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### NORTH AFRICA AND THE EU: PARTNERSHIP FOR REFORM AND GROWTH

Compilation of the findings and recommendations discussed during the conference on “North Africa and the EU: Partnership for Reform and Growth” held in Casablanca on 27 September 2016 in cooperation with KAS Morocco and the German Chambers of Commerce in Tunisia and Morocco

North Africa is not just the Southern neighborhood of the European Union. It is undoubtedly one of the most important partners of the European Union, and vice versa. The relationship is multi-faceted and aims to satisfy the needs of both partners in areas such as regional stability, trade and investment, and cultural exchanges. Moreover, North Africa is Europe’s most important juncture to and from Sub-Saharan Africa. This offers great potential to North Africa to participate in the economic growth of the continent while having access to Europe’s markets, goods, know-how and investment. Moreover, huge – and so far mostly unused potential – lies in the regional integration of North African states. Despite these potentials economic growth in North Africa remains weak and the negotiations with the EU on closer economic ties have been marked by difficulties. This raises the following questions:

What are the potentials and obstacles for economic growth and economic integration in North Africa? How could the necessary framework for strengthened economic growth look like and which role do the public and private sector play respectively in this regard? Which priorities should be set for the ongoing reform processes? What role could the EU play in this development through a deepened and reformed partnership with its Southern neighbors? And how could such a renewed partnership for reform and growth look like?

To discuss these questions, the KAS Regional Program Political Dialogue South Mediterranean invited representatives of chambers of commerce, economic organizations and academic institutions, as well as entrepreneurs and academics from Algeria, Morocco and Tunisia to a conference on 27 September 2016 in Casablanca.

## **THE ROAD TO INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH**

North African countries possess numerous potentials for economic growth that could foster their stability and prosperity. The countries have large workforces – made up of the large youth cohort - at their disposal. Moreover, the proximity to Europe opens up possibilities for trade and investment. Nevertheless, the current situation is marked by slow economic growth, high rates of youth unemployment, rising public debt, and growing discontent in large parts of society concerning the ongoing reform process. Demands for economic, political and administrative reforms are widespread. However, there seems to be no clear plan for the design and implementation of these reforms as well as a lack of political will. The paper will discuss the four main areas that were discussed as potentials for economic growth and development and the respective challenges.

### **1. Human capital**

The high numbers of young people and the workforce they offer presents an immense potential for North African countries to exploit their economic capacities. At the same time, however, this surplus of young people also creates a considerable challenge for the social and political stability of the countries if government and private sector fail to integrate these people into the labor markets. Far from only forfeiting the economic potential of this human capital, it creates a situation of frustration in which young, mostly well-educated people find themselves in long periods of unemployment, underemployment or in the informal sector. The participants of the conference identified in particular deficits in the education systems of their countries as reason for these problems.

While the literacy rate in all North African countries has improved and access to education – often up until tertiary level – have improved, the quality of education institutions has been eroded over decades of missing or misguided reforms. And while for older generations with a university diploma a stable and well-paid job in the public sector was practically guaranteed, the new generation of graduates is faced with a situation in which the public sector cannot provide enough employment for everybody and in which their acquired skills do not qualify them adequately for a job in the private sector. The skills mismatch between the demands of the private sector and the skills of graduates is further worsened by the lack of counselling services. In the absence of adequate counselling young people tend to opt for subjects that had traditionally been demanded for a position in the public sector but promise low chances for work in the private sector.

On the demand side an increasing tendency of precarization of employment has been noticed over the last decades. This includes the expansion of the informal sector as well as an increasing number of short-term jobs with very low salaries that offer no social security. Youth and women are the groups that are affected the most by this development. It is important therefore to stimulate adequate and inclusive employment creation in order to foster labor force participation of youth and to make use of the available human capital.

The situation shows clearly that in order to foster economic growth and secure social peace and stability in North African countries, reforms will have to be implemented both on the supply and demand side. The education systems will have to be reformed with the involvement of the private sector to ensure the employability of graduates. South Korea, Singapore, as well as Germany are cited as examples in which this convergence between skills supplied through the education system and skills needed by the private sector has been successfully achieved. Moreover, the private sector also has an important role to play to foster the qualification of their workforce through the provision of training for employees. This could positively contribute

to the quality and employability of the human capital. Additionally, research and innovation in education institutions should be fostered in order to facilitate the development of a knowledge-based economy.

While there is a general understanding on the necessity of these reforms, experts describe a lack of vision and political will as main obstacles for the implementation. Academics and private sector representatives alike emphasize the chances these reforms could open up and advocate more generally for a reform of their countries' development models that will shift the focus of these models to human capital development.

## **2. Entrepreneurship**

Closely linked to the fostering of innovation in education institutions is the promotion of entrepreneurship among youth. In the current situation of saturated public sectors and high numbers of young people pressing onto the labor markets, the private sector cannot provide enough employment to absorb all graduates and job seekers. Entrepreneurship can in this context play an important role for employment creation. Currently, however, a lack of innovation in education institutions as well as culturally-based perceptions of entrepreneurship are impeding the development of a culture of entrepreneurship and thus new enterprises. Programs encouraging youth to develop their ideas and supporting them with the first steps towards setting up their enterprises could render entrepreneurship a more realistic option.

The fostering of entrepreneurial spirit and skills through the education system will have to be accompanied by reforms to create a more conducive environment for new and small businesses, such as easier access to finance and streamlined administrative procedures. A lack of political will to push for those reforms can again be seen as obstacle to their implementation.

## **3. „Re-Industrialization“**

Parallel to the developments described above, North African economies have over the last decades experienced a process of “de-industrialization”. While certain new industrial sectors, such as aeronautics and ITCs have seen positive development and the oil sector – for now – supports the economies, growth has been mostly driven by the tertiary sector. Oil carries the evident burden of its finite nature and can thus not be seen as sustainable source of economic growth – on the contrary, experts have been emphasizing the need to diversify economies, particularly in the case of Algeria. At the same time, the growth achieved in new industrial sectors is not pronounced enough to counter the overall “de-industrialization” of North African economies.

Experts thus emphasize the need for a “re-industrialization” of North African economies in order to foster value-added production both for the domestic economies and for export. And while there seems to be a consensus on this idea, the realization of this idea is considerably less clear. One big question that is closely linked to a potential “re-industrialization” is the issue of national champions. While some advocate for supporting certain sectors and firms in order for them to act as drivers of growth, others question the ability of governments to develop the necessary strategy and to set the right priorities for economic growth.

## **4. Regional economic integration**

Regional economic integration between North African countries was discussed as another immense – and currently unused – potential for economic growth and development. North Africa remains the region with the lowest level of economic integration worldwide, both in the fields of trade and investment. Given the close cross-border relationships and interactions of many inhabitants, this seems even more surprising.

A lack of trade complementarity is widely used as explanation for these low levels of integration. While it cannot be denied that trade complementarity between North African economies is lower than in other regions, its impeding effect is likely to be overstated since even the existing complementarity is not fully exploited.

Other explanations range from a lack of infrastructural connections, the overall weak business and investment environment, to political mistrust between the countries. The conflict-ridden political relationship between Algeria and Morocco stands as blatant example for the latter. The closing of borders not only hinders economic transfers, but also boosts illegal activities such as trafficking. The weak state of financial markets, stock exchanges and the lack of a development bank are seen as additional impediments towards stronger integration, particularly concerning investments.

To foster integration North African states need to overcome political mistrust and start a dialogue to exchange best-practices and support each other in necessary reform processes. This could create efficiency gains for all countries and furthermore raise the attractiveness of the region for investors through economies of scale. In order to successfully foster integration, experts suggest a sector-based approach to integration. Through such an approach, sectors with the biggest potential for complementarity can act as drivers of integration. Those renewed efforts at integration will need to be accompanied by investments in physical and financial infrastructure to facilitate exchanges between the countries.

The potentials for deepened economic integration in North Africa are there and could be utilized to strengthen economic growth and sustainable economic development if mistrust can be overcome. Furthermore, regional integration can create a unified and thus a reinforced negotiating position for the countries of the region vis-à-vis other players, such as the EU.

## **PARTNERSHIP WITH THE EU**

As main economic partner of North African countries the EU has an important role to play in fostering economic growth and development in the region. Up until now, however, the partnership remains asymmetric due to the nature of economic exchanges. North African countries export primary goods to the EU and import manufactured goods from the EU. This creates a negative trade balance which is further increased through remaining restrictions on the import of goods into the EU market, particularly in the agricultural sector. In order to foster a fairer partnership that allows easier access to EU markets and thus promotes economic growth for North African countries, new approaches for the partnership will have to be found.

This necessity for new approaches is further exacerbated in the current situation, marked by transnational challenges such as terrorism and migration that make cooperation all the more important. At the same time, experts critically discuss the capacity of the EU in its role as strong economic partner while also dealing with its own challenges, such as the Ukraine conflict and Brexit.

Besides the remaining restrictions of access to the European market, the lack of investment flowing into the region stands as one of the main obstacles towards enhanced economic growth for the region. Experts remark that North African countries are still overwhelmingly seen as export markets, but not as places for investment. The weak business environment is given as main reason for this. Without increased investments from EU countries however, the necessary re-industrialization in the Maghreb cannot take place. Recommendations to overcome the problem range from creating incentives for investors to invest in strategic sectors to designing an overarching strategy to direct FDIs to specific sectors that promise to best support overall economic growth.

In light of these challenges, the EU carried out a review of the European Neighborhood Policy (ENP) in 2015. The "new" ENP is set to be focused more strongly on the needs of its partner countries and aims at helping to stabilize the countries economically, politically and socially. Based on this strategy, there has been an

increasing concentration on bilateral negotiations with the countries, particularly concerning deep and comprehensive free trade areas (DCFTA). The outcomes so far remain mixed however; the negotiations with Morocco have been suspended in March 2016. Furthermore, the focus on bilateral negotiations might run counter to other efforts of the EU to foster economic integration in the region. It is important to find a coherent approach in this regard. Moreover, experts remark the lack of appropriation of the negotiations with the EU by the population of North African countries due to a feeling of non-inclusion in those negotiations. Countering these frustrations has to be included in any effort of deepened partnership.

A renewed and deepened partnership between the EU and North Africa will thus have to entail a further opening of EU markets to its partners, increased investments in the region and a more coherent approach in fostering economic growth through regional economic integration and deepened relations with the EU.



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