyse222-EN.pdf> (accessed 19 Nov. 2019).

Note: Reproduced with permission from ETHZ.

<sup>4</sup> International Crisis Group (2017), *How the Islamic State Rose, Fell and Could Rise Again in the Maghreb*, Middle East and North Africa Report N° 178, Brussels: International Crisis Group, <https://www.crisisgroup.org/middle-east-north-africa/north-africa/178-how-islamic-state-rose-fell-and-could-rise-again-maghreb> (accessed 18 Nov. 2019).

This new generation of jihadism is increasingly mainstream and appeals to a younger audience of men and women, using social media outreach as its primary recruitment tool, while threatening to undermine fragile governments and radicalize publics in divided societies.<sup>5</sup> Radicalization has various general root causes: political, social, economic and religious. However, the role of religious indoctrination has become less critical in attracting potential jihadis. Current recruitment is mainly based on social, economic and political factors that reinforce each other, such as social and cultural marginalization, socio-economic grievances, authoritarian political environments and broken social contracts. The prevalence of the informal economic sector and high unemployment, especially among young people, are symptomatic of weak state capacities in North Africa, which provide a breeding ground for radicalization.

The shifting patterns of recruitment reflect a change in the sociology of jihadism in North Africa. An important development is the move of jihadism from rural to urban environments.<sup>6</sup> In most North African countries, recruitment is higher in urban areas, particularly on the margins of cosmopolitan cities such as Casablanca, Tunis, Algiers or Cairo. The recruitment process has been normalized and is increasingly concentrated in urban locations.

### The shifting patterns of recruitment reflect a change in the sociology of jihadism in North Africa.

Most North African governments pride themselves on leading the fight against terrorism in order to appeal to the international community. Their approaches to countering radicalism range from hard-line security measures to softer tools, such as moderate religious education and socio-economic development of impoverished areas. However, most North African countries rely primarily on heavy-handed responses to radicalism as they tend to view the phenomenon exclusively through a security lens.

Among North African countries, Morocco's CVE approach, which employs a combination of soft and hard tools, is portrayed as one of the most inclusive and comprehensive. The adoption of an anti-terrorism law in 2003 (amended in 2014) strengthened the country's security apparatus and led to the establishment of a counterterrorism unit in 2015, the *Bureau central d'investigation judiciaire*.<sup>7</sup> Moreover, it also launched projects to bring mosques under tighter control and to support comprehensive training programmes for imams.<sup>8</sup> Recently, the Moroccan General Delegation of the Penitentiaries and Reinsertion Administration (DGAPR), the country's prison administration, launched a deradicalization programme in prisons to rehabilitate former jihadis and prepare them for reintegration into society.<sup>9</sup>

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<sup>5</sup> Malka, H. and Lawrence, W. (2013), *Jihadi-Salafism's Next Generation*, Analyses Paper, Washington, DC: Center for Strategic and International Studies, <https://www.csis.org/analysis/jihadi-salafisms-next-generation> (accessed 18 Nov. 2019).

<sup>6</sup> Pargeter, A. (2009), 'Localism and radicalization in North Africa: local factors and the development of political Islam in Morocco, Tunisia and Libya', *International Affairs*, 85(5): pp. 1031–1044, <http://www.jstor.org/stable/40388922> (accessed 18 Nov. 2019).

<sup>7</sup> Morocco Ministry of Justice (2003), 'Loi N° 03-03 relative à la lutte contre le terrorisme' [Law N° 03-03 relating to the fight against terrorism], 28 May 2003, <http://adala.justice.gov.ma/production/legislation/fr/penal/luttecontreterrorisme.htm> (accessed 5 Dec. 2019).

<sup>8</sup> Wainscott, A. (2017), *Bureaucratizing Islam: Morocco and the War on Terror*, Cambridge: Cambridge University Press.

<sup>9</sup> Moroccan General Delegation of the Penitentiaries and Reinsertion Administration (2016), 'Musalaha Programme' [in Arabic], <http://www.dgapr.gov.ma/Baremej/Pages/%D8%A8%D8%B1%D9%86%D8%A7%D9%85%D8%AC-%D9%85%D8%B5%D8%A7%D9%84%D8%AD%D8%A9.aspx> (accessed 5 Dec. 2019).

Tunisia also pursues a multi-level approach to fight radicalism. The security apparatus made several efforts to reform and regain public confidence following the 2011 revolution, especially since the country has been the target of various terrorist attacks. The government has also shut down several mosques and Quranic schools suspected of being extremist, which has been controversial.<sup>10</sup>

The Algerian approach has been markedly different, drawing on lessons learnt from the return of fighters who had fought in Afghanistan and the Algerian civil war in the 1990s. Algeria's counterterrorism strategy is centred on preventative measures and deradicalization. The Algerian government seeks to reintegrate former fighters into society as occurred following the 'Black Decade', when the government offered a path to reconciliation for former extremists.<sup>11</sup> As a result, Algeria has succeeded in limiting overall jihadist activity and the security apparatus maintains a zero-tolerance approach towards jihadism.

In Egypt, the main focus of CT operations in recent years has been in northern and central Sinai, where established local jihadist groups with links to Islamic State of Iraq and Syria (ISIS) have operated since late 2014. The Egyptian security forces are continuing to wage a large-scale counter-insurgency campaign in this area. The campaign has included the destruction of homes and other buildings along the border with the Gaza Strip to create a free-fire zone, which has resulted in the displacement of thousands of people. Despite this hard-line approach, the insurgency remains active. This has delayed progress on government plans to invest in infrastructure, housing and development projects in the area, as part of a long-term strategy to address socio-economic grievances. Jihadists in Egypt have exploited the narrative of avenging the removal and detention of former president Mohamed Morsi and the violent killing of hundreds of his supporters in July and August 2013.<sup>12</sup> Jihadist groups in Egypt have benefited from logistical supply lines from Libya, although these have been impaired following the rise of the Libyan National Army in eastern Libya under the Egypt-backed General Khalifa Haftar.

This security-led approach offers short-term successes, but little beyond that. CT operations might succeed in neutralizing the threat and destroying terrorist cells, but they fail to address the long-term root causes of radicalism. The current approach has elevated the standing of the country's security apparatus and hindered the role of non-security measures.

All North African governments have strong CT relationships with the EU and its member states,<sup>13</sup> including the UK, France, Spain, Italy and the Netherlands. They are bonded by bilateral and multilateral security agreements and information-sharing mechanisms, while they have also developed programmes related to security and CT.<sup>14</sup> However, this cooperation has sometimes

<sup>10</sup> Grewal, S. and Hamid, S. (2018), 'Democratic Tunisia is taking the wrong path in the fight against terrorism', *Brookings Order from Chaos* blog, 4 November 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/11/04/democratic-tunisia-is-taking-the-wrong-path-in-the-fight-against-terrorism/> (accessed 5 Dec. 2019).

<sup>11</sup> Greco, M. (2019), 'Algeria's Strategy to Overcome Regional Terrorism', *The National Interest*, 27 February 2019, <https://nationalinterest.org/feature/algerias-strategy-overcome-regional-terrorism-45742> (accessed 5 Dec. 2019).

<sup>12</sup> Amnesty International (2018), 'Egypt: Five years after Rabaa Massacre, impunity continues to fuel unprecedented rights crisis', <https://www.amnesty.org/en/latest/news/2018/08/egypt-rabaa/> (accessed 5 Dec. 2019).

<sup>13</sup> Dworkin, A. and El Malki, F. (2018), *The southern front line: EU counter-terrorism cooperation with Tunisia and Morocco*, Policy brief, London: European Council on Foreign Relations, [https://www.ecfr.eu/publications/summary/the\\_southern\\_front\\_line\\_eu\\_counter\\_terrorism\\_cooperation](https://www.ecfr.eu/publications/summary/the_southern_front_line_eu_counter_terrorism_cooperation) (accessed 5 Dec. 2019).

<sup>14</sup> See for instance: European Parliament (2015), 'Tunisia-EU counter-terrorism cooperation and human rights', Parliamentary Questions, 3 March 2015, [http://www.europarl.europa.eu/doceo/document/E-8-2015-003442\\_EN.html](http://www.europarl.europa.eu/doceo/document/E-8-2015-003442_EN.html) (accessed 5 Dec. 2019); Kavanagh, R. (2019), 'Spain and Portugal Lead EU Security Assistance as Morocco Seeks to Boost Security', *South EU Summit*, 4 September 2019, <https://www.southsummit.com/europe/spain-and-portugal-lead-eu-security-assistance-as-morocco-seeks-to-boost-security/> (accessed 5 Dec. 2019); European External Action Service (2017), 'First EU-Algeria high-level informal dialogue on regional security and the fight against terrorism', Press release, 19 October 2017, [https://eeas.europa.eu/headquarters/headquarters-homepage/34285/first-eu-algeria-high-level-informal-dialogue-regional-security-and-fight-against-terrorism\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/34285/first-eu-algeria-high-level-informal-dialogue-regional-security-and-fight-against-terrorism_en) (accessed 5 Dec. 2019).

come at the expense of human rights and democracy. The UK and EU can use their leverage to link cooperation on CT and CVE with the respect of liberties and human rights. An important step would be to put an end to the attacks on press freedoms and individual rights, which have been facilitated by broadening the definition of terrorism by North African governments. However, there has been a tendency for some European governments to confine remarks on human rights and democracy to the margins, owing to the primacy of commercial considerations,<sup>15</sup> including major arms deals.

### Regional security cooperation

Regional security cooperation is an area where North African countries can build synergies. CT is a highly sensitive issue for North African governments, which is why little ‘formal’ cooperation occurs and instead there is often competitive rivalry on the issue, especially between Morocco and Algeria. This political challenge has been exacerbated by the ongoing unrest in Libya, a general lack of trust between North African countries, and poor coordination within each state’s own agencies and institutions working on CT.

Despite these challenges, over the past decade there have been some instances of relatively successful cooperation, for example on intelligence gathering and sharing between Algeria, Niger and Mauritania. Some North African countries are bound by security agreements, for example Tunisia and Algeria have multi-level cooperation on security and border control.

While North African intra-cooperation on CT is mainly low profile and bilateral, such individual action is not as effective as regional and international cooperation. However, these instances of intra-cooperation in North Africa may act as a platform for future regional or multilateral bodies.

Algerian, Tunisian and Moroccan military members participate in training programmes led by the US Army, such as Flintlock 2019, which is US Africa Command’s (AFRICOM) largest annual Special Operations Forces exercise.<sup>16</sup> Military forces from these three countries also participated in NATO training programmes with Middle Eastern participants. Another example of successful cooperation is the 5+5 defence initiative.<sup>17</sup>

### Deradicalization

The problem of jihadist returnees is shared by North African governments and presents an opportunity to create synergies in the area of deradicalization and rehabilitation. Reintegration is crucial for building social cohesion and tackling the root causes of radicalism in the long run. This requires strengthening communities’ resilience and developing inclusion-mechanisms for former jihadis, including foreign fighter returnees.

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<sup>15</sup> See, for example, Rudloff, B. and Werenfels, I. (2018), ‘EU-Tunisia DCFTA: Good Intentions Not Enough’, SWP Comment No 49, <https://www.swp-berlin.org/en/publication/eu-tunisia-dcfta-good-intentions-not-enough/> (accessed 5 Dec. 2019); Teevan, C. (2019), ‘EU-Morocco: a win-win partnership?’, MIPA Article, 30 June 2019, <https://mipa.institute/6866> (accessed 5 Dec. 2019).

<sup>16</sup> U.S. Embassy in Burkina Faso (2019), ‘Flintlock 2019 in Burkina Faso’, <https://bf.usembassy.gov/flintlock-2019-in-burkina-faso/> (accessed 18 Nov. 2019).

<sup>17</sup> The ‘5+5 Defence’ Dialogue Initiative is a cooperative forum between neighbouring countries in the Western Mediterranean, it comprises five countries from the southern side of the Mediterranean (Algeria, Libya, Mauritania, Morocco and Tunisia) and five countries from the northern coast of the Mediterranean (France, Italy, Malta, Portugal and Spain).

For a quarter of a century, North African governments have designed their own deradicalization and reconciliation programmes, of which Egypt and Algeria have led the way. In the mid-1990s, Egypt created an initiative for jihadis detained in its prisons, which especially targeted members of Al-Gamaa Al-Islamiyya and Al-Jihad Al-Islami. As a result, several jihadi leaders renounced violence.<sup>18</sup> However, Egypt completely abandoned this ‘soft’ approach in recent years.

In 2007, Libya successfully deradicalized jihadi inmates,<sup>19</sup> particularly those affiliated with the Libyan Islamic Fighting Group (LIFG), but the country has since ceased this initiative. Morocco launched the Moussalaha programme in its prisons in 2016, but it remains to be seen whether it has been a success.<sup>20</sup> Meanwhile, Tunisia is new to deradicalization; the government recently delegated this task to prison management, allowing these institutions to develop ad hoc measures for rehabilitating jihadi prisoners. However, the country’s infrastructure is unable to support the number of detainees convicted of terrorism and lacks the resources to separate them from the wider prison population.<sup>21</sup>

When it comes to dealing with foreign fighter returnees it is crucial to focus on rehabilitation starting in prisons, with a view to later reintegrating former jihadis into society. This necessitates the right legal framework that distinguishes the levels of leadership and engagement within jihadi organizations and tailors deradicalization measures to suit, potential categories include: (1) leaders and ideologues; (2) recruiters and brokers; (3) young and new jihadis; (4) family and children. This requires a more nuanced approach in categorization and changes to the laws and procedures to reflect different punishments for the various categories.

While there is no one-size-fits-all solution, North African countries can learn from each other’s experience in deradicalization and share best practices. Algeria’s experience of reconciliation with its jihadis in the 1990s makes it an important source of expertise for other countries. The synergies that can be created through experience-sharing should not be discounted.

**While there is no one-size-fits-all solution, North African countries can learn from each other’s experience in deradicalization and share best practices.**

In order to build sustainable rehabilitation programmes, governments should focus on developing community resilience and adopting a gender-sensitive and holistic approach led by development agencies and CSOs, rather than a security-led interpretation of CVE.

These requirements reinforce the importance of finding local solutions and necessitate a role for both the private sector and civil society, as well as municipality and community leaders, to create mutually beneficial rehabilitation projects.

It is important to consider gender in this approach. Women should be seen as potential peace actors and not only as victims or perpetrators. Women tend to be the peacemakers in their communities, and can have a positive impact in helping vulnerable people resist jihadist recruitment drives.

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<sup>18</sup> Gunaratna, A. and Bin Ali, M. (2009), ‘De-radicalization initiatives in Egypt: a preliminary insight’, *Studies in Conflict and Terrorism*, 32(4): pp. 277–291, doi: 10.1080/10576100902750562 (accessed 19 Nov. 2019).

<sup>19</sup> Ashour, O. (2019), *The De-Radicalization of Jihadists: Transforming Armed Islamist Movements*, New York, N.Y.: Routledge.

<sup>20</sup> Masbah, M. and Ahmadoun, S. (2019), ‘Morocco’s Failure to Reintegrate Former Jihadis’, Sada, Carnegie Endowment for International Peace, 6 February 2019, <https://carnegieendowment.org/sada/78313> (accessed 18 Nov. 2019).

<sup>21</sup> Ltfi, W. (2019), ‘The Justice system’s approach towards convicted violent extremists in Tunisia’, *Maghreb Economic Forum Op-Ed*, 20 September 2019, <https://www.magef.org/2019/09/20/the-justice-systems-approach-towardsconvicted-violent-extremists-in-tunisia/> (accessed 28 Nov. 2019).

Prisons are key institutions in deradicalization programmes. Yet, they are poorly resourced to deal with radicals, including returnee foreign fighters. Against this backdrop, many states prefer to leave their citizens in Syria, revoking their passports or allowing them to be executed rather than granting their return and reintegrating them into society, which only worsens transnational jihadism.

Lastly, CSOs are important prevention and reintegration actors in CVE. The region's various CSOs should coordinate their efforts to build trust and establish dialogues with government stakeholders. There needs to be clarity and transparency around their roles, with states recognizing that CSOs are independent organizations and not there to act as informants. In this regard, Tunisia and Morocco, to a lesser extent, are an exception in the region and an example of successful cooperation between the state and CSOs.

International donors, including the UK, have funded governments' efforts to build sustainable deradicalization programmes that aim to reintegrate former jihadis into society. So far, the results are mixed. The efficacy of CVE programmes is still unclear, and implementers are reluctant to make thorough and appropriate evaluations of them for fear of losing funding. As a result, programmes continue to run despite having no proven positive impact, or even detrimental impacts.

### Religious reform

The third important element of synergy among North African governments is the role of the religious establishment in countering radical ideologies or engaging with state CT and CVE policies. There is potential for cooperation on this matter as religion plays an important role in societies across the region. North African populations are majority Sunni, and all governments follow and promote the Maliki jurisprudence in fiqh. The religious establishment can play a positive role in reducing extremism. For example, in Morocco, the Ministry of Endowments and Islamic Affairs has been training imams to promote a 'moderate' version of Islam.<sup>22</sup>

There are already some programmes for religious cooperation in the region. For instance, the Mohammed VI Institute for Training Imams in Morocco previously brought hundreds of imams from North Africa to the country to discuss cooperation. Given the vacuum in religious discourse and loss of credibility of imams in Tunisia and Libya, both countries can benefit from this kind of training.

However, state-endorsed interpretations of Islam could exacerbate disenfranchisement and further alienate individuals. For example, the passive approach of the current Imam of Al-Azhar and the Moroccan government's influence and control of mosques have pushed away young people and led to criticism of the state-sanctioned version of Islam. A more holistic approach is needed. In this regard, the inclusion of CSOs and independent religious scholars in the design of these programmes is an important development in the fight against extremism.<sup>23</sup>

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<sup>22</sup> Eljehtimi, A. (2019), 'Morocco trains foreign students in its practice of moderate Islam', Reuters, 23 April 2019, <https://www.reuters.com/article/us-morocco-religion/morocco-trains-foreign-students-in-its-practice-of-moderate-islam-idUSKCN1RZ1JP> (accessed 5 Dec. 2019).

<sup>23</sup> McDonnell, A., Patton, J. and Zgheib Salloum, Y. (2018), *Engaging Salafi Religious Actors in Morocco: The Role of Inclusion in CVE*, Report, Washington, DC: International Center for Religion and Diplomacy, <https://icrd.org/engaging-salafi-religious-actors-in-morocco-the-role-of-inclusion-in-cve/> (accessed 18 Nov. 2019).

## Border security and human trafficking

Across the Maghreb, local populations have been able to create order and stability in borderlands when state capacity has been insufficient. This has been facilitated through tacit agreements between central authorities and local elites or powerbrokers, to ensure local order and secure gains for local populations without challenging the sovereignty of the state. In recent years, however, cross-border activities have come under scrutiny and once ‘normal’ activities have been rendered illicit, due to the focus on terrorism and smuggling.

### Securing borderlands

Borders in North Africa cover great distances and are often described as being porous as they are easy for those that are determined, connected or wealthy, to traverse.<sup>24</sup> Some North African governments have secured their borders by building physical barriers such as walls and fences.<sup>25</sup> For example, the Morocco–Algeria border, which has been closed since 1994.

For the most part, however, security actors in the region lack the capacity, training and equipment to effectively secure their boundaries. This is particularly the case in Libya, given the ongoing conflict and the lack of state control. Officials have little training and few resources to police borders, and are often assigned under the influence of militias that have infiltrated state apparatus to control border areas. The EU launched an integrated border management initiative in 2013, through the Common and Security Defence Policy (CSDP).<sup>26</sup> This project aimed to support the development of border management and security across Libya’s boundaries and to disrupt human smuggling and trafficking networks in the Southern Central Mediterranean area.<sup>27</sup> The project was not fully implemented, and resulting gaps were filled bilaterally by countries such as Italy, which co-opted local actors to halt migration to Europe, who in turn took advantage of EU security goals for their own ends. This securitized approach failed to address the root causes of smuggling and comes at the expense of human rights and long-term stability.

Even in the instances where countries have strong relationships and close cooperation, such as in the case of Tunisia and Algeria, security failures have occurred on several occasions when attempting to stop terrorist groups from crossing shared borders.

### Smuggling and transnational crimes

As for smuggling, border towns and cities, such as Oujda, Ben Guerdane and Maghnia, have become notorious for contraband and cross-border activities. Most smuggled commodities are items needed for daily life, such as fuel (from Algeria and Libya to neighbouring countries) and other government-subsidized goods, such as wheat or cooking oil. Before 2011, authorities considered smuggling activities to be under relative control. They tolerated cross-border trade of certain goods, such as food and cigarettes, as a way to pacify vulnerable and neglected border

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<sup>24</sup>Hanlon, Q. and Herbert, M. M. (2015), *Border Security Challenges in the Grand Maghreb*, Report, Washington, DC: United States Institute for Peace, <https://www.files.ethz.ch/isn/191018/PW109-Border-Security-Challenges-in-the-Grand-Maghreb.pdf> (accessed 18 Nov. 2019).

<sup>25</sup>The Economist (2015), ‘Boundary walls and fences worldwide’, <https://infographics.economist.com/2015/fences/> (accessed 17 Nov. 2019).

<sup>26</sup>EU Border Assistance Mission in Libya (2018), ‘EUBAM Libya becomes a fully-fledged civilian CSDP mission’, Press release, 17 December 2018, [https://eas.europa.eu/csdp-missions-operations/eubam-libya\\_en/55578/EUBAM%20Libya%20becomes%20a%20fully-fledged%20civilian%20CSDP%20mission](https://eas.europa.eu/csdp-missions-operations/eubam-libya_en/55578/EUBAM%20Libya%20becomes%20a%20fully-fledged%20civilian%20CSDP%20mission) (accessed 18 Nov. 2019).

<sup>27</sup>European Commission (2019), ‘European Neighbourhood Policy And Enlargement Negotiations, Libya’, [https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/libya\\_en](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/libya_en) (accessed 18 Nov. 2019).

communities. After the fall of the Libyan and Tunisian regimes, smuggling expanded in magnitude and scope. More recently, especially in Libya, these lucrative smuggling markets have become more restrictive as local groups and militias have moved in.

In response to falling oil prices since 2014, Algerian authorities have tightened control of the country's borders. This has negatively impacted the economies of the border cities, which depend on smuggling.<sup>28</sup> There has also been a clamp down on smuggling in the northern cities of Morocco since 2017. The introduction of increased border controls by Spanish authorities in the cities of Ceuta and Melilla has increased unemployment in this region among young people and women formerly active in smuggling activities. The governments of North Africa have yet to succeed in creating sustainable economies in border regions and there is growing frustration among unemployed young people. Terrorist incidents in the border regions, especially in Ben Guerdane in 2015, have focused the attention of authorities in these areas, which led to a sharp decline in smuggling activities.

Corruption is endemic in North Africa<sup>29</sup> and is considered an enabler of transnational crime.<sup>30</sup> This is particularly the case among border security forces and customs officials. Meanwhile, there have also been cases where hospital workers in Tunisia have been caught smuggling medicine.<sup>31</sup> In addition, in 2018, members of the Algerian judiciary were implicated in one of the largest cocaine busts on the continent.<sup>32</sup> Smuggling has a significant corroding influence on state institutions, which is revealed by the systematic networks of corruption that have evolved to facilitate the trade.<sup>33</sup> These may benefit other forms of transnational crimes, such as drug trafficking.

### Corruption is endemic in North Africa and is considered an enabler of transnational crime. This is particularly the case among border security forces and customs officials.

Drug trafficking has become one of the central components of transnational crime in North Africa. While the cannabis trade remains predominant in the region, in recent years the cocaine trade has grown significantly. The quantity of cocaine seized in Africa doubled in 2016, with countries in North Africa seeing a six-fold increase and accounting for 69 per cent of all the cocaine seized in the region in that period.<sup>34</sup> Major seizures in Oran and Tanger-Med ports demonstrate that cocaine trafficking uses existing routes and globally integrated port infrastructures.

Another element of transnational crimes concerns the trafficking of antiquities and historical artefacts, which has been happening in Egypt for several years; there are also concerns in the rest of North Africa, pertaining to the illicit trade of protected species, flora, fauna and wildlife.

<sup>28</sup> Lamoulou, O. (2016), *Marginalisation, Insecurity and Uncertainty on the Tunisian–Libyan Border*, Report, London: International Alert, <https://www.international-alert.org/publications/marginalisation-insecurity-and-uncertainty-tunisian-libyan-border> (accessed 5 Dec. 2019).

<sup>29</sup> Transparency International (2019), 'Middle East and North Africa: corruption continues as institutions and political rights weaken', Survey, <https://www.transparency.org/news/feature/regional-analysis-MENA> (accessed 18 Nov. 2019).

<sup>30</sup> Ayari, M. (2018), 'Les facteurs favorisant l'extrémisme violent dans la Tunisie des années 2010' [Violent Extremism and Its Motivating Factors in Tunisia in the 2010s], Tunis: United Nations, <http://opecv.org/wp-content/uploads/2019/10/AYARI-Michae%CC%81-Revue-analytique.-Les-facteurs-favorisant-l%E2%80%99extre%CC%81misme-violent-dans-la-Tunisie-des-ann%C3%A9es-2010-ENG.pdf> (accessed 21 Dec. 2019).

<sup>31</sup> Kapitalis (2018), 'Le système de santé infiltré par le réseau de contrebande des médicaments' [The health system is infiltrated by a network of contraband medication], 27 July 2018, <http://kapitalis.com/tunisie/2018/07/27/le-systeme-de-sante-infiltre-par-le-reseau-de-contrebande-des-medicaments/> (accessed 5 Dec. 2019).

<sup>32</sup> Goumrassa, B. (2018), 'Algeria Prosecutes Senior Official in Major Cocaine Bust', Asharq Al-Awsat, 10 November 2018, <https://aawsat.com/english/home/article/1456961/algeria-prosecutes-senior-official-major-cocaine-bust> (accessed 5 Dec. 2019).

<sup>33</sup> Shaw, M. and Mangan, F. (2014), *Illicit Trafficking and Libya's Transition: Profits and Losses*, Peaceworks, Washington, DC: United States Institute of Peace, <https://www.usip.org/publications/2014/02/illicit-trafficking-and-libyas-transition-profits-and-losses> (accessed 18 Nov. 2019).

<sup>34</sup> United Nations Office on Drugs and Crime (2018), *World Drug Report 2018*, p. 8, <https://www.unodc.org/wdr2018/> (accessed 18 Nov. 2019).

### Migration and human trafficking

In the last few years, North Africa has witnessed a rise in migration flows from and through the region. It has long been an origin and transit site for migration towards Europe. In 2018, there were an estimated 150,114 migrant arrivals in Europe,<sup>35</sup> down from approximately 180,000 in 2017,<sup>36</sup> with most migrants using the western routes in North Africa.

In North Africa, mixed migration complicates the challenge of managing borders,<sup>37</sup> as flows consist of trafficked persons, economic migrants, refugees and asylum seekers. Border officials are not equipped or particularly interested in distinguishing between these groups, which has significant consequences for migrants as each category has a different legal status. Furthermore, some individuals start their journeys as migrants but fall victim to trafficking networks en route or once they arrive at their transit destination. However, if they come into contact with law enforcement agencies in North Africa, they are often treated as criminals due to their illegal status. Authorities need to clamp down on the organizers of trafficking networks rather than their victims in order to make progress.

Reforms need to be institutionalized in order to be effective. An important factor in their success will be how well the countries of origin, transit and destination cooperate. International actors should also align their responses to this challenge. This could be achieved through coordination between the offices of each country's attorney general to agree to mutual legal assistance, including making formal contact with other countries and undertaking joint investigations. The UNODC is already doing this in some North African countries.

Governments in North Africa need to prioritize their efforts. Instead of simultaneously fighting all forms of smuggling, it is important to focus on preventing transnational smuggling of weapons, drugs and migrants, while letting everyday goods flow freely, as the latter could accelerate regional trade by normalizing inter-country trade. Officials, particularly those on the borders, need to be trained to exercise this level of discretionary responsibility with the support of technological equipment.

### Potential areas for synergy

#### Improving safe migration

In response to a rise in migratory flows in North Africa, Morocco launched a new pioneering migration policy in 2014. The scheme created a positive and welcoming environment for migrants by providing them with residence permits, which regularized their status. Similarly, the Ministry of Labour in Libya is working on labour agreements with Niger and Mali as a protective measure for circular migrants.

Migration has a negative portrayal across the region, which needs to change in order to solve the challenge. Migration can create links between countries as migrants tend to maintain contact with their point of origin. In response to migrant smuggling and human trafficking, there is a need for

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<sup>35</sup> European Parliament (2019), 'Migration in Europe', 22 July 2019, <http://www.europarl.europa.eu/news/en/headlines/priorities/refugees/20170629STO78632/migration-in-europe> (accessed 18 Nov. 2019).

<sup>36</sup> European Commission (2018), 'Influx of refugees and migrants to Europe', 11 December 2018, <https://ercportal.jrc.ec.europa.eu/getdailymap/docId/2759> (accessed 18 Nov. 2019).

<sup>37</sup> United Nations Office on Drugs and Crime (2018), *Global Study on Smuggling of Migrants 2018*, Vienna: United Nations, [https://www.unodc.org/documents/data-and-analysis/glosom/GLOSOM\\_2018\\_web\\_small.pdf](https://www.unodc.org/documents/data-and-analysis/glosom/GLOSOM_2018_web_small.pdf) (accessed 18 Nov. 2019).

modern and proactive measures. For example, Moroccans are using social media including YouTube channels and blogs that communicate with would-be migrants in their local dialects and advise them on migration-related matters. They promote legal methods of migration and describe how to apply for refugee status. These techniques have also been used to highlight the risks of smuggling. The large number of followers that these initiatives have on social media demonstrates how communication can play a positive role in highlighting alternatives as well as the lies told by traffickers.

### The diaspora as a vehicle for local development

The role of the diaspora and economic migrants in the EU can be an important element for local development in North Africa. Their contribution goes beyond sending remittances. Diaspora and economic migrants create complex networks of highly skilled people through which they can share knowledge and training.

The EU should cooperate with North African governments to facilitate the transfer of knowledge and skills in order to improve development in North Africa. In this regard, it is important to involve local actors. With support, municipal councils have the potential to serve as forces for stabilization and development in borderlands, and to restructure governance in these areas. Municipalities also present an opportunity for regional cooperation across North Africa. Municipal councils located in border areas are keen to work with their counterparts in neighbouring countries, but there is often resistance from the central government. To be effective, political decentralization must be accompanied by administrative and fiscal decentralization.

### Building capacities

Security-led approaches to borderlands tend not to consider the socio-economic challenges and root causes of illegal smuggling and criminal behaviour in these areas. Smuggling routes can adapt in response to hardened security measures in border areas, which can render a narrowly focused border management policy ineffective. As such, there is a need to adopt a more holistic approach that targets the more stable smuggling hubs for illicit goods and provides alternative livelihoods in these locations.<sup>38</sup>

There has been progress in cooperation on transnational crime, for example, customs officials across North Africa have met in recent years to discuss technical cooperation. On an informal level, cooperation through personal relationships between border forces can be more effective. In fact, there are some low level and technical exchanges between Morocco and Algeria, however, the coordination of policies must come from central governments that must engage in dialogue on such matters. There is also a need for institutional capacity-building to ensure that national legislation complies with international instruments to address transnational crime.

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<sup>38</sup> Ibid.

## 3. The Economy

### Macroeconomic overview

In recent years, economic growth in North Africa has recovered, albeit modestly, following the 2008 global financial crisis and the uncertainty of the 2011 Arab uprisings. The countries of the region have varying economic profiles, ranging from economically diverse Morocco at one end of the spectrum to Libya with its strong reliance on oil and gas at the other. All countries in the region face similar economic challenges including creating jobs to address high youth unemployment, improving public service delivery, attracting foreign direct investment (FDI), reducing the size of the public sector, improving tax collection and reducing informality. The oil exporters – Algeria and Libya – face the additional challenges of economic diversification and reforming their expensive and unsustainable subsidy regimes.

**Table 1: Macroeconomic indicators across the region**

	Algeria	Egypt	Libya	Morocco	Tunisia
GDP (billion current \$)	180.68	250.89	48.31	118.49	39.86
GDP growth (%)	2.8	5.31	7.83	2.95	2.5
GDP per capita (current US\$)	4,278.85	2,549.14	7,235.03	3,237.88	3,446.61
Public debt (% of GDP)	32.88	92.52	N/A	64.41	70.5
FDI, net outflows (% of GDP)	-0.002*	0.08*	0.29*	0.56	0.14*
FDI, net (balance of payments, million current \$)	-1,204.3*	-7,209.7*	439.5**	-2,961.4	-809.7*
Imports of goods and services (% of GDP)	33.50*	29.36	57.99	48.80	55.94*
Exports of goods and services (% of GDP)	22.64*	18.91	60.39	38.28	43.54*
Inflation, consumer prices (annual %)	4.27	29.5*	2.61†	1.91	7.31
Population, total (millions)	42.23	98.42	6.69	36.03	11.6
Unemployment, total (% of total labour force) (modelled International Labour Organization estimate)	12.14	11.44	17.28	9.04	15.48
Ease of doing business index (1=most business-friendly regulations)	157	120	186	60	80

Source: Data compiled from World Bank (2018), Open Data, <https://data.worldbank.org/> (accessed 18 Nov. 2019); IMF (2018), World Economic Outlook Database, <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx> (accessed 18 Nov. 2019).

Note: 2018 data shown unless otherwise noted.

\* 2017 data

\*\* 2016 data

† 2013 data

Algeria's economic performance has been seriously impaired by a protracted struggle over the succession to the presidency after the resignation of Abdelaziz Bouteflika. Investment in the oil and gas sector, which is central to the country's economy, has been held back since the late 2000s due to infighting within the regime, a series of high profile corruption cases, and poor relations with

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international companies. This under-investment has resulted in falling oil and gas production, which has led to steadily declining revenues as domestic consumption has increased while international oil prices have remained relatively low since 2014. The contribution of the hydrocarbons sector to GDP has fallen in real terms in every quarter since the second quarter of 2017, according to official data up to the end of June 2019.<sup>39</sup>

Overall economic growth reached 1.4 per cent year-on-year in 2018, as a good harvest and increased construction and industrial activity offset the 6.4 per cent contraction in the hydrocarbons sector over the same period. In the first half of 2019, mass protests called for deep political reforms in an attempt to avoid another establishment figure supported by the military replacing President Bouteflika, which would extinguish any hopes of potential changes to the political system. Against this backdrop, the oil and gas sector contracted by 7.7 per cent year-on-year in the first half of 2019, and overall economic growth stood at a mere 0.8 per cent, with a marked slowdown in the non-hydrocarbons sectors in the second quarter, as the protest movement gained momentum.<sup>40</sup>

The government had used up its budgetary reserves by late 2017 and has since resorted to borrowing from the country's central bank to cover its large structural deficit. Algeria maintains it still has sufficient foreign exchange reserves to cover about 15 months of imports, but reserves have declined rapidly since 2014.<sup>41</sup> The country could potentially source finance from outside Algeria as it has little external debt, but both the political establishment and the protest movement are resistant to submitting to IMF conditions in exchange for external loans that could support long-term economic and political reforms. Towards the end of the Bouteflika era, a new hydrocarbons law was drawn up with the aim of improving terms for international investors. The law has been pushed through by the interim post-Bouteflika administration, but it has been criticized by the protest movement, and foreign companies are likely to wait for a political settlement before committing to major new projects.<sup>42</sup>

Egypt, by contrast, has completed a three-year IMF programme that has yielded mixed results. After the 2011 revolution forced President Hosni Mubarak to step down having been in power for almost 30 years, the first interim government considered signing up to an IMF programme, but was overruled by the military administration. The Mohammed Morsi government of 2012–13 also came close to sealing a deal with the IMF, but backed away. The government of President Sisi eventually resorted to the IMF in 2016, after generous infusions of aid from Gulf Arab allies proved to be insufficient to stave off a balance of payments crisis.

A core element of the IMF deal was exchange rate reform. Facing an increasingly unrealistic official foreign exchange regime, Egypt opted for the most radical reform approach: the free flotation of the national currency. This triggered a devaluation of more than 50 per cent overnight, which in turn led

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<sup>39</sup> Algeria National Office of Statistics (2019), 'National Quarterly Accounts: Second Quarter 2019' (French), <http://www.ons.dz/IMG/pdf/ComptesN2T2019.pdf> (accessed 16 Dec. 2019).

<sup>40</sup> Bank of Algeria (2019), 'Monthly Financial Situation: September 2019' (French), [https://www.bank-of-algeria.dz/pdf/Situation\\_Publiable\\_BA.PDF/2019/FR/Situation\\_publiable\\_de\\_la\\_Banque\\_d'Alg%C3%A9rie\\_septembre\\_2019\\_FR.pdf](https://www.bank-of-algeria.dz/pdf/Situation_Publiable_BA.PDF/2019/FR/Situation_publiable_de_la_Banque_d'Alg%C3%A9rie_septembre_2019_FR.pdf) (accessed 16 Dec. 2019).

<sup>41</sup> Bank of Algeria (2019), 'Quarterly Statistical Bulletin No.46' (French), [https://www.bank-of-algeria.dz/pdf/Bulletin\\_46f.pdf](https://www.bank-of-algeria.dz/pdf/Bulletin_46f.pdf) (accessed 16 Dec. 2019).

<sup>42</sup> Le Point Afrique (2019), 'Algeria's controversial hydrocarbons law is passed' (French), 15 November 2019, [https://www.lepoint.fr/afrique/algerie-le-projet-de-loi-controverse-sur-les-hydrocarbures-a-ete-adopte-15-11-2019-2347587\\_3826.php](https://www.lepoint.fr/afrique/algerie-le-projet-de-loi-controverse-sur-les-hydrocarbures-a-ete-adopte-15-11-2019-2347587_3826.php) (accessed 16 Dec. 2019).

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to a surge in inflation to 30 per cent on average throughout 2017.<sup>43</sup> Egypt's income per capita declined sharply in dollar terms, and the poverty rate, based on a global metric devised by the World Bank, rose by five percentage points between mid-2015 and mid-2018 to 32.5 per cent.<sup>44</sup>

On the fiscal front, the government phased out most energy subsidies from 2016 onwards, and generated extra revenue through the introduction of VAT as part of the IMF deal. The pressure on living standards was mitigated to a limited extent by two large-scale social safety net programmes, to which the World Bank allocated \$900 million, and by the increase in spending on food subsidies by the state.<sup>45</sup> When the IMF programme ended in November 2019, many of Egypt's main annual macroeconomic indicators showed significant improvements: inflation was below 5 per cent; real GDP growth had climbed to 5.6 per cent; the government was running a primary surplus on its fiscal accounts, allowing for public debt to be reined in after having exceeded 100 per cent of GDP; interest rates were on a sharply declining trend, lowering the government's debt-service costs; the Egyptian pound had appreciated by more than 10 per cent during 2019; foreign exchange reserves had reached a plateau of around \$40 billion, sufficient to cover six months of imports; the current account deficit had fallen to 2 per cent of GDP, after reaching 7.5 per cent in 2016; and the official unemployment rate fell to 7.5 per cent from its peak of 13.4 per cent in 2013.

**The build-up of Egypt's foreign exchange reserves has been matched by a surge in external debt to about \$110 billion as of mid-2019, double the level in 2015.**

However, these positive economic indicators are hiding more troubling signs. The build-up of foreign exchange reserves has been matched by a surge in external debt to about \$110 billion as of mid-2019, double the level in 2015. Much of this debt is long-term and on relatively concessional terms, representing a manageable figure of around 35 per cent of GDP; but a repayment crunch could be looming in the coming years. Another factor that may have a negative impact on the country's economy is the heavy reliance on inflows of portfolio investment, and the relatively weak performance of FDI, apart from in the energy sector, which has benefited from the provision of enhanced conditions for international oil companies, including more streamlined contracting.<sup>46</sup> Finally, the strong GDP growth performance of the past three years has depended heavily on external trade, which gained a boost from the currency's devaluation, while domestic private consumption growth has averaged only about 1 per cent since mid-2017.<sup>47</sup>

Tunisia also resorted to IMF support in 2016, and is set to complete a four-year reform programme by mid-2020. Tunisia's obligations have included a less radical approach to exchange rate reform than the free flotation of the Egyptian pound, but the Tunisian dinar has depreciated in the framework of a managed float of the currency, and this has been a factor in pushing up

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<sup>43</sup> International Monetary Fund (2019), *Arab Republic of Egypt: Fifth Review Under the Extended Arrangement Under the Extended Fund Facility- Press Release; Staff Report; and Statement by the Executive Director for the Arab Republic of Egypt*, Washington, DC: International Monetary Fund, <https://www.imf.org/en/Publications/CR/Issues/2019/10/10/Arab-Republic-of-Egypt-Fifth-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-48731> (accessed 16 Dec. 2019).

<sup>44</sup> Economyplus Middle East (2019), 'All that you wish to know about poverty in Egypt over 20 years' (Arabic), 2 August 2019. <https://economyplusme.com/11052/> (accessed 16 Dec. 2019).

<sup>45</sup> World Bank (2019), 'Strengthening Social Safety Net Additional Financing', <https://projects.worldbank.org/en/projects-operations/project-detail/P168414> (accessed 16 Dec. 2019).

<sup>46</sup> Ould Ahmed, H. (2019), 'Algeria lawmakers approve new energy law to attract foreign investors', Reuters, 14 November 2019, <https://www.reuters.com/article/algeria-energy/algeria-lawmakers-approve-new-energy-law-to-attract-foreign-investors-idUSL8N27U35P> (accessed 16 Dec. 2019).

<sup>47</sup> All data extracted from Central Bank of Egypt monthly statistical bulletins and quarterly reports on Egypt's external position: <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/MonthlyStatisticaclBulletin.aspx> and <https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/ExternalPosition.aspx>.

inflation to just over 7 per cent in 2018 and 2019, compared with 3.6 per cent in 2016. Growth has remained subdued, at 1.9 per cent in 2017, 2.6 per cent in 2018 and an estimated 2.7 per cent in 2019. Increased taxes, cuts in subsidies and higher inflation have been reflected in a rise of the poverty rate to about 15 per cent. Like Egypt, the Tunisian government has sought to mitigate these effects through a World Bank-supported social safety net scheme. Tunisia's underlying balance of payments position is more precarious than that of Egypt. External debt has risen from 72 per cent of GDP in 2016 to over 100 per cent in 2019, the current account deficit is running at about 10 per cent of GDP, and foreign exchange reserves are sufficient only to cover three months of imports.<sup>48</sup>

Morocco's economic policy has been subject to IMF monitoring since 2012, but not as part of a structured programme, rather as a condition for access to a precautionary liquidity line if required – Morocco has not yet drawn on this facility. As with other North African countries, the IMF has advocated exchange rate flexibility. Morocco has adopted a cautious approach. In 2017, it changed the weighting of the basket of currencies used as a reference for the exchange rate from 80:20 (euro:dollar) to 60:40, and the following year the Moroccan central bank widened the trading band for the currency. The Moroccan dirham has remained relatively stable, and the authorities have shown little inclination to follow the Egyptian route to a full flotation.<sup>49</sup> The government has undertaken reforms to energy subsidies, and fuel prices are now indexed to international levels – a similar system came into force in Egypt during 2019. Economic growth has averaged about 3.3 per cent in recent years, with the main variable being the performance of agriculture, which is heavily influenced by rainfall levels.<sup>50</sup> Morocco's external accounts have benefited from the rapid growth of automotive and aeronautical exports,<sup>51</sup> following the attraction of major international companies to special economic zones (SEZs). However, the overall growth rate has been below the level required to effect a significant rise in living standards, and dissatisfaction with socio-economic conditions has been reflected in persistent protests against corruption, inequality and police brutality.

**The overall growth rate in Morocco has been below the level required to effect a significant rise in living standards, and dissatisfaction with socio-economic conditions has been reflected in persistent protests against corruption, inequality and police brutality.**

Libya continues to suffer from intense volatility, with growth projected to stand at 10.8 per cent in 2019 but just 1.4 per cent in 2020. Libya is dependent on oil and production remains erratic, but rising international oil prices have buoyed the economy. Inflation over the past several years has also damaged consumer confidence and has fallen to a 'manageable' 13.1 per cent in 2018. Planned economic reforms, approved in September 2018, which would see fuel subsidies removed

<sup>48</sup> International Monetary Fund (2019), *Tunisia: Fifth Review Under the Extended Fund Facility, and Requests for Waivers of Nonobservance and Modification of Performance Criteria and for Rephasing of Access*, Washington, DC: International Monetary Fund, <https://www.imf.org/en/Publications/CR/Issues/2019/07/11/Tunisia-Fifth-Review-Under-the-Extended-Fund-Facility-and-Requests-for-Waivers-of-47106> (accessed 16 Dec. 2019).

<sup>49</sup> International Monetary Fund (2019), *Morocco: First Review Under the Arrangement Under the Precautionary and Liquidity Line-Press Release; Staff Report; and Statement by the Executive Director for Morocco*, Washington, DC: International Monetary Fund, <https://www.imf.org/en/Publications/CR/Issues/2019/10/23/Morocco-First-Review-Under-the-Arrangement-Under-the-Precautionary-and-Liquidity-Line-Press-48747> (accessed 16 Dec. 2019).

<sup>50</sup> Morocco High Commission for Planning (2019), 'Note de Conjoncture No.35' (French), [https://www.hcp.ma/Publication-Note-de-conjoncture-N-35-October-2019\\_a2395.html](https://www.hcp.ma/Publication-Note-de-conjoncture-N-35-October-2019_a2395.html) (accessed 16 Dec. 2019).

<sup>51</sup> Morocco Exchange Office (2019), 'External Trade Bulletin', <https://www.oc.gov.ma/sites/default/files/2019-11/IEE%20Octobre%202019.pdf> (accessed 16 Dec. 2019).

and the dinar devalued, could close the gap between the official and parallel exchange rates. But the implementation of the reforms is slow, and efforts are frustrated by the continued internal military conflict, which has fostered a pervasive war economy.

There are many common economic policy themes across North Africa that could be usefully shared by the various governments across the region and with their international counterparts. These include: exchange rate reform, as undertaken by Egypt, Tunisia and Morocco, which may pose more challenging to implement in Algeria and Libya; subsidies reform; social safety net programmes; policy towards international investment, whether in the structure of tax regimes and SEZs or in setting the operating framework for oil companies; pension reform – Egypt, Morocco, Algeria and Tunisia are all working on programmes to raise the retirement age and increase contributions; and reforms to healthcare and education.

### Regional trade

Across North Africa countries are resigned to the fact that commercial activity is notoriously feeble. As a result, little effort is made to facilitate cross-border trade. The region contributes less than 1 per cent of global trade and has an average degree of openness<sup>52</sup> compared to other regions of the world, but that figure is buoyed by Algeria and Libya's oil exports. The share of all North African countries' exports and imports vis-a-vis the region is very low. In aggregate, only 4.6 per cent of North Africa's exports were destined for the region, while 2.8 per cent of imports came from within the region.<sup>53</sup>

Countries differ in their regional openness. Tunisia appears to be the most oriented towards the region, whereas Morocco is more committed to trade with the entire continent. Egypt and Tunisia have the most diversified trading partners within the region. The limited integration of Algeria and Libya in the region reflect the low diversification of their economies. Tunisia and Morocco have the strongest bilateral trade ties, which demonstrates their industrial diversification.<sup>54</sup> There is therefore potential for an increase in regional trade, especially among those with few bilateral trading relations.

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<sup>52</sup> Measured by comparing the sum of imports and exports to GDP.

<sup>53</sup> African Development Bank (2019), *North Africa Economic Outlook 2019*, Abidjan: African Development Bank, [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/REO\\_2019\\_-\\_North\\_Africa.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/REO_2019_-_North_Africa.pdf) (accessed 16 Dec. 2019).

<sup>54</sup> Ibid.

Table 2: Bilateral commercial ties in North Africa, 2017

		Exports (X)				
		Algeria (DZ)	Egypt (EG)	Libya (LY)	Morocco (MA)	Tunisia (TN)
Imports (M)	Algeria (DZ)	Total X: \$ 37.5 bn Total M: \$ 45.9 bn	Total: \$ 390 M % of EG X: 1.34%	Total: \$287,000 % of LY X: 0.016%	Total: \$261 M % of MA X: 0.89%	Total: \$ 467 M % of TN X: 3.10%
			% of DZ M: 1.22%	% of DZ M: 0.006%	% of DZ M: 1.39%	% of DZ M: 1.02%
			Metals (copper, iron and steel), agriculture, chemicals (essential oils, plastics), textiles	Urea, nitrogen	Apparel, iron and steel, tobacco, fertilizer, other agricultural products	Machinery, iron and steel, vehicles, plastics, chemicals, electrical machinery and equipment
	Egypt (EG)	Total: \$ 457 M % of DZ X: 1.22%	Total X: \$ 29.2 bn Total M: \$ 70.1 bn	Total: \$ 42.2 M % of LY X: 0.23%	Total: \$ 110 M % of MA X: 0.37%	Total: \$ 49M % of TN X: 0.33%
		% of EG M: 0.65%		% of EG M: 0.06%	% of EG M: 0.16%	% of EG M: 0.07%
		Petroleum products (95%)		Iron and steel, organic chemicals, minerals, industrial machinery	Cars (73%), agricultural products, textiles	Chemicals, agriculture (food residues and animal feed), iron and steel, vehicles, machinery
	Libya (LY)	Total: \$ 18.9 M % of DZ X: 0.05%	Total: \$ 410 M % of EG X: 1.4%	Total X: \$ 18.5 bn Total M: \$ 8.99 bn	Total: \$ 74.9 M % of MA X: 0.25%	Total: \$ 393 M % of TN X: 2.61%
		% of LY M: 0.21%	% of LY M: 4.56%		% of LY M: 0.83%	% of LY M: 4.37%
		Vegetable oils, sugarcane and sucrose, pasta, refrigerators and freezers, plaster articles	Agricultural products (vegetables, beverages, dairy products, fats and oils); ceramic and stone products; plastics and chemicals		Vegetable fats and oils, sugarcane and sucrose, sugar and candy, fertilizers, electrical machinery and equipment	Toilet paper, refined maize oil, pasta, other agricultural products, electrical machinery, plastics, cements
	Morocco (MA)	Total: \$ 522 M % of DZ X: 1.39%	Total: \$ 407 M % of EG X: 1.4%	Total: \$ 19.4 M % of LY X: 0.10%	Total X: \$ 29.4 bn Total M: \$ 44 bn	Total: \$ 205 M % of TN X: 1.36%
		% of MA M: 1.18%	% of MA M: 0.92%	% of MA M: 0.04%		% of MA M: 0.46%
		Petroleum products (88.5%), ammonia	Paper and paperboard, electrical machinery, plastics, glass and glassware, aluminium, food residues and animal feed	Iron and steel, ammonia, petroleum products, nitrogenous fertilizers		Dates (23.6%), insulated wires, notebooks, pens, olive oil, hair products
Tunisia (TN)	Total: \$ 749 M % of DZ X: 2.0%	Total: \$ 432 M % of EG X: 1.48%	Total: \$ 36.3 M % of LY X: 0.2%	Total: \$ 120 M % of MA X: 0.41%	Total X: \$ 15.1 bn Total M: \$ 21.8 bn	
	% of TN M: 3.44%	% of TN M: 1.99%	% of TN M: 0.17%	% of TN M: 0.55%		
	Petroleum products (96%), agricultural products	Mineral fuels, oils and waxes, cotton, essential oils, cotton, iron and steel, plastics	Iron and steel products, refined petroleum oils, paper waste, ceramic building bricks, motor vehicles, plastic waste	Vehicles, cotton, agricultural products, electrical machinery and equipment, aluminium		

Source: Compiled by the authors from the Harvard University (2017), 'Atlas of Economic Complexity', <http://atlas.cid.harvard.edu> (accessed 18 Nov. 2019).

## Small and medium-sized enterprises

Small and medium-sized enterprises (SMEs) tend to form an important part of a country's economic and industrial fabric, generating employment and economic growth and development. In regard to regional synergies in North Africa, SMEs are crucial to cross-border trade. They also stand to gain the most from improved coordination and regulatory harmonization in the region, which will expand markets, capital mobility and skills transfer, while simultaneously making these countries more attractive to investors and SMEs more competitive. SMEs also serve as an important entry point for informal enterprises to formalize and progress through the value chain.

As such, every country in the region has dedicated SME institutions and is engaged in reforms to develop the sector. For instance, Egypt, in which 97 per cent of all enterprises are SMEs, is engaged in investment climate reforms, which include reducing red tape and facilitating access to finance for SMEs. The central bank has encouraged banks to target allocating 20 per cent of their loan portfolio to SMEs and provide microfinance at preferential interest rates, in exchange for reduced statutory reserves requirements. Algeria's 2017 Law No. 17-02 encourages the establishment of new SMEs and introduced measures to improve their competitiveness and export capacity, through the National Agency for the Development of SMEs.<sup>55</sup> Libya's national programme for SMEs, set up in 2008, has operated through the establishment of business incubators, providing training to entrepreneurs, and easing access to finance, with specific programmes tailored to university graduates, women, innovators, and residents of remote areas. Tunisia, where SMEs represent 99 per cent of all firms and employ nearly 60 per cent of all workers,<sup>56</sup> has a specific ministry to support them, the Ministry of Industry and SMEs. Finally, Morocco's National Agency for the Promotion of Small and Medium-sized Enterprises (ANPME),<sup>57</sup> established in 2002, supports SME competitiveness through investment, financing and access to markets, and advocates entrepreneurship by assisting entrepreneurs and independent economic agents in developing their plans and formalizing their companies.

## Regulatory cooperation

Definitions of SMEs vary across North Africa. Each country has its own legislative framework and institutional support for SMEs. Regulatory cooperation is an obvious area in which countries can improve the support they offer SMEs. Harmonizing SME definitions, legislation and support institutions would allow countries to benefit from the experience of other countries and lay the ground work for future cooperation.

Tunisia's 2018 Start-up Act is a great example of a law that could form the basis for broader North African SME support legislation. Developed at the impetus of the business community and civil society, the Start-up Act is a viable model for the region in terms of its bottom-up construction and the subsequent adoption of the text by the government. The legislation defines start-up companies, and makes it easier to establish and close companies, to unlock funding, and to promote access to

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<sup>55</sup> International Labour Organisation (2017), 'Algerie – Loi n° 17-02 du 10 janvier 2017 portant loi d'orientation sur le développement de la petite et moyenne entreprise (PME)' [Algeria – Law N° 17-02 of 10 January 2019 including the law of orientation on the development of the small and medium enterprise (SME)], NATLEX Database, [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=fr&p\\_isn=103500&p\\_country=DZA&p\\_count=1088](https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=fr&p_isn=103500&p_country=DZA&p_count=1088) (accessed 16 Dec. 2019).

<sup>56</sup> European Commission (2018), 'Negotiations for a Deep and Comprehensive Free Trade Area between the European Union and Tunisia: The EU Proposal on Small and Medium-sized Enterprises (SMEs)', [https://trade.ec.europa.eu/doclib/docs/2018/july/tradoc\\_157225.pdf](https://trade.ec.europa.eu/doclib/docs/2018/july/tradoc_157225.pdf) (accessed 18 Nov. 2019).

<sup>57</sup> Agence Nationale pour la Promotion de la PME [National Agency for the Promotion of SMEs] (n.d.), [candidature.marocpme.ma](http://candidature.marocpme.ma) (accessed 18 Nov. 2019).

global markets. Among its key features, start-ups benefit from public support in the form of basic funding for founders, an eight-year tax exemption, access to foreign currency accounts, and public-sector workers are encouraged to take time to work on a start-up by guaranteeing their positions for twelve months.<sup>58</sup> The act also went through the unusual yet constructive step of creating an educational platform for policymakers and engaging in a strong public advocacy campaign.<sup>59</sup>

### Sectoral opportunities: Country analysis

Each country has prioritized the development of SMEs in particular sectors, in line with national goals and industrialization plans. It is thus worthwhile examining each country's plans to develop the sectors of greatest potential, these illustrate potential areas of cooperation, competition or synergy.

- Morocco's Industrial Acceleration Plan (2014–20)<sup>60</sup> lists a number of industrial sectors it deems a priority: automotive, aerospace, electronics, textiles, pharmaceuticals, construction materials and renewables. The plan also reiterates the country's commitment to improving SME competitiveness, through the development of access to finance and markets, support to innovation, and by increasing company productivity.
- Algeria supports SMEs by investing in private-sector companies through the National Investment Development Agency. Meanwhile, the National Agency for the Development of SMEs is tasked with the development and modernization of the SME sector.<sup>61</sup> In addition to fossil fuel and petrochemicals, sectors of interest include pharmaceutical, fishing, and agriculture (including arboriculture, olives, viticulture and animal husbandry). Furthermore, in 2017, Algeria launched a 'solar energy cluster' aimed at encouraging the participation of SMEs in this promising sector, in addition to attracting traditional energy players and research centres.
- Libya's SMEs are in a particularly difficult position, operating primarily in the informal sector due to complex business registration procedures and the weakness of the legal, regulatory and administrative systems. SMEs are dominated by food production, construction material (such as wood, bricks and metal), and clothing; other sectors with potential include glass, leather goods, fisheries, and consumer goods and services.<sup>62</sup>
- Tunisia's SMEs have benefited from concerted local and international support since the 2011 revolution, which has allowed their growth in non-traditional sectors of the economy. For instance, SMEs have been successful in agriculture (including agribusiness, led by such products as olive oil); automotive and aeronautics; software; and health services.<sup>63</sup> The textile industry remains important, but has been marked by a slowdown<sup>64</sup> since the expiration of the Multi-

<sup>58</sup> Official Journal of the Tunisian Republic (2018), 'Law 20 (2018), Dated 17 April 2018, with respect to Start-ups' [in Arabic], 20 April 2018, [https://www.startupact.tn/pdf/Loi2018\\_20.pdf](https://www.startupact.tn/pdf/Loi2018_20.pdf) (accessed 18 Nov. 2019).

<sup>59</sup> Sold, K. (2018), 'The Tunisian Startup Act', Sada, Carnegie Endowment for International Peace, 26 June 2018, <https://carnegieendowment.org/sada/76685> (accessed 18 Nov. 2019).

<sup>60</sup> Moroccan Ministry of Industry, Trade, and Green and Digital Economy (2019), 'Industrial Acceleration Plan 2014-2020', [www.mcinet.gov.ma/en/content/industrial-acceleration-plan](http://www.mcinet.gov.ma/en/content/industrial-acceleration-plan) (accessed 18 Nov. 2019).

<sup>61</sup> Oxford Business Group (2017), 'The Algeria Report 2017: SMEs drive growth in non-energy sectors of the Algerian economy', <https://oxfordbusinessgroup.com/analysis/strength-numbers-through-increasingly-supportive-frameworks-small-and-medium-sized-enterprises-are> (accessed 18 Nov. 2019).

<sup>62</sup> Organisation for Economic Cooperation and Development (2016), *SMEs in Libya's Reconstruction: Preparing for a Post-Conflict Economy*, Paris: OECD Publishing.

<sup>63</sup> European Bank for Reconstruction and Development (2018), 'Tunisia Country Strategy 2018-2023', <https://www.ebrd.com/where-we-are/tunisia/overview.html> (accessed 18 Nov. 2019).

<sup>64</sup> Kahia, M. (2017), *The Framework of Tunisian Textile and Clothing Industry*, MPRA Paper N° 60283, <https://mpra.ub.uni-muenchen.de/60283/> (accessed 18 Nov. 2019).

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Fibre Arrangement in 2005, which previously offered Tunisian textile firms preferential access to European markets.<sup>65</sup>

- Egypt's SME sector, representing 95–98 per cent of all industrial firms, is a key component of the economy. Whereas formalizing the informal sector remains an intractable challenge, SMEs are making inroads across various sectors and creating opportunities in transformation, information and communication technologies, infrastructure and construction, tourism, education and agribusiness.

## Outlook: Potential areas of synergy

### North Africa and the fourth industrial revolution

#### *New technologies and North African readiness*

The rules of industrialization are rapidly evolving, with artificial intelligence and renewables becoming central to the fourth industrial revolution. While many governments are grappling with the challenges of automation, mainly the impact on employment, it would be more costly in the long run to not act. The only way forward is to move ahead of the regional curve, by building upon North Africa's educational achievements and the private sector's leadership. However, the transition will be painful and certain groups – notably university graduates – could face additional unemployment pressure if they are not adequately retrained and reskilled. Research by the World Economic Forum (WEF) on the relative readiness of different countries to upgrade their production systems to meet emerging challenges and opportunities demonstrates new ways of thinking about future economic development. The research looks at a host of factors and assesses the readiness of an existing production base (or 'structure'), which includes its complexity and scale, as well as the drivers of production, such as human capital, technology and innovation, and institutional frameworks. The report found that all four analysed North African countries – excluding Libya – are not 'future-ready'; Egypt leads the group, closely followed by Tunisia, with Morocco and Algeria trailing (see Figure 2).

The WEF highlights the importance of public–private cooperation in boosting a country's preparedness for future challenges. However, such cooperation remains rare across the region. Furthermore, while the private sector in different countries has usually taken the lead in developing and integrating new technologies, institutional challenges remain. For example, if there are no clear regulations for online payments, businesses will suffer regardless of how enthusiastic they are about new technologies. Likewise, using artificial intelligence to develop better production or agricultural models will not be possible in the absence of regulatory frameworks for the collection and storage of data.

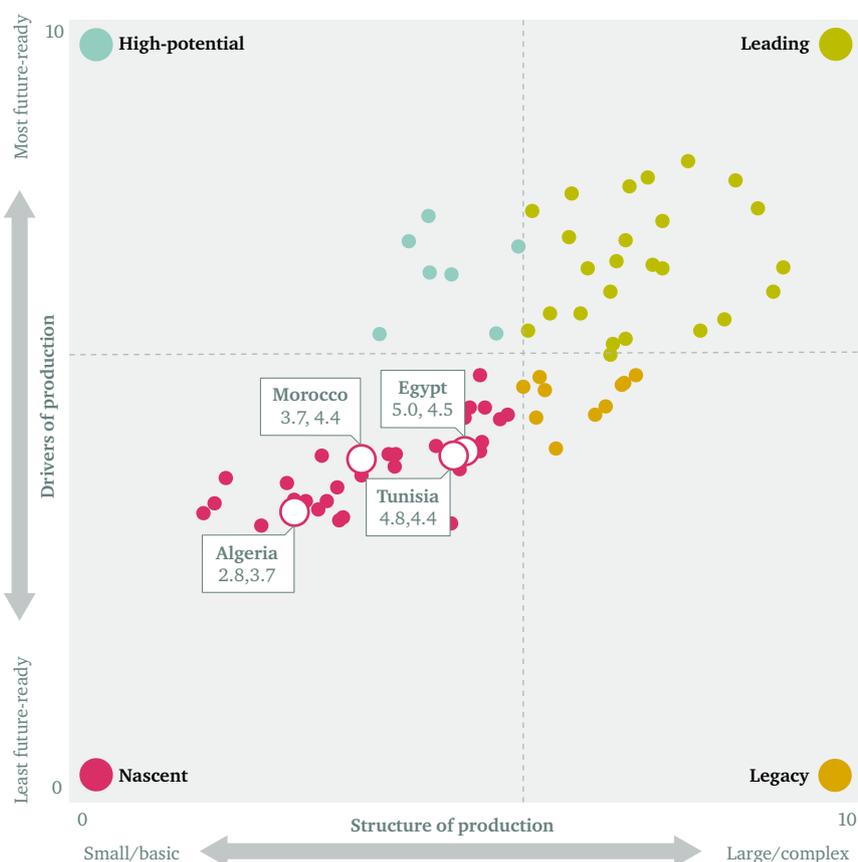
Legislators have been slow to realize the importance of new technologies. While each country is developing its own digital strategy,<sup>66</sup> the often-optimistic goals of these plans are usually not supported by appropriate changes to regulatory frameworks that might free up capacity in the private sector.

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<sup>65</sup> Fridhi, B. (2015), 'L'apport Des PME Dans Le Développement Du Secteur Privé En Tunisie: Efficacité Désirée et Problème De Financement' ['The contribution of SMEs in the development of the private sector in Tunisia: the desired efficiency and the problem of financing'], *Global Journal of Management and Business Research*, 15(2): pp. 16–43.

<sup>66</sup> See Maroc Digital 2020, Egypt's ICT 2030 strategy, Plan National Stratégique Tunisie Digitale 2020, Algeria's Plan d'action 2015-2019, and Libya's Electronic Initiative.

Figure 2: Readiness for the future of production assessment for Egypt, Tunisia, Morocco and Algeria



Source: Compiled by the authors from existing graphs and data available in World Economic Forum (2018), *Readiness for the Future of Production Report 2018*, Geneva: World Economic Forum, <https://www.weforum.org/reports/readiness-for-the-future-of-production-report-2018> (accessed 18 Nov. 2019).

Note: Numbers listed under each country name represent the 'structure of production' and 'drivers of production' weighted scores. Scores rank from 0 to 10.

However, there are some promising signs. Take fintech companies, for example, from online payment innovations to crowdfunding platforms, the Egyptian fintech market leads the region, buoyed by the size of its internal market and the support it has received through the country's 2018 e-commerce strategy.<sup>67</sup> Tunisia's fintech scene is also impressive,<sup>68</sup> notably in its integration of new services to traditional banking and financial services. Morocco's local banking institutions are also supporting the domestic fintech sector. Finally, Algeria's fintech industry is also growing as a regional contender, supported by the banking sector and independent initiatives.<sup>69</sup>

<sup>67</sup> United Nations Conference on Trade and Development (2017), *ICT Policy Review: National E-commerce strategy for Egypt*, Geneva: UNCTAD, <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1956> (accessed 18 Nov. 2019).

<sup>68</sup> Fintechnews Middle East (2019), 'A Glimpse into North African Countries Leading the Way in Fintech', 29 April 2019, <https://fintechnews.ae/4032/fintech/north-africa-tunisia-algeria-morocco-fintech/> (accessed 18 Nov. 2019).

<sup>69</sup> Ibid.

In addition to serving their local markets, companies in North Africa have long explored areas of cooperation, readily crossing borders and establishing regional discussion forums and conferences to exchange ideas and experiences.<sup>70</sup> For example, Egyptian start-up incubators, such as Flat6Labs, are opening branches in regional capitals and investing in local start-ups. Tunisian entrepreneurs also eye the Egyptian and Moroccan markets; while Libyan entrepreneurs move to Tunis seeking a more supportive ecosystem. Much remains to be done, but it is achievable with the concerted support of a wider range of public and private actors.

### Solar energy

Among new technologies, solar energy holds great promise for synergies in North Africa. The region is a global leader in solar energy, supplying domestic and international markets. Countries in the region are investing massively in the sector. Tunisia's TuNur already supplies electricity to Italy and France. Egypt has established one of the world's largest solar parks at Benban, north of Aswan, with a capacity of 1,500 megawatts, which was funded using a feed-in tariff scheme to supply electricity to distributors. Furthermore, two of the world's largest solar plants – Noor Ouarzazate and Noor Midelt – are in Morocco.

Solar energy's public-private nature makes it an ideal sector for regional synergies. Regulatory cooperation between countries, private-sector-led provisions for collaborative production, and even information and experience sharing are all areas of potential cooperation that would improve the possibility of further downstream trade and collaboration.

**Solar energy holds great promise for synergies in North Africa. The region is a global leader in solar energy, supplying domestic and international markets.**

Exporting renewable power to consumption markets is hardly a new idea: a century ago, the theoretical Atlantropa project<sup>71</sup> sought to connect the northern and southern banks of the Mediterranean with a massive hydroelectric energy project. More recently, there was the now abandoned Desertec project,<sup>72</sup> which was an ambitious private-sector-led initiative that planned to provide Europe with clean energy generated from North Africa-based power plants. Although the project has stalled, much of its theoretical basis underpins new projects in the region.

While important government projects, which are setting the industry's pace of development, are looking to expand to markets on both sides of the Mediterranean, private operators are steadily making their own mark. According to entrepreneurs, the promising North African market offers significant opportunities for cooperation and all parties stand to gain in terms of learning and in business.<sup>73</sup> Illustrating the potential for cooperation in the North African solar market, in 2018, Morocco's Attijari Finances led the fundraising round for Egypt's KarmSolar, which also plans investments in Morocco. Disruptive sectors tend to face stiff competition from incumbents

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<sup>70</sup> Seamless Conference North Africa 2020 (2019), 'The Future of Fintech across North Africa', <https://www.terrapinn.com/exhibition/seamless-north-africa/index.stm> (accessed 18 Nov. 2019).

<sup>71</sup> Mauch, F. (2012), 'Atlantropa – Endless Energy from the Mediterranean Sea', *Arcadia* N° 9, <https://doi.org/10.5282/rcc/3864> (accessed 18 Nov. 2019).

<sup>72</sup> Reuters (2014), 'Desertec shareholders jump ship as solar project folds', 14 October 2014. <https://www.reuters.com/article/germany-desertec/desertec-shareholders-jump-ship-as-solar-project-folds-idUSL6N0S535V20141014> (accessed 18 Nov. 2019).

<sup>73</sup> Interview with Ahmed Zahran, CEO of Egyptian solar power firm KarmSolar, Paris, 16 September 2019.

in related or existing industries. Solar energy is under pressure from the imposing fossil fuel industry in the region. As such, it is necessary for cross-country cooperation to develop the solar sector's resilience.

### Finding synergies within extra-regional agreements

It's unlikely that North African nations are going to establish a new economic zone in the near future. However, they are already signatories and party to a number of trade agreements. For example, all five countries are members of the Greater Arab Free Trade Area (GAFTA) established in 1997; signatories to China's Belt and Road Initiative; and, most recently, all have joined the AfCFTA. With the exception of Libya, all are signatories to Euro-Mediterranean Association Agreements (Libya has an observer status in the Euro-Mediterranean Partnership).

The countries of the region could choose to build upon any regulatory harmonization that results from their being party to current trade agreements and move to create a more integrated regional area; this is the case, for instance, of the Regional Comprehensive Economic Partnership (RCEP), which is currently being negotiated between members of the Association of Southeast Asian Nations (ASEAN), who are building on harmonization achieved in one organization as a stepping stone to deeper cooperation. But to replicate this in North Africa would require a political willingness that is simply not there. Countries of the region appear to prioritize formal agreements with developed nations and markets, which they see as providers of high technology capital goods and inputs, and sources of demand for higher value-added products. Alternatively, North African countries tend to pivot towards African regional economic blocs<sup>74</sup> as evidenced by Morocco's significant investments in West Africa, notably in the banking, telecommunications and insurance sectors, culminating in its bid to join the Economic Community of West African States (ECOWAS); and by Egypt, Libya and Tunisia all joining the Common Market for Eastern and Southern Africa (COMESA) in 1999, 2005 and 2018, respectively.<sup>75</sup>

The North African private sector, however, can identify synergies within the respective regional agreements that they are party to. Particularly, if countries are already engaged in rules harmonization to meet the terms of a free-trade area, this could remove some institutional friction and facilitate economic collaboration between public and private economic actors.

Another possibility, which would require renegotiation of bilateral agreements, would be to use cumulative rules of origin under which products with inputs from more than a single North African country would be given preferential treatment in the importing country or region. Currently, the EU offers cumulative rules of origin to some groups of countries – including ASEAN, the Andean Community, SAARC, and Mercosur – but not to North African signatories of bilateral agreements.<sup>76</sup> Such privileges would encourage North African countries to establish joint production mechanisms and improve industrial collaboration. The more numerous and wide-ranging synergies that are created between North African countries, the stronger their bargaining power will be when negotiating with the EU and other regional blocs and arrangements.

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<sup>74</sup> Interview with Ben Shepherd, Principal of Developing Trade Consultants, Paris, 16 September 2019.

<sup>75</sup> Common Market for Eastern and Southern Africa (2019), 'COMESA Member States', <https://www.comesa.int/comesa-members-states/> (accessed 18 Nov. 2019).

<sup>76</sup> United Nations Conference on Trade and Development (2013), *Handbook on the rules of Origin for the scheme of the European Community*, Geneva: United Nations, [https://unctad.org/en/PublicationsLibrary/itcdtsbmisc25rev3add1\\_en.pdf](https://unctad.org/en/PublicationsLibrary/itcdtsbmisc25rev3add1_en.pdf) (accessed 18 Nov. 2019).

## 4. Conclusion and Recommendations

North African countries tend to operate in silos – particularly regarding their security responses and economic planning – often opting to look outside of the region for a solution to a problem before considering working with their neighbours.

While the five countries in the region differ in their approach to various challenges, there are also a number of occasions where they follow noticeably similar policies, which could be the basis for greater cooperation. Engaged outside parties, such as the UK and the EU, can play an important supporting role in encouraging cooperation.

For example, North African countries could develop synergies on security at the level of CVE through more regional security cooperation, religious reforms and deradicalization programmes. Striking a balance between civil society-led action and state-led initiatives is an important element in designing comprehensive policies for CVE across the region. Such a concerted approach would also encourage the countries to share their learning experiences and help their neighbours avoid policy pitfalls, such as the fact that an over-reliance on security measures has weakened non-security attempts to tackle CVE.<sup>77</sup>

Cooperation is even more necessary with respect to complex challenges that require a holistic approach, such as smuggling and human trafficking, which require extra-territorial intervention, including raising awareness in source countries, and actions to deal with the root drivers of migration, rather than simply sealing borders or arresting migrants and smugglers.

North Africa's diverse economic development and sectoral preference can be used to tailor new collaboration approaches. Regional value chains – essentially production systems from input provision to commercialization that spread beyond national borders – can allow countries to identify and exploit complementarity in their activities.<sup>78</sup> By considering their economies' different needs, resources and levels of access, North African countries can coordinate incentives, shared infrastructure development and services for particular sectors to develop the existing production capacity in the region and serve global markets. The automotive and solar energy industries are prime candidates for this. Foreign partners can also contribute to the elaboration of economic policies in specific areas drawing on the positive and negative experiences of governments in the region.

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<sup>77</sup> Masbah, M. (2018), *The Limits of Morocco's Attempt to Comprehensively Counter Violent Extremism*, Middle East Brief No. 118, Waltham, M.A.: Crown Center for Middle East Studies, <https://www.brandeis.edu/crown/publications/middle-east-briefs/pdfs/101-200/meb118.pdf> (accessed 9 Dec. 2019).

<sup>78</sup> Weigert, M. and El Dahshan, M. (2019), 'Regional Value Chains: Africa's Way Forward', YaleGlobal Online, 26 February 2019, <https://yaleglobal.yale.edu/content/regional-value-chains-africas-way-forward> (accessed 18 Nov. 2019).

## Recommendations

- The EU and the UK should, in their dealings with North African governments and security agencies, emphasize the important contribution that civil society organizations can play in CVE. This message is not universally welcomed across the region, particularly in Egypt. Advocates should collect evidence to support their arguments using both positive and negative examples from Europe and North Africa.
- International partners should consider a mixture of incentives and penalties to persuade authorities in North Africa that human rights abuses and restrictions on basic freedoms are potential drivers of unrest and that they are unacceptable. At present, the EU and European governments make periodic criticisms of human rights abuses but take no further action. Incentives could include enhanced training programmes for officials in security agencies and the judiciary. While restrictions on arms sales as a penalty should not be ruled out. More resources should be channelled into information campaigns that present the reality of the experience of migrants on their journey from and through North Africa heading for Europe. Such campaigns should not solely focus on deterrence. They should also present clear information about the possibilities for legal migration.
- North African policymakers would benefit from improved experience-sharing from wider sources, most notably as they often work with the same multilateral partners to address economic challenges. Areas of knowledge and experience-sharing could include exchange rate policy, subsidy reform, social protection, healthcare, public–private partnerships (PPPs), education and pension reform. These conversations could include development finance institutions (DFIs), as well as partners across the Mediterranean.
- Most industrial integration in the region is between partners in Europe and individual North African countries. Efforts should be made to extend such integration horizontally, in consultation with European companies, allowing for greater North African participation across borders.
- Developing and strengthening regional value chains could enable countries to explore the creation of SEZs and clusters near their borders. Coupled with the appropriate mix of legal and fiscal incentives, they could become an important catalyst of cross-border cooperation. Obtaining advantageous access to export markets could support the development of SEZs, as happened in Egypt with its Qualifying Industrial Zones.<sup>79</sup>
- PPPs could boost the development of infrastructure projects in the region but remain underutilized by policymakers. Limited government capacity, insufficient project preparation and investor risk are viewed as the primary obstacles to the development of PPPs in the region,<sup>80</sup> all of which could be addressed with political will and international support.

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<sup>79</sup> American Chamber of Commerce in Egypt (2019), 'Egypt-US Business Data: Qualifying Industrial Zones (QIZs)', <https://www.amcham.org.eg/information-resources/trade-resources/egypt-us-relations/qualifying-industrial-zones> (accessed 18 Nov. 2019).

<sup>80</sup> Organisation for Economic Cooperation and Development (2015), *Public-Private Partnerships in the Middle East and North Africa: A Handbook for Policymakers*, Paris: OECD Publishing.

- The UK is in a privileged position to take advantage of its economic and cultural links to North Africa. There are potential advantages to stepping up training in English language and English law and regulation, particularly in the Maghreb, where the prevalence of French as the main foreign language is sometimes seen as a drawback. UK legal firms have much to offer the region by way of regulatory support for buoyant sectors in North Africa, such as crowdfunding, fintech and blockchain.
- University cooperation across the region, which aims to pool research resources around technical fields such as energy and water security, will provide benefits for academic and policy stakeholders.
- Increasing educational and cultural exchanges is a low-hanging fruit that can increase business and economic synergy creation.

## About the Authors

**Mohamed El Dahshan** is managing director of OXCON, a research and consulting firm working on issues of economic development, policy and strategy, and human rights in Africa and the Middle East. He is also a non-resident fellow with the Tahrir Institute for Middle East Policy (TIMEP) in Washington, DC. Prior to this, he was a senior research fellow at the Harvard University Center for International Development. He writes and lectures on topics including Middle Eastern transitions, economic development and entrepreneurship, post-conflict development, and technology. Mohamed is a graduate of the University of Oxford (MBA), the Harvard Kennedy School of Government (MPA/ID), Sciences-Po Paris (MSc), and Cairo University (BA).

**Dr Mohammed Masbah** is the founder and director of the Moroccan Institute for Policy Analysis (MIPA) and an associate fellow of the Middle East and North Africa Programme at Chatham House. He was previously a non-resident scholar at the Carnegie Endowment for International Peace, and fellow at the German Institute for International and Security Affairs. He is a political sociologist whose work centres on authoritarianism, youth movements and political Islam, with a focus on North Africa. Dr Masbah obtained his PhD in Sociology from Mohammed V University in Rabat.

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Cover image: A Tunisian vendor poses as he sells white truffles at a market in the town of Ben Guerdane, 40km west of the Libyan border, in February 2016.

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The Royal Institute of International Affairs  
Chatham House  
10 St James's Square, London SW1Y 4LE  
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710  
[contact@chathamhouse.org](mailto:contact@chathamhouse.org) [www.chathamhouse.org](http://www.chathamhouse.org)

Charity Registration Number: 208223