Across the Mediterranean Sea:
Trade relationships between the
Arab Maghreb Union (AMU)
and the European Union (EU)

Michelle Mireault

Issues in International Economics
Dr. Kwan Choi
Spring 2004
Final Paper
Introduction: Arab Maghreb Union (AMU) in brief

The term “Maghreb” is an Arabic word meaning “the west” and is used when referring to northwest Africa. Specifically, it is the land between the Atlas Mountains and the Mediterranean Sea, which covers land in Morocco, Algeria, and Tunisia. The Arab Maghreb Union (AMU) was loosely organized back in the 1960s but didn't get officially started until 1989. Libya and Mauritania later entered this Union, with possibilities of other countries joining, specifically Egypt. The AMU Treaty's aim is to tie the countries together to ensure regional stability and enhance policy coordination. The countries will focus on the development of agriculture, industry, commerce, and food security, hopefully as a way to diversify and therefore become less dependent on petroleum. And besides the production of goods, the group is also cooperating on social, cultural, and financial issues. They have set up a free-trade zone and are considering going to a common monetary unit. The central banks of the five countries have been meeting regularly and have made agreements to help facilitate payments and to settle the balances between any two countries without the charge of interest.

Before continuing on with the discussion of the Arab Maghreb Union and the trade relationships it has with the European Union, specifically the Euro-Mediterranean Partnership, I will present background information on the member nations, as gathered from the CIA World Factbook found on-line at www.odci.gov/cia/publications/factbook

Country Brief: Mauritania

Mauritania is home to only 3 million people, making it the least populated of the five AMU countries. It is located in northwestern Africa bordering the Atlantic Ocean as well as Western Sahara, Algeria, Mali, and Senegal. It gained its independence from France in 1960.
The government is a republic and has been headed by President Taya since 1984. He is elected by popular vote (6-year term). He appoints a Prime Minister and has a Council of Ministers. There is a bicameral Legislature that includes the Senate elected by municipal leaders (6-year term) and a National Assembly elected by popular vote (5-year term). The Supreme Court maintains the legal system that is based on Islamic law and French civil law.

The numbers reported for land use seem suspect. Low numbers were reported for arable land, croplands, and pastures, < 0.5%, while the category of other is over 99.5%. However, agriculture is a big part of their economy so the 99.5% must contain some sort of farmland classification. Agricultural products include dates, millet, sorghum, rice, corn, cattle and sheep.

The terrain mainly consists of flat, barren plains of the Sahara desert with some central hills. Most of the population is clustered around the capital city on the coast and the Senegal River in the southern part of the country. Natural resources include iron ore, gypsum, copper, phosphate, diamonds, gold, oil, and fish.

Iron ore, fish and fish products, and gold make up their main exports. Partners are Italy (14.3%), France (14%), Spain (11.7%), Germany (10.9%), Belgium (9.9%), and Japan (7.1%).

The country must import machinery and equipment, petroleum products, capital goods, foodstuffs, and consumer goods. These imports come from France (18.5%), Belgium (7.8%), China (7%), Spain (5.9%), and Germany (5.2%). Exports of $355 million and imports of $360 million lead to a negative balance of trade.

GDP (PPP) is $4.891 billion with a growth rate of 3.3%. Per capita GDP (PPP) is the lowest of the five at $1,700. The inflation rate is at 3% and unemployment is at 21% (near the middle of the five).
Regarding the people, 40% are mixed Mauritanian and Black, 30% Mauritanian, and 30% Black. One hundred percent are Muslim. Arabic is the official language as well as Wolof. Other dialects are present as is French. The literacy rate at 41.7% for the total population makes it the lowest of the five countries. The male-female differential (51.8% - male, 31.9% - female) is extremely consistent across all five countries. Life expectancy is 51.93 years (lowest of the five countries) and the population is growing at 2.91% (highest). AIDS is a non-factor at 1.8% prevalence rate, although compared to the other 4 countries it is noticeably higher. Net migration, like Libya, is 0 per 1,000 people. In fact, all other countries are negative. Many North Africans are moving to European countries in search of a better way of life and more job opportunities, similar to the movement of Mexicans into the US. This is one of the reasons why the AMU and the EU are trying to work together – to improve the economy and retain the labor force of the AMU countries.

**Country Brief: Morocco**

Morocco is home to over 31 million people bordering the Atlantic Ocean, the Straits of Gibraltar, and the Mediterranean Sea. Besides bordering Western Sahara, which it is having land control disputes with Mauritania, and Algeria, which sides against Morocco, they also share a short border (16 km) with Spain along the Straits. It gained independence from France in 1956.

The government is a constitutional monarchy. King Hassan II ruled for 38 years. His son, Mohammed VI has been the current King since 1999. There is a Prime Minister and a Council of Ministers appointed by the King. A bicameral Parliament consists of an upper Chamber of Counselors that are elected indirectly by local councils, professional organizations, and labor syndicates (9-year term) while the lower Chamber of Representatives is elected by
popular vote (5-year term). The Supreme Court maintains the legal system that is based on Islamic law and the French and Spanish civil law systems.

Of the five countries, Morocco has the best land. Eighty-nine percent is either arable, permanent crops or pastures, or forests and woodlands. Tunisia is the distant second with only 56% of its land in these four categories. While there are numerous mountains, including the High Atlas mountains where skiing is possible, there are also plateaus, valleys, and coastal plains. The land is fertile and well watered by the rivers, making the production of barley, wheat, citrus, wine, and olives possible. Livestock can also graze, leading to one of their more famous products – leather goods. Natural resources include phosphates, iron ore, manganese, lead, zinc, fish, and salt.

Phosphates and fertilizers are their biggest export, unlike the following countries in which petroleum and hydrocarbons play a huge role in their economies. Other exports are food and beverages and minerals. Partners are France (35%), Spain (9%), the UK (8%), Germany (7%), and the US (5%). The country must import semi-processed goods, machinery and equipment, consumer goods, and fuel. They buy these from France (32%), Spain (12%), Italy (7%), Germany (6%), and the UK (6%). Exports of $7.5 billion and imports of $10.4 billion lead to a negative balance of trade.

GDP (PPP) is $121.8 billion with a growth rate of 4.6%, which is the near the highest of all five countries. Per capita GDP (PPP) is the second lowest of the five at $3,900. The inflation rate is at 3.6% (highest) and unemployment is at 19% (near the middle of the five).

Regarding the people, 99.1% are Arab-Berber and 98.7% are Muslim. Arabic is the official language but the spoken Moroccan version, darija, is quite different from that spoken by Middle Easterners. Other Berber dialects can be found but French is commonly used for
business, government, and diplomacy. The literacy rate is 51.7% for the total population (64.1% - male, 39.4% - female). Life expectancy is 69.43 years and the population is growing at 1.64%. AIDS is a non-factor at only 0.1% prevalence rate. Net migration is at a negative 1.03 per 1,000 people.

**Country Brief: Algeria**

Algeria, Morocco's eastern neighbor, has close to 33 million people, about 1 million more than Morocco, but it has over five times more land area. Algeria is the second largest African country. It also borders Mauritania, Mali, Niger, Libya, and Tunisia, as well as the Mediterranean Sea. It gained its independence from France in 1962.

The government is a republic. The President is elected by popular vote. President Bouteflika won 70% of the vote in 1999; however his six opposition candidates withdrew on the eve of the elections citing electoral fraud. The President appoints a Prime Minister and a Cabinet of Ministers. The bicameral Parliament has a National People's Assembly, elected by popular vote (5-year term) and Council of Nations where the President appoints one-third and two-thirds are elected by indirect vote (6-year term). The Supreme Court maintains the legal system that is socialist and based on French and Islamic laws.

Algeria's land ranks a distant third with only 3% arable land. Another 15% is either pastures or forests and woodlands. The land is mostly high plateaus and desert with some mountains. They are able to grow much of the same agro-products as Morocco but they certainly are unable to export. Natural resources include petroleum, natural gas, iron ore, phosphates, uranium, lead, and zinc.
Petroleum, natural gas and other petroleum products make up 97% of their exports. Algeria's heavy reliance on this single commodity group, like Libya, can and has left the country vulnerable when the oil market prices have fluctuated. This is one of the reasons these countries are trying to achieve economic stability through forming cooperative agreements among themselves with the EU. Their export partners are Italy (22%), the US (15%), France (12%), Spain (11%), Brazil (8%), and the Netherlands (5%). Because of the poor land conditions, major imports are food and beverages along with capital goods and consumer goods. Imports come from France (30%), Italy (9%), Germany (7%), Spain (6%), the US (5%), and Turkey (5%). Exports of $19.5 billion and imports of $10.6 billion lead to a positive balance of trade. Of the other four countries, only Libya has a positive balance as well.

GDP (PPP) is $174 billion with a growth rate of 3%. Per capital GDP (PPP) is at $5,400. The inflation rate is at 3% and unemployment is 31% (just above Libya as the highest).

Regarding the people, 99% are Arab-Berber and 99% are Sunni Muslim. The official language is Arabic but French and Berber dialects are also spoken. The literacy rate is 70% (78.8% - male, 61% - female). Life expectancy is 70.54 years and the population is growing at 1.65%. AIDS is a non-factor at only 0.1% prevalence rate. Net migration is a negative 0.4 per 1,000 people.

Country Brief: Tunisia

Tunisia is the smallest country in North Africa, located between Algeria and Libya, with a population of over 9.9 million people. Forty percent of its border is on the Mediterranean Sea. It gained its independence from France in 1956.
The government is a republic. The man who led the independence movement, Habib Bourguiba, ruled from 1956 to 1987 but his own Minister for the Interior, Ben Ali, had him declared mentally unfit to rule. Ali is now the current President (winning the 1999 election with 99.44% of the vote). The President is elected by popular vote (5-year term). Besides the President, there is also an appointed Prime Minister and a Council of Ministers. The legislative branch is unicameral, consisting of a Chamber of Deputies, elected by popular vote (5-year term). The Court of Cassation maintains the legal system, which is based on French civil law and Islamic law.

Tunisia ranks second in usable land out of the five countries, with 19% arable land and 33% either cropland or pastures. Main agro-products are much more diverse than the other countries: olives, grain, dairy products, tomatoes, citrus, sugar beets, dates, and almonds. And in spite of being the smallest country, it still has various terrains, from beaches to mountains, plains, and deserts, where dune skiing and land yachting are popular tourist activities. Natural resources include petroleum, phosphates, iron ore, lead, zinc, and salt, much like its neighbors.

Textiles, mechanical goods, phosphates and chemicals, agricultural products and hydrocarbons make up their exports. These items go to Germany (28%), France (22%), Italy (17%), Belgium (5%), and Libya (4%). They import some of the same things – machinery and equipment, hydrocarbons, chemicals, and food. Partners are France (23%), Germany (23%), Italy (15%), and Belgium (3%). Exports of $6.8 billion and imports of $8.7 billion lead to a negative balance of trade.

GDP (PPP) is $67.1 billion with a growth rate of 4.8% (highest). Per capita GDP (PPP) is $6,800, also the highest of the five countries. The inflation rate is 2.5% and unemployment is 15.4% (the lowest).
Regarding the people, Tunisia has 9.9 million, which surprisingly is not the lowest. Libya, which is close to 11 times the size of Tunisia, has almost 4.5 million fewer people. Similar to the other countries 98% are Arab and 99% are Muslim. Arabic is the official language and both Arabic and French are used for business. The literacy rate is 74.2% (84% - male, 64.4% - female) and life expectancy is 74.4 years. Both of these are the second highest in the region. The population is growing at 1.09%. AIDS is a non-factor at only a 0.04% prevalence rate. Net migration is a negative 0.6 per 1,000 people.

Country Brief: Libya

Libya, while being the second largest of the five AMU countries, has a comparatively low population, roughly 5.5 million people. It borders Tunisia, Algeria, Niger, Chad, Sudan, and Egypt, and of course the Mediterranean Sea. Unlike the other four countries, Libya was colonized by Italy. It gained independence in 1961.

The government is a Jamahiriya, or a state of the masses, and is governed by the people through local councils. Although Muammar Qadhafi has no official title, he is the chief of state. There is also a Secretary of the General People's Committee (Premier). The General People's Committee serves as the cabinet. The unicameral legislative branch is the General People's Congress, elected indirectly through a hierarchy of people's committees. Election terms and winning percentages are (suspiciously) not available. The Supreme Court maintains the legal system, which is based on Italian civil law and Islamic law. There are also separate religious courts.

The land is of very poor quality, being over 90% desert or semi desert. Only 1% is arable and about 8% can be used as pastures. Only the coast is somewhat reasonable for agriculture.
Ninety percent of the population lives in this region. The Great Man-Made River Project, one of the most expensive engineering schemes in history, is aimed at making Libya self-sufficient in agriculture by pumping water from the belowground aquifers to the coastal plains. Qadhafi is funding this project from the money earned from oil production, which the government took control over. These facilities used to be fully foreign-owned. So unlike other countries that are looking to privatize state-owned businesses, Libya probably won’t do the same, particularly in oil. Libya's agro-products are similar to the other countries – wheat, barley, olives, dates, citrus, vegetables, peanuts, and soybeans. Lack of food production has sometimes led to shortages, hence the river project. Natural resources are petroleum, natural gas, and gypsum.

Crude oil and refined petroleum products are their top exports. Partners are Italy (33%), Germany (24%), Spain (10%), France (5%), Turkey (4%), and Tunisia (4%). Machinery, transport equipment, food, and manufactured goods are imported. Partners are Italy (24%), Germany (12%), Tunisia (9%), the UK (7%), and South Korea (5%). Exports of $11.8 billion versus imports of $6.3 billion lead to a positive balance of trade, the only other country besides Algeria in the region to have a positive balance.

GDP (PPP) is $33.4 billion with a growth rate of 1.2%. Per capital GDP (PPP) is $6,200, making Libya the second wealthiest of the five countries. However, this is due more to having the smallest population with 5.5 million people (fewer than New York City) living in an area slightly larger than Alaska. In fact, total GDP is the lowest in the region. The inflation rate is 1%, the lowest in the region. Unemployment is at 30%, slightly behind Algeria as the highest.

Regarding the people, 97% are Arab-Berber and 97% are Sunni Muslim. Libya has far more minority groups than the other countries, including Greek, Maltese, Italians, Egyptians, Pakistanis, Turks, Indians, and Tunisians. Arabic, English and Italian are spoken. The literacy
rate is 82.6% (92.4% - male, 72% - female) making it the most literate of the five countries. Life expectancy is 76.07 years (highest) and the population is growing at 2.39% (second highest). AIDS is a non-factor at only 0.2% prevalence rate. Net migration is 0 per 1,000 people.

In summary, the countries of North Africa share more similarities with the Middle East than with the rest of Africa. But even though Mauritania, Morocco, Algeria, Tunisia, and Libya share many characteristics, there are quite a few distinctions that make each of them unique. A table on the last page provides some data for comparison. Aside from the white Europeans who colonized parts of Africa, much of the region bordering the Mediterranean Sea is home to Arabs or related tribes, such as Berbers, although Mauritania has a much larger population of Black people. These countries mainly practice the Islamic faith versus Christianity, which is more popular in other southern areas.

**Trade relationships: the Arab Maghreb Union and the European Union**

Some historical information on the beginnings and current incarnation of a union between the five North African countries is provided by MEDEA - European Institute for Research on Mediterranean and Euro-Arab Cooperation. Like the European Union or NAFTA, which get far more attention in the media, other countries have formed similar organizations in order to modernize and to allow them to become more competitive in the world market. North Africa’s attempt actually goes back to the time shortly before these countries gained independence with the creation of the Committee for the Liberation of the Maghreb in 1948. In 1964, all four countries except Mauritania (which entered 1988) held the first Conference of Maghreb Economic Ministers which established the Maghreb Permanent Consultative Council. Unfortunately at this time, there were and disputes over Western Sahara. (See Appendix for
description of conflict and more information on Western Sahara.) This is probably one of the biggest hindrances in the formation of a stable union. The Arab Maghreb Union, created on February 17, 1989, is the latest attempt at forming a partnership between these five countries.

The structure of the AMU includes a Council of Heads of State, Council of Foreign Ministers, a Steering Committee, a Justice Court, an Advisory Chamber, Specialized Committees (Interior, Human Resources, Infrastructure, Economy and Finances, and Food Security), and a General Secretariat.

The objectives of the Arab Maghreb Union are as follows:

1. To increase intra-regional trade and foster economic development, by allowing the free movement of goods, services, labour and capital.
2. To provide a framework for co-ordinating policies regarding access to European markets, as the completion of the Single Market in 1992 was expected to reduce access to these markets for Maghreb exports.
3. To provide a framework for co-ordinating efforts to deal with the aftermath of the economic crisis which affected all Arab Maghreb Countries (AMCs) in the 1980s. Algeria and Libya, for example, were hit by the downturn in world prices of oil, while the entry of Spain and Portugal into the European Union (EU) in 1986 affected Morocco and Tunisia, their traditional competitors.
4. To recognise the fact that political disputes over borders or in terms of differences in political orientations have cost the AMCs much time and energy. Therefore, the agreement was partly aimed at normalising bilateral trade relations between the AMCs, such as those between Algeria and Morocco, Libya and Tunisia and Libya and Morocco.
5. To deal with the impact of détente in East-West relations and the collapse of the Soviet dominance in Eastern Europe. This was regarded as a reason for creating the AMU because the fear the end of the Cold War may bring in a new world order with is not favourable to the AMCs. These countries had to unite if they were to exert any weight on the international scene. (Testas, 1999).

In addition to these objectives, some specific goals include an agreement to construct a gas pipeline from Algeria through Morocco to Spain, as well as other energy programs, and the creation of an Investment and International Trade Bank, focusing on projects involving agriculture and industry. Facilitating transportation over land and by sea is also of importance.
Besides the Arab Maghreb Union, a Euro-Mediterranean Partnership is also in existence. Fifteen Member States from the EU along with 12 Mediterranean countries officially began this partnership in November of 1995 by holding the Conference of EU and Mediterranean Foreign Ministers in Barcelona. Because of the location, it is also known as the Barcelona Process, and a Barcelona Declaration was adopted. Key provisions cover three main areas:

1. Political and Security Partnership: Establish a common Euro-Mediterranean area of peace and stability based on fundamental principles including respect for human rights and democracy.
2. Economic and Financial Partnership: Create an area of shared prosperity through the progressive establishment of a free-trade area between the EU and its Partners and among the Mediterranean Partners themselves, accompanied by substantial EU financial support for economic transition in the Partners and for the social and economic consequences of this reform process.
3. Social, Cultural and Human Partnership: Develop human resources, promote understanding between cultures and rapprochement of the peoples in the Euro-Mediterranean region as well as to develop free and flourishing civil societies.

Specifically detailing item 2, the Barcelona Declaration has set a target date of 2010 for the establishment for the free-trade zone, with the main goals of the elimination of restrictions on manufactured goods and the progressive liberalization of trade on agricultural goods. With the expansion of the EU to include not only the Mediterranean countries but the Central and Eastern European Countries (CEECs), this free-trade zone will include roughly 40 countries and 600-800 million consumers, vastly dwarfing many other regions, (Europa).

Tunisia was the first in the region to sign an Association Agreement with the EU in July 1995, which came into force on March 1, 1998. A copy of their formal Agreement can be found on-line through Europa’s website. It is 173 pages long in PDF format. Although Agreements vary between the countries, they all share the following components:

- Political dialogue
- Respect for human rights and democracy
• Establishment of WTO-compatible free trade over a transitional period of up to 12 years
• Provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies
• Economic cooperation in a wide range of sectors
• Cooperation relating to social affairs and migration (including re-admission of illegal immigrants)
• Cultural cooperation

Tunisia is working to open a free-trade area with the EU, starting back in 1996 with the reduction or elimination of tariffs. Besides manufactured goods, liberalization in agricultural trade is also benefiting both regions. Europe is now accepting more olive oil and wine from Tunisia while duties have been reduced on commodity products such as wheat and vegetable oils. It is also one of the chief beneficiaries of financial cooperation, receiving roughly 658.25 million Euros to help with privatization, tax reform, trade, environmental protection, development of natural resources, infrastructure, and social policies such as job creation and medical insurance. A small-business advice center, Euro-Tunisie-Enterprise has been set up and professional training programs have been formed. Tunisia is also actively searching out foreign direct investment, even setting up a website for this purpose (http://www.investintunisia.com). Finally, the country is strongly committed in the fight against terrorism.

Currently, Morocco and Algeria are the only other AMU countries with Association Agreements. While Libya is working toward formal inclusion in the partnership, it only has “observer” status at certain meetings. The other countries are moving in the same direction but Tunisia seems to have advanced the most, making it an excellent trading partner for Europe with 80% of its exports going to the EU while importing 71% of its goods from their neighbors across the Mediterranean Sea. Other Euro-Med countries are Israel, Jordan, Lebanon, and the
Palestinian Authority (Association Agreements); Egypt and Syria (Cooperation Agreements); and Cyprus, Malta, and Turkey (Association Agreements – first generation).

**Conclusion**

There are clearly positive reasons why the AMU and the Euro-Med Partnerships are beneficial. From a North African viewpoint, many of these countries have struggled and lagged behind the rest of the developed world. Poverty exists and resources are limited. Working together to “lift each other up” can make each country individually better off as well as creating a more viable region that can compete in the world markets.

From a European viewpoint, there are also gains to be made. On the surface, Europe is able to import more goods without added tariffs and their producers are able to export more. But it goes deeper than just trade economics. The hopes are that economic and financial stability amid a volatile region will help bring about stability on political and social levels. With improvements in North Africa’s economy, Europe won’t be faced with an influx of immigrants and all of the costs that go along with that. Unfortunately with the tragic bombings in Spain by Moroccan suspects, we see that there is still a long way to go.

From a US or non-Arab/non-Muslim viewpoint, it would make sense to establish a company in Europe and take advantage of the Euro-Mediterranean Partnership as well as the relatively easy accessibility over the Mediterranean Sea versus the Atlantic or Indian Oceans in order to increase trade. Given the close proximity, the Association Agreements, and the fact that the North African countries have ties to Europe due to past colonization (and therefore similar legal systems), doing business through Europe makes the most logical sense.
Appendix

Western Sahara, formally known as Spanish Sahara, is involved in an unresolved sovereignty dispute. In 1976, Morocco annexed two-thirds of the land while Mauritania took control of the remaining area. Mauritania then withdrew in 1979 under pressure from the Polisario Front, the Popular Front for the Liberation of the Saguia Hamra and Rio de Oro. Guerrilla warfare continued between Morocco and the Polisario until 1991, when the UN helped to negotiate a cease-fire. Although Morocco administers the country, the issue of control has still not been settled.

Data reported by the CIA World Factbook is incomplete. Western Sahara is about the same size as Morocco with only about 260,000 people, mainly Arab or Berber, and Muslim. The land is mostly desert, with little rain or other available water. Phosphate mining, handicrafts, and fish are exported while fuel (for fishing fleet) and foodstuffs are imported. No economic or trade data is provided. Because Morocco oversees the region any figures for Western Sahara are included under Morocco’s totals.
Resources

CIA World Factbook at http://www.odci.gov/cia/publications/factbook, then select a country, for all country brief data.

Europa at http://europa.eu.int/comm/external_relations/, for select countries and for specific information on Euro-Med relations.
