

Towards EU-MENA Shared Prosperity

Policy Report
2nd Edition



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Authors

Abdelhak BASSOU
Mario FILADORO
Larabi JAIDI
Marion JANSEN
Yassine MSADFA
Simone TAGLIAPIETRA

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Authors: Abdelhak BASSOU, Mario FILADORO, Larabi JAIDI, Marion JANSEN, Yassine MSADFA and Simone TAGLIAPIETRA

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Contact:

OCP Policy Center

Ryad Business Center – South, 4th Floor
Mahaj Erryad - Rabat, Morocco
Phone: +212 5 37 27 08 08
Email: contact@ocppc.ma
Website: www.ocppc.ma

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List of Contributors

Abdelhak BASSOU, Senior Fellow, OCP Policy Center, Rabat

Mario FILADORO, Trade Specialist – Consultant, International Trade Center

Larabi JAIDI, Senior Fellow, OCP Policy Center, Rabat

Marion JANSEN, Chief Economist, International Trade Center

Yassine MSADFA, Research Assistant, OCP Policy Center, Rabat

Simone TAGLIAPIETRA, Research Fellow, Bruegel, Brussels

List of Abbreviations

- AfDB:** African Development Bank
- AMU:** Arab Maghreb Union
- BNEF:** Bloomberg New Energy Finance
- BP:** British Petroleum
- CAGR:** Compound annual growth rate
- DRC:** Democratic Republic of Congo
- EADS:** European Aeronautic Defence and Space Company
- ECA:** Economic Commission for Africa
- ECCAS:** Economic Community of Central African States
- EIA:** Energy Information Administration
- EU:** European Union
- FDI:** Foreign Direct Investment
- GDP:** Gross Domestic Product
- GHG:** Greenhouse gas
- GSIM:** Group of Support of Islam and Muslims
- GVC:** Global Value Chain
- IEA:** International Energy Agency
- IMF:** International Monetary Fund
- IRENA:** International Renewable Energy Agency
- ITC:** International Trade Center
- MENA:** Middle East, North Africa
- MEND:** Movement for the Emancipation of the Niger Delta
- NDA:** Niger Delta Avengers
- NTM:** Non-tariff measures
- OECD:** Organization for Economic Co-operation and Development
- OICA:** Organisation Internationale des Constructeurs d'Automobiles
- RST:** Rentier State Theory
- SME:** Small and Middle Enterprises
- SMECO:** Southern Maryland Electric Cooperative
- SOMACA:** Société Marocaine de Construction Automobile

UAE: United Arab Emirates

UN: United Nations

UNComtrade: United Nations Commodity Trade Statistics Database

UNCTAD: United Nations Conference on Trade and Development

UNFCCC: United Nations Framework Convention on Climate Change

UNIDO: United Nations Industrial Development Organization

US: United States

USA: United States of America

USFDA: United States Food and Drug Administration

WB: World Bank

WEC: Energy Group

WEF: World Economic Forum

WITS: World Integrated Trade Solution

WTO: World Trade Organization

About bruegel

Bruegel is a European think tank that specialises in economics. Established in 2005, it is independent and non-doctrinal. Bruegel's mission is to improve the quality of economic policy with open and fact-based research, analysis and debate. We are committed to impartiality, openness and excellence. Bruegel's membership includes EU Member State governments, international corporations and institutions. Through publications, events, social media, and a lively blog, Bruegel has carved a unique discussion space for everyone interested in improving the quality of economic policy. Through a dual focus on analysis and impact, and dynamic relationships with policymakers at every governance level, it has also established itself as a vibrant laboratory for economic policies.

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About OCP Policy Center

The OCP Policy Center is a Moroccan policy-oriented think tank striving to promote knowledge sharing and to contribute to an enriched reflection on key economic and international relations issues. By offering a southern perspective on major regional and global strategic challenges facing developing and emerging countries, the OCP Policy Center aims to provide a meaningful policy-making contribution through its four research programs: Agriculture, Environment and Food Security, Economic and Social Development, Commodity Economics and Finance, Geopolitics and International Relations. On this basis, we are actively engaged in public policy analysis and consultation while promoting international cooperation for the development of countries in the southern hemisphere. In this regard, the OCP Policy Center aims to be an incubator of ideas and a source of forward thinking for proposed actions on public policies within emerging economies, and more broadly for all stakeholders engaged in the national and regional growth and development process. For this purpose, the Think Tank relies on independent research and a solid network of internal and external leading research fellows.

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Foreword

We are very pleased to present this joint publication, which collects the papers produced as part of the second collaboration between Bruegel and OCP Policy Center. Within the theme “Towards EU-MENA Shared Prosperity”, our two organisations launched a “Platform for Advanced & Emerging Economies Policy Dialogue” in Rabat on 1 April 2016, and published a first joint policy report entitled “Seven Years after the Crisis: Intersecting Perspectives”.

The aim is to establish an ambitious, yet timely, platform for policy dialogue between emerging MENA economies and advanced economies. The cooperation between Bruegel and OCP Policy Center constitutes the main pillar of this platform. We aim to be the driving force for a content-based dialogue that can lead to concrete analytical output.

With a strong conviction that fruitful policy dialogue should be primarily anchored in sound policy research, Bruegel and OCP Policy Center researchers have tackled issues of utmost importance to all shores of the Mediterranean basin through their papers.

In the first paper, “The Political Economy of Middle East and North Africa Oil Exporters in Times of Global Decarbonisation”, Simone Tagliapietra illustrates that, should the Paris Agreement on climate change be implemented, MENA oil exporters would see their oil rents decline over the next few decades. The paper shows how MENA oil-exporting countries are still not adequately equipped to prosper in a decarbonising world. Therefore, decarbonisation should represent an incentive for MENA oil exporters to pursue structural processes of transition from rentier to production states.

The second paper, “SME competitiveness in the MENA region: connecting to ‘global’ supply chains” by Marion Jansen and Mario Filadoro, assesses the EU-MENA relationship through the lens of international trade, with a focus on the role of SMEs and their competitiveness in the MENA region. The question asked is whether existing success stories of integration into high value added supply chains can be repeated in other sectors and with other trading partners.

Larabi Jaidi and Yassine Msadfa contribute through the paper “The Complexity of Climbing the Global Value Chain: The Cases of Morocco and Tunisia”, where they shed light on the role of Global Value Chains in offering new opportunities for structural transformation in developing countries. Today, the vision of global value chains is limited to analysing trade flows and FDIs on a global scale and is no longer sufficient to answer

the key questions of positioning and upgrading in these value chains.

In “Development and/or security: Stakes of the relationship between the European Union, the Maghreb and the Sahel”, Abdelhak Bassou highlights relevant comparisons between income levels and security conditions to analyse the interactions between development and security in North and South Mediterranean countries, involving the Sahel as a major actor conditioning the regional security strategies’ success.

Karim El Aynaoui

Managing Director of OCP Policy Center

Guntram B. Wolff

Director of Bruegel

Chapter 1

The political economy of Middle East and North Africa oil exporters in times of global decarbonisation

Simone Tagliapietra

Abstract

Endowed with half of the world's known oil and gas reserves, the Middle East and North Africa (MENA) region became – particularly during the second half of the twentieth century – a cornerstone of the global energy architecture. This architecture is currently undergoing a structural transformation, prompted by two different forces: decarbonisation policies and low-carbon technology advancements.

The energy literature offers no comprehensive analysis of the potential impact of the global energy transformation on the MENA region. This paper seeks to fill this gap by investigating the following research question: are MENA oil-exporting countries equipped to prosper in times of global decarbonisation? Making use of the Rentier State Theory and of a business-as-usual projection of the exploitation of oil resources in MENA countries, we highlight on the lack of incentives for MENA oil exporters to pursue paths of economic diversification.

On the basis of a scenario-based analysis, we illustrate that, should the Paris Agreement on climate change be implemented, MENA oil exporters would see their oil rents decline over the next few decades. MENA oil-exporting countries are still not adequately equipped to prosper in a decarbonising world. Therefore, decarbonisation should represent an incentive for MENA oil exporters to pursue structural processes of transition from rentier to production states.

Introduction

Endowed with half of the world's known oil and gas reserves, the Middle East and North Africa (MENA)¹ region became – particularly during the second half of the twentieth century – a cornerstone of the global energy architecture (Yergin, 1991, 2011; Maugeri, 2006).

This architecture is currently undergoing a structural transformation, prompted by two different forces: decarbonisation policies and technological developments.

The adoption and quick entry into force of the Paris Agreement (UNFCCC, 2015) marked a major step forward in global efforts to address global warming (IEA, 2016a). For the first time, developed and developing countries committed to act in order to limit global average temperature increase to well below 2°C, and to pursue efforts to further limit this to 1.5°C above pre-industrial levels. This should reinforce strong decarbonisation measures already being undertaken in different parts of the world, such as in Europe.

Meanwhile, technological advancements have significantly increased the cost-competitiveness of low-carbon technologies such as solar and wind power generation, power storage technologies and electric vehicles (IEA, 2016b; IRENA, 2017). This has already started to reshape the global energy system, notably by giving a greater role to solar and wind in the power generation mix. Global energy outlooks (BP, 2017; EIA, 2017; IEA, 2016a) generally see these trends as continuing in the future. Some outlooks even see these trends further accelerating, leading to a peak in global oil demand in the 2020s (BNEF, 2016; Carbon Tracker, 2017; WEC, 2016).

By transforming the global energy architecture, international decarbonisation policies and technological advancements could have an impact on the world's key oil and gas producing regions, such as the MENA.

Surprisingly, the energy literature presents no comprehensive analysis of the potential impact of the global energy transformation on this region. This paper seeks to fill this gap by investigating the following research question: are MENA oil-exporting countries equipped to prosper in times of global decarbonisation?

We begin with an analysis of the macroeconomic context of the MENA region, showing the persistent over-reliance of MENA oil exporters on the oil rent.

The political economy factors standing behind the lack of economic diversification in these countries are then analysed, particularly through the analytical lens of the Rentier

¹ We define MENA as including the North African countries (Morocco, Algeria, Tunisia, Libya and Egypt), the Levant countries (Jordan, Lebanon, Syria and Palestine), the Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and United Arab Emirates), Iraq and Iran.

State Theory (RST).

By proposing a scenario-based analysis, we then illustrate the potential impact of global decarbonisation on MENA oil exporters. This allows us to illustrate the incompatibility of current MENA oil exporters' macroeconomic models with a global decarbonisation pathway consistent with the Paris Agreement.

Finally, we argue that MENA oil exporters should consider economic diversification as a structural pathway to be pursued in order to ensure their future economic and political stability, even in a decarbonising world.

I. I. The macroeconomic context of the MENA region

1. Composition of GDP, fiscal revenues and exports

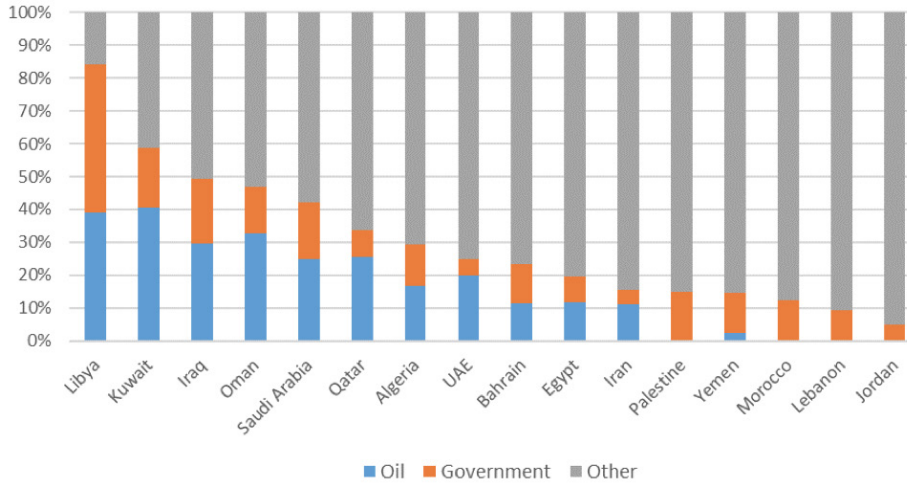
The MENA region presents a heterogeneous macroeconomic context, which reflects the irregular distribution of oil resources throughout the region².

For five regional oil exporters (Libya, Kuwait, Iraq, Oman, Saudi Arabia), more than 40 percent of their GDP is based on oil and on government activities that are heavily funded from oil revenues. In four other oil exporters (Qatar, Algeria, UAE, Bahrain) this share varies between 40 percent and 20 percent (Figure 1).

In all these countries, activities in non-oil and non-government sectors are also often linked to oil and government activities. The main sources of manufacturing value-added tend to include refinery, chemical and other mining/extractive industries, while some non-oil sectors, such as construction, depend heavily on government contacts (IMF, 2016a).

² For simplicity, the article uses the term 'oil' to mean hydrocarbons. In some countries (eg Algeria, Qatar), hydrocarbon production includes a significant share of gas.

Figure 1: GDP composition of MENA countries, 2016



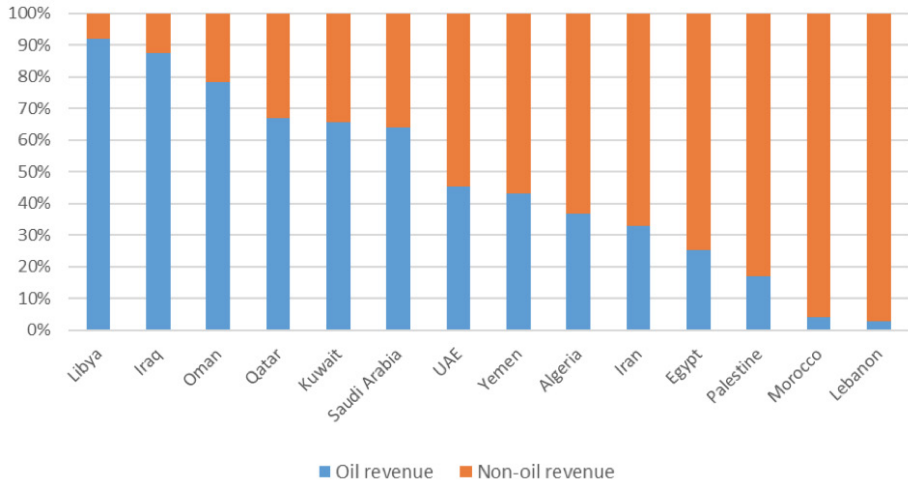
Source: Bruegel based on International Monetary Fund, World Economic Outlook database, accessed in February 2017. Note: data on Libya refers to 2014.

In the same oil-exporting countries, oil is the primary source of fiscal revenues (Figure 2), and non-oil fiscal revenues are themselves mainly related to oil.

For instance, direct oil revenues in Qatar amount to about 67 percent of total fiscal revenue, but more than 90 percent of total fiscal revenue should be considered as oil revenue, because practically all investment income and the bulk of corporate income tax comes from Qatar Petroleum³. In Qatar, non-oil fiscal revenues only derive from corporate income tax of 10 percent levied on foreign companies, withholding tax of 5 percent to 7 percent levied on certain payments to non-residents, customs duties of 5 percent, and some fees (IMF, 2015).

³ Qatar's largest public enterprise comprising upstream and downstream hydrocarbon companies.

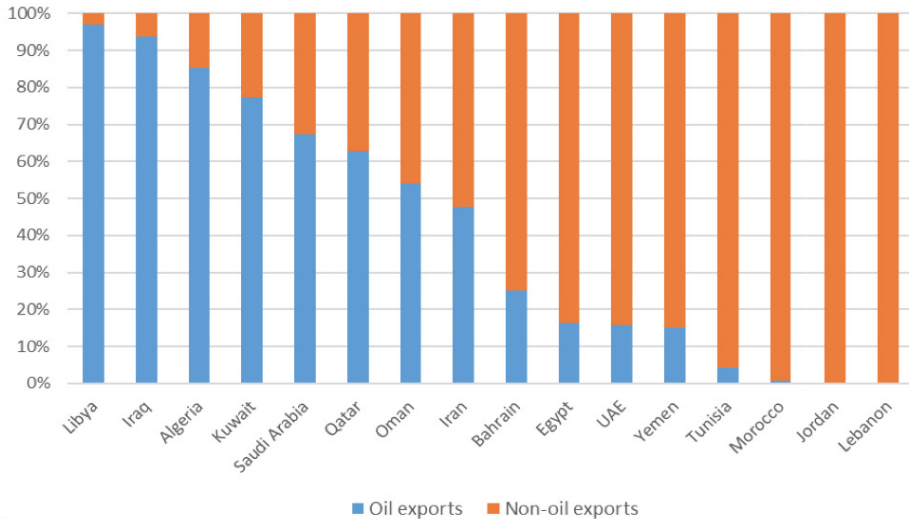
Figure 2: Oil and non-oil fiscal revenue in selected MENA countries, 2016 (% of general government revenue)



Source: Bruegel based on International Monetary Fund, World Economic Outlook database, accessed in February 2017. Note: data on Libya refers to 2014.

Oil makes up more than 50 percent of total exports from MENA oil exporting countries (Figure 3). This further illustrates the predominance of the oil sector in these economies, and their consequently limited level of economic diversification⁴.

⁴ It should be noted that the low shares of oil in exports from the UAE and Bahrain are because non-oil exports include a large share of re-exports (IMF, 2016a).

Figure 3: Oil and non-oil exports in MENA countries, 2016

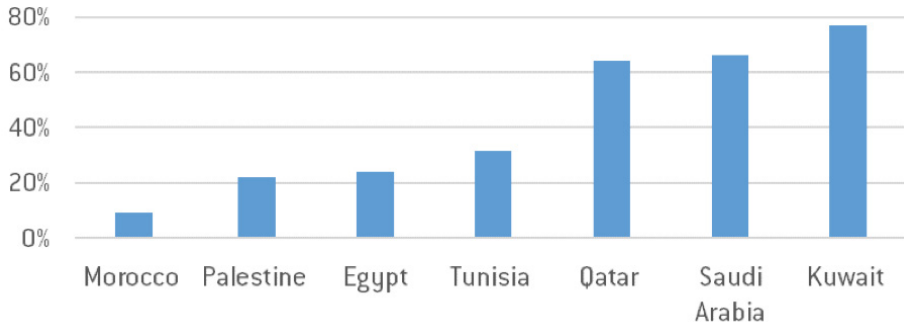
Source: Bruegel based on International Monetary Fund, World Economic Outlook database, accessed in February 2017. Note: data on Libya refers to 2014.

2. Employment and labour productivity

The compositions of GDP, fiscal revenues and exports illustrate how oil represents a fundamental difference in the MENA macroeconomic context between oil exporters and oil importers. But oil also impacts other macroeconomic variables, such as employment and labour productivity.

In oil-exporting countries such as Kuwait, Saudi Arabia and Qatar, more than 60 percent of nationals are employed in the public sector. This situation substantially differs from that in MENA oil-importing countries, where a far more limited share of working populations is employed in the public sector (Figure 4).

Figure 4: Public sector employment in selected MENA countries (% of total employment of nationals)

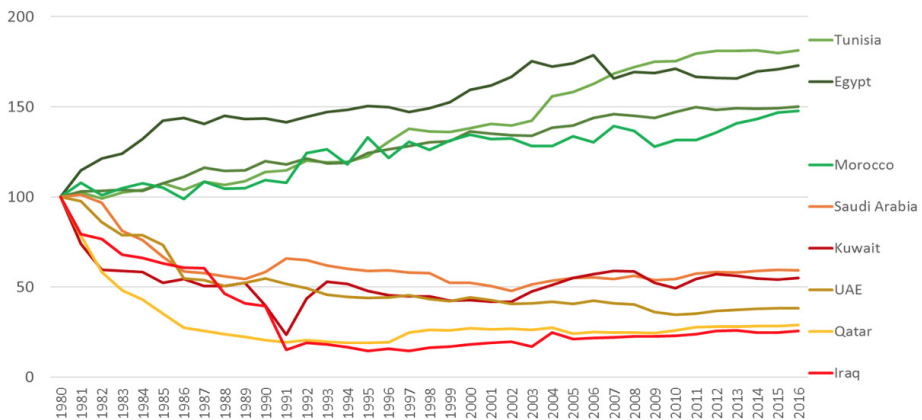


Source: Bruegel based on International Labour Organization, ILOSTAT database, accessed in February 2017.

High shares of public employment, generally characterised by protected jobs with high wages (WEF, 2014), have contributed to lower the labour productivity of MENA oil-exporting countries.

This trend has become more entrenched since the 1980s, as MENA oil exporters have increasingly imported cheap non-national labour, reducing labour productivity also in the private sector. As a result, the trajectories of labour productivity in MENA oil exporters and oil importers have profoundly diverged over the last few decades (Figure 5).

Figure 5: Labour productivity in selected MENA countries (Index: 1980=100)



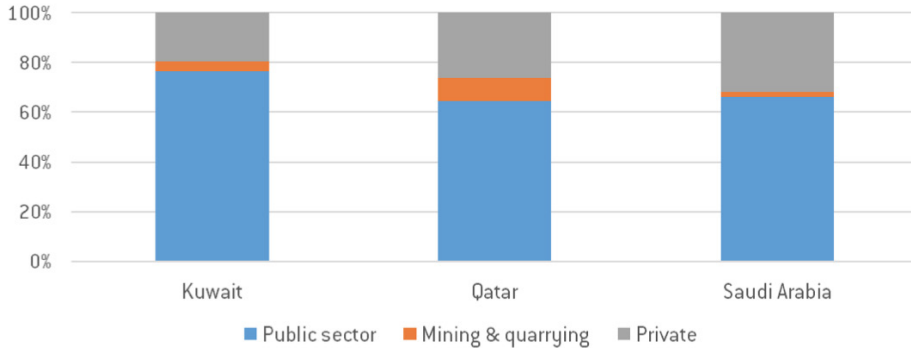
Source: Bruegel based on The Conference Board, Total Economy database, accessed in February 2017.

This low level of labour productivity is one of the major barriers for economic diversification in MENA oil exporters (Hertog, 2013). It prevents the development of an

internationally-competitive private sector.

Furthermore, it should be outlined that high shares of nationals employed in the public sectors of oil-exporting countries go in tandem with small shares of nationals employed in the oil sector (Figure 6).

Figure 6: Employment of nationals in the public sector, mining and quarrying, and the private sector, selected countries

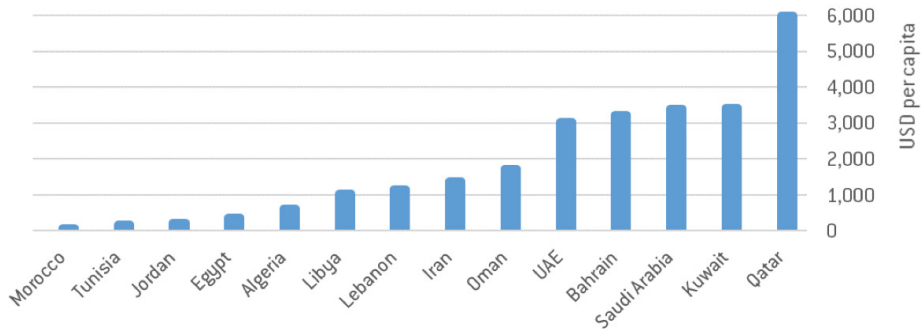


Source: Bruegel based on Gulf Cooperation Council, Statistical Centre, accessed in February 2017.

This is an important aspect of the social contract in MENA oil-exporting countries, because it shows that only a small fraction of each national population contributes to the generation of the rent that is used to financially support the vast majority of each population. The support is mainly based on oversized public sectors, but also on expensive and economically inefficient subsidy schemes, such as those for energy.

3. Energy subsidies and consequent energy inefficiency

Oil exporters such as Qatar, Kuwait, Saudi Arabia, Bahrain and the UAE are the regional frontrunners in terms of deploying energy subsidies. By contrast, oil-importing countries such as Morocco, Tunisia, Jordan and Egypt have the lowest levels of energy subsidies per capita in the region (Figure 7).

Figure 7: Post-tax energy subsidies in selected MENA countries, 2015

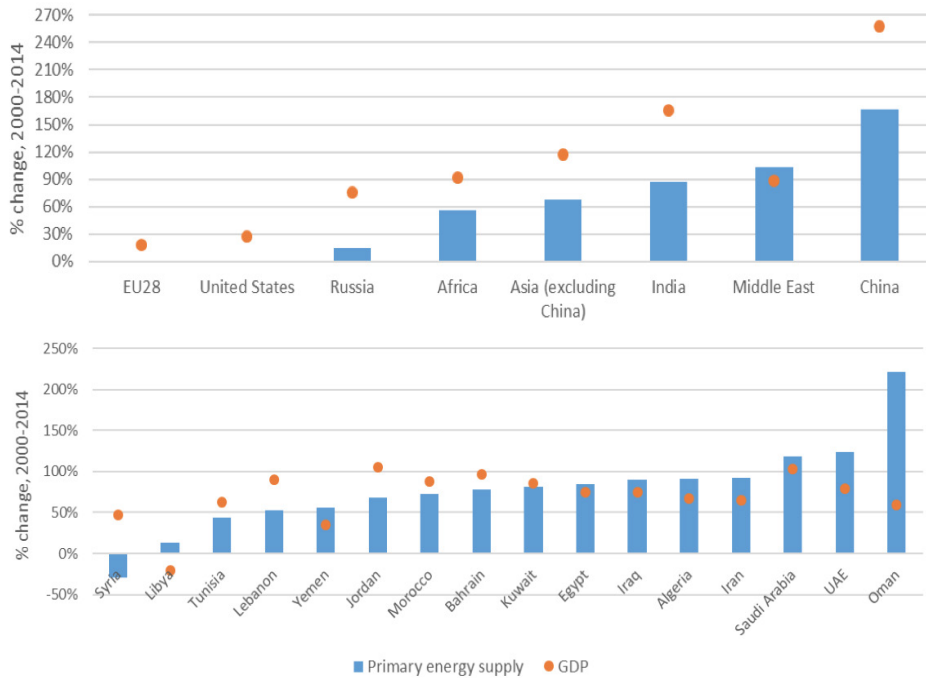
Source: Bruegel based on International Monetary Fund, World Economic Outlook database, accessed in February 2017.

From an economic perspective, high-energy subsidies generate significant economic losses, because oil resources are sold domestically at a fraction of their international market value.

From an energy perspective, energy subsidies distort the economics of energy and the price signals of energy resources, holding back the competitiveness of renewable energy sources. Furthermore, energy subsidies lead to the inefficient allocation of resources and to market distortions, by encouraging rent-seeking behaviour and thus excessive production or consumption.

Not by coincidence, the region is as the least energy-efficient in the world (Figure 8, top panel)⁵. Figure 8 (bottom panel), shows the gap between MENA oil exporters and oil importers. Oil importers such as Morocco, Jordan, Lebanon, Tunisia and Syria managed to expand their economies between 2000 and 2014 consuming proportionally less energy, while in oil-exporting countries – with only the feeble exceptions of Bahrain and Kuwait – energy consumption has generally outpaced economic growth.

⁵ For a comprehensive review of MENA energy markets and policies, see Griffiths et al (2017). For a study on the possibilities for sustainable modernisation of rentier states, see Reiche (2010). For an analysis of the incentives for energy efficiency in fuel-rich states, see Friedrichs and Inderwildi (2013).

Figure 8: Percentage changes in primary energy supply and GDP, 2000-2014

Source: Bruegel based on International Monetary Fund, World Economic Outlook database, accessed in February 2017 and International Energy Agency, World Energy Balances database, accessed in February 2017.

This excursus through the macroeconomic context of the MENA region illustrates the persistent over-reliance of oil-exporting countries on the oil rent. It also sheds light on the peculiar interplay between oil, economics and politics in MENA oil-exporting countries, which we now examine.

II. Understanding the interplay of oil, economics and politics in MENA oil exporters

1. Political economy literature

Since the 1950s, the political economy literature has developed a lively debate on the interplay of natural resources –notably oil – with economic growth and socio-political development.

Raul Prebisch (1950) investigated through his Dependency Theory the reasons why

economic growth in advanced industrialised countries does not necessarily lead to growth in poorer countries and can even lead to serious economic problems in these countries. Prebisch explained the phenomenon by exports of primary commodities from poor to rich countries, which then manufacture products from those commodities, to be finally sold back to the same poorer countries. Because the value added from manufacturing a usable product is higher than the value of the commodities, poorer countries are never be earn enough from their exports to pay for their imports – therefore prolonging their situation of economic underdevelopment.

Richard M. Auty (1993) formulated the Resource Curse Theory to describe the reasons why natural resource-abundant countries often perform poorly in economic and political terms. He claimed this can happen for several reasons, such as the presence of weak institutions, commodity price volatility, conflicts and the so-called ‘Dutch disease’ – a perverse mechanism by which the increased revenues from natural resource discoveries lead to appreciation of the local currency, thus negatively affecting the exports of all other sectors in the economy⁶.

Jeffrey Sachs and Andrew Warner (1995) built on this analysis, further demonstrating a strong correlation between natural resource abundance and poor economic growth.

2. The Rentier State Theory

Special attention should be paid to the RST, which has emerged as a unique analytical framework to understand the interplay of oil, economic and political structures in MENA oil exporters.

The RST was first postulated by Hussein Mahdavy in 1970, in the context of a discussion on the evolution of economic development in the Middle East in general, and in Iran in particular. Mahdavy (1970) defined as rentier states those countries that receive on a regular basis substantial amounts of external rents, which have little to do with the production processes in their domestic economies⁷.

Building on Mahdavy’s seminal study, Hussein Beblawi and Giacomo Luciani in 1987 systematised the RST, and developed it into a widely-accepted tool to interpret the MENA political economy and – more broadly– the political economies of all the world’s oil-producing countries (Abulof, 2015; Smith, 2004; Tsui, 2009; Shambayati, 1994; Ross, 2012; Okruhlik, 1999; Karl, 1997; Jenkins, 2011; Herb, 2005; Cooley, 2001; Gray, 2011;

6 See also: Ross (1999), Ross, Kaiser and Mazaheri (2011), Collier and Hoeffler (2005).

7 “The inputs from the local economies – other than the raw materials – are insignificant. [...] The input requirements of the oil industry from the local economies – at least for the inputs that have an opportunity cost – is so insignificant that for all practical purposes one can consider oil revenues almost as a free gift of nature or as a grant from foreign sources,” Mahdavy (1970, pp. 428-429).

Apergis and Payne, 2014; Chatham House, 2016).

According to the theoretical framework proposed by Beblawi (1987), a rentier state:

- Relies on substantial external rent to sustain the economy, reducing the pressure to develop a strong productive domestic sector;
- Has a small proportion of the population engaged in the generation of the rent, while the majority of the population is only involved in the distribution or in the utilisation of it;
- Its government is the principal recipient of the external rent.

On the basis of the macroeconomic features illustrated in section 2, MENA oil-exporting countries are clearly rentier states par excellence. But how does this situation impact the political structures of these countries?

The conventional role of the state in providing public goods through taxation blurs in rentier states, as the role of the state becomes providing private favours through the ruler's benevolence.

The fundamental principle of democracy, 'No taxation without representation', finds in rentier states its mirror image, 'No representation without taxation'. That is, untaxed citizens are less likely to demand political participation.

Beblawi (1987), recalling previous Mahdavy's reflections, also highlighted that a rentier state economy creates a specific mentality – a rentier mentality – on which income is not related to work and risk bearing, but to chance or situation. This is also a reason why, according to Beblawi, rentier states tend to give rise to second-order rents, such as real estate and financial speculation.

Luciani (1987) expanded Beblawi's analysis, focusing on the key function of the state in rentier countries to understand the more profound interlinks between oil, economics and politics.

Luciani outlined that rentier states might also be defined as allocation states because their key function is to allocate the income received from the rest of the world to their populations.

This allocation function of rentier states profoundly differs from that of production states, which have to subtract – via taxation – resources from those that originally possess them, and reallocate them to others in the society on the basis of an asserted common interest.

From the economic perspective, growth in the domestic economy is not a precondition for the existence and expansion of a rentier state. However, economic growth is an essential precondition for the existence and development of a production state.

From the political perspective, being financially independent from its society,

a rentier (or allocation) state does not need to seek legitimacy through democratic representation. By contrast, because of its reliance on taxation, a production state needs the acceptance of its population.

The structure of rentier states is thus peculiar, and does not offer a clear long-term evolutionary pattern. However, Luciani proposed two main scenarios for the long-term evolution of these states:

- Rentier states might structurally pursue a process of diversification of their domestic economic bases and gradually turn into production states;
- Rentier states might continue unchanged until the last drop of oil is exported, and then simply fold up, with most citizens having accumulated enough of a fortune to allow them to live elsewhere.

A fundamental point to be considered is that, because their main economic foundation – oil – is a finite resource, rentier states necessarily represent a passing phenomenon.

But how fast in passing? In 1987, Luciani answered this question by estimating that rentier states could count on another five or six decades of good life.

However, since 1987 a previously unforeseeable development has emerged, putting rentier states' oil resources at risk of being stranded well before they are depleted: international decarbonisation policies. It is thus important to assess the potential impact of these policies on MENA oil exporters to understand their future outlook.

III. Assessing the potential impact of global decarbonisation on MENA oil exporters

1. As if there had been no Paris Agreement: a business-as-usual projection

The macroeconomic indicators presented in section 2 illustrate the persistently high reliance of MENA oil-exporting countries on the oil rent. MENA oil exporters therefore seem to have opted, so far, for Luciani's second scenario (ie until the last drop), rather than for the first (ie structural diversification).

In a business-as-usual scenario – free of the need for global decarbonisation or the technological developments described in section 1 – this option might seem reasonable.

Since the 1980s, global oil demand has constantly risen, while between 2000 and 2014 oil prices boomed. In such a favourable context, MENA oil exporters have had little incentive to diversify their economies, and to evolve from rentier to production states.

With global markets demanding increasing volumes of oil, and even at increasing prices – at least up to 2014 – why would MENA oil exporters change course and put at risk their established social contracts?

After all, should oil production continue at current levels, MENA oil exporters still have a long way to go before depleting their reserves (Table 1).

Table 1: Projected years of future oil and gas production at 2015 reserve level and average production of last 5 years

	Oil	Gas
Algeria	21	55
Iran	111	196
Iraq	120	>200
Kuwait	90	118
Libya	170	137
Oman	16	21
Qatar	37	147
Saudi Arabia	63	83
United Arab Emirates	75	112

Source: Bruegel based on BP (2016).

This favourable context has led MENA oil exporters to perpetuate their rentier models (Tagliapietra et al, 2014), and to seek the creation of second order rents (ie real estate and financial speculation) already envisaged by Beblawi, as the rise and evolution of sovereign wealth funds in the region illustrates⁸.

2. The new scenario, between decarbonisation policies and technological innovation

Because of decarbonisation policies and technological innovation, these reserves might become stranded before they are depleted.

This is particularly the case for oil reserves. For gas the situation is different because gas is an important component of global decarbonisation because of its key role in displacing coal from the energy mix⁹.

With the Paris Agreement, global leaders have committed to strengthening the global

⁸ See Tagliapietra (2012) and Bahgat (2011).

⁹ See, for instance, IEA (2016a), McGlade and Ekins (2015) and Carraro et al (2014).

response to the threat of global warming by keeping the global temperature rise this century well below 2°C above pre-industrial levels. Climate scientists have estimated that, to have at least a 50 percent chance of keeping the global temperature rise below 2°C throughout the century, the cumulative carbon emissions between 2011 and 2050 need to be limited to around 1,100 gigatonnes of carbon dioxide (GtCO₂) (Meinshausen et al, 2009).

Greenhouse gas (GHG) emissions contained in the present estimates of global fossil fuel reserves are estimated to be about three times greater than the global carbon budget (Meinshausen, 2009; Raupach, 2014).

On this basis, McGlade and Ekins (2015) explored the implications of this emissions limit for fossil fuel production in different world regions. According to their study, a third of global oil reserves, half of gas reserves and over 80 percent of current coal reserves should remain unused from 2010 to 2050 in order to stay within the 2°C target. In this context, they estimate the Middle East to be able to exploit only about 60 percent of its oil reserves – leaving more than 260 billion barrels underground – and about 40 percent of its gas reserves (McGlade and Ekins, 2015, p. 189).

To understand the potential impact of such a scenario on MENA oil exporters, it is useful to take into consideration two scenarios developed by the IEA (2016a):

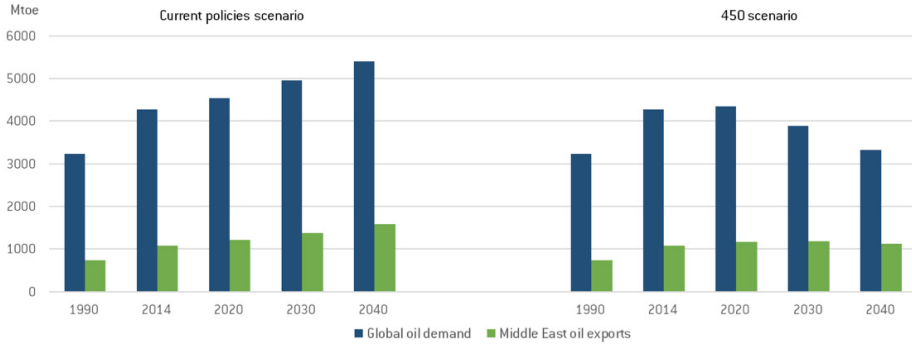
- The Current Policies Scenario, which assumes no changes in current energy policies;
- The 450 Scenario, which sets out an energy pathway consistent with the goal of limiting the global increase in temperature to 2°C.

In the Current Policy Scenario, the IEA expects global oil demand to increase over the next three decades, and Middle Eastern oil exports to correspondingly increase.

In the 450 Scenario, the IEA expects global oil demand to sharply fall after 2020, but expects Middle Eastern oil exports to remain stable at their 2020 level well into 2040 (Figure 9).

This stable export level, in the context of declining global demand, derives from the competitiveness of Middle Eastern oil, for which production costs are expected to remain lower than for other global conventional and unconventional sources.

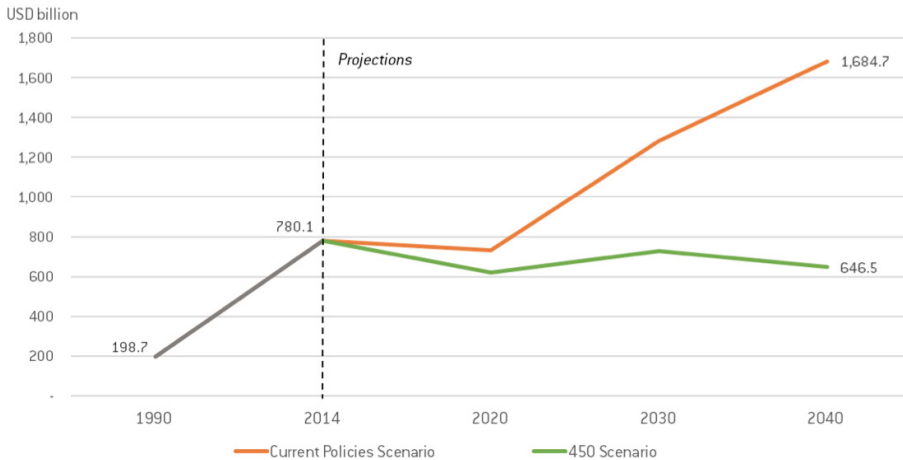
Figure 9: Global oil demand and Middle East oil exports in IEA scenarios



Source: Bruegel based on International Energy Agency (2016).

In terms of export volumes, MENA oil exporters could thus be seen as rather resilient to a decarbonisation scenario. However, as revenues are a function of both volumes and prices, it is necessary also to take into consideration the IEA’s different projections for oil prices in the three scenarios. This shows that, even if Middle Eastern oil exports were to remain stable over the next three decades, oil revenues would decline by 2040 as a result of the lower oil prices expected in the 450 Scenario (Figure 10).

Figure 10: Middle East forecasted oil revenues, IEA scenarios (real prices)

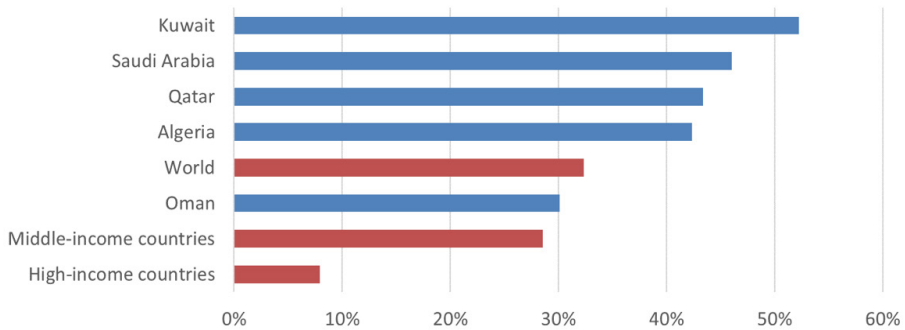


Source: Bruegel based on International Energy Agency (2016).

Such a development would represent an unprecedented challenge for MENA oil exporters. Their entire economic and socio-political models would need to structurally change in order to adapt to the new reality.

This change would also come at a time of strong demographic expansion in all these countries (Figure 11), a feature that would put additional pressure on governments and make the transition from rentier to production states even more complex.

Figure 11: Probabilistic projections of population growth between 2015 and 2050 for selected MENA oil exporters and world's averages



Source: Bruegel based on United Nations, World Population Prospects database, accessed in February 2017.

Conclusions

This study has illustrated the persistent over-reliance of MENA oil-exporting countries on the oil rent.

Making use of the analytical framework provided by the RST, it has shed light on the delicate equilibrium underpinning the interplay of oil, economics and politics in these countries.

This analysis, combined with a business-as-usual projection of the exploitation of oil resources in MENA countries, sheds light on the lack of incentives for MENA oil exporters to pursue paths of economic diversification.

Finally, by proposing a scenario-based analysis, the study has illustrated the potential impact of global decarbonisation policies on MENA oil exporters. This shows that, should the Paris Agreement be implemented, MENA oil exporters would see their oil rents decline over the next few decades. This would happen in a time of strong demographic expansion in these countries.

This analysis shows that MENA oil exporting countries are still not adequately equipped to prosper in a decarbonising world. Therefore, decarbonisation should represent an incentive for MENA oil exporters to pursue structural processes of diversification from rentier to production states (Luciani, 1987).

The drop in oil prices that started in 2014 has functioned as a catalyst for new thinking throughout the MENA oil exporters about the unsustainability of their high reliance on oil and about the consequent needs for economic diversification (El-Katiri, 2016).

All regional oil exporters have adopted economic diversification strategies¹⁰ (Table 2), generally based on the targets of increasing the private sector's role in the economy, developing small and medium enterprises (SMEs), creating jobs, investing in education and innovation.

These strategies reflect the economic policy guidelines generally directed to MENA oil exporters by international organisations (International Monetary Fund, 2016a, 2016b; 2016c; Organisation for the Economic Cooperation and Development, 2016; World Bank, 2012, 2016) and academics (Luciani, 2012; Hvidt, 2013; al-Khatteeb, 2015; Ben Ali, 2016).

However, it should be outlined that these kinds of economic diversification plans have been part of MENA oil exporters' rhetoric for a long time. For instance, Kuwait's government was already discussing the need for economic diversification during the 1950s. After 60 years, oil continues to represent more than 60 percent of Kuwait's GDP,

¹⁰ With the only exception of Libya, because of the ongoing civil war.

and more than 70 percent of its fiscal revenues.

MENA oil exporters have often set out similar strategies in times of low oil prices, and then rapidly dismissed them once prices recovered. As Hvidt (2013) outlines, MENA rentier states easily give up their well-argued and planned policies when under pressure and fall back on established ways of doing business, namely through patronage and the predominant role of the public sector. There is, therefore, a risk that current strategies could also be quickly forgotten if/once oil prices recover from the current low levels (IEA, 2017).

Table 2: MENA rentier states' and Algeria's economic diversification strategies: key targets

Algeria – New Economic Growth Model (2016-2019) (Launched in 2016)
<ul style="list-style-type: none"> • Boost non-hydrocarbon exports to 9 percent of total exports by 2019, from less than 5 percent currently
Iraq – Private Sector Development Strategy (2014-2030) (Launched in 2014)
<ul style="list-style-type: none"> • Increase the private sector up to a share of 60 percent of GDP by 2030 • Improve the country's business environment, particularly for SMEs • Reduce the unemployment rate to 4 percent or less by 2030
Kuwait – Kuwait Development Plan (2015-2020) (Launched in 2015)
<ul style="list-style-type: none"> • Increase the private sector up to a share of 40 percent of GDP by 2020 • Creation of public-private partnerships to carry out infrastructure projects • Increase the number of Kuwaiti employees in the private sector from 92,000 to 137,000 by 2020
Oman – Ninth Five-Year Development Plan (2016-2020) (Launched in 2016)
<ul style="list-style-type: none"> • Reduce the contribution of oil in GDP at current prices from 44 percent in 8th five-year plan to 26 percent by 2020 • Focus on the private sector and activate public-private partnerships • Create job opportunities • Focus on SMEs
Qatar – National Vision 2030 (Launched in 2008)
<ul style="list-style-type: none"> • Increase and diversify the participation of Qataris in the workforce • Create a business climate capable of stimulating national and foreign investments • Managing the optimum exploitation of hydrocarbon resources • Expanding industries and services with competitive advantages derived from hydrocarbon industries • Create a knowledge-based economy characterised by innovation, entrepreneurship and excellence

Saudi Arabia – Vision 2030 (Launched in 2016)

- Increase SME contribution to GDP from 20 percent to 35 percent by 2030
 - Increase foreign direct investment from 3.8 percent to the level of 5.7 percent of GDP by 2030
 - Increase the private sector's contribution from 40 percent to 65 percent of GDP by 2030
 - Raise the share of non-oil exports in non-oil GDP from 16 percent to 50 percent by 2030
 - Increase non-oil government revenue from SAR 163 billion to SAR 1 trillion by 2030
 - Generate 9.5 GW of new renewable energy by 2030
-

Source: Bruegel based on Kingdom of Saudi Arabia (2016), People's Democratic Republic of Algeria's Prime Minister's Office (2016), Republic of Iraq (2014), State of Kuwait (2015), State of Qatar's General Secretariat For Development Planning (2008) and Sultanate of Oman (2016).

This problem is further exacerbated by the fact that when oil prices are high, non-oil exporting and import-substituting sectors of the economy become less competitive, because the exchange rate appreciates. Being aware of this problem, private investors tend not to invest in non-oil sectors, even when oil prices are low. This creates a vicious cycle that helps to explain MENA oil exporters' small private sectors. However, there are remedies to this problem. For instance, sovereign wealth funds could be used to strategically invest in the creation of productive domestic private sectors, instead of being used as tools to perpetuate the rent via financial or real estate speculation. Of course, to be implemented, such strategies require strong governance and forward-looking visions on the part of governments.

This study has illustrated that MENA oil exporters are still not equipped to sustain themselves – let alone to grow and develop – in a rapidly decarbonising world, being still over-reliant on the oil rent. It is, therefore, possible to conclude that MENA oil exporters should look at international decarbonisation policies and at low-carbon technology advancements as an opportunity to develop forward-looking strategies to transform their economies.

This transformation should be considered by MENA oil exporters as a structural path, to be pursued without deviation in order to ensure both political stability and socio-economic prosperity – even in a decarbonising world. Should the world factually pursue the decarbonisation pathway agreed in Paris and should MENA oil exporters continue to be unprepared for that, the consequences could be dramatic, socio-economically and geopolitically, for the MENA region and the overall global order.

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Chapter 2

SME competitiveness in the MENA region: connecting to 'global' supply chains

Marion Jansen and Mario Filadoro

Abstract

This chapter assesses the EU-MENA relationship through the lens of international trade and with a focus on the role of SMEs and their competitiveness in the MENA region. The question asked is whether existing success stories of integration into high value added supply chains can be repeated in other sectors and with other trading partners. Supplier capacity in the region turns out to be relatively strong, but lagging behind on that of competitors in value chains in which MENA countries are active, or could potentially become active. Other strategic weaknesses of the MENA countries include a relatively weak link to Germany and China, two major hubs within megaregional value chains. The absence of a strong intra-regional market may be one of the factors that makes the MENA region less attractive for foreign investors and reduces the potential of SMEs in the region to exploit their full potential. The analysis in this chapter focuses on Egypt, Jordan, Lebanon, Morocco and Tunisia, countries that are covered in the country profiles of the ITC SME Competitiveness Outlook.

I. Trade flows in the MENA region

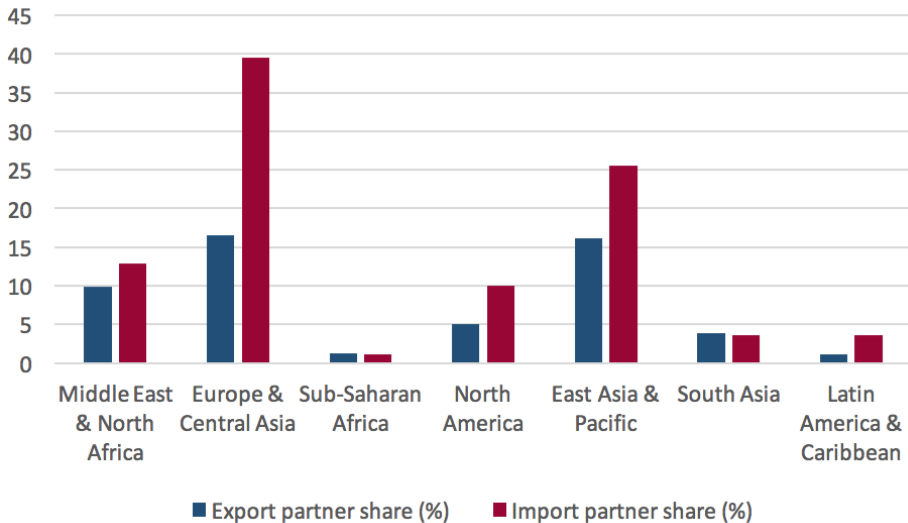
MENA's participation in global value chains is already a reality. According to a study conducted by the OECD and the WTO (2015), among developing regions, the MENA countries together with the South East Asian economies and those in Europe and Central Asia have relatively high participation ratios. A number of MENA countries have successfully connected to "global" supply chains. This is, for example, the case of Moroccan and Tunisian firms' participation in the aerospace industry as well as some Jordanian firms in the pharmaceutical industry.

Notwithstanding numerous success stories of firms managing to penetrate international markets, the MENA region has for many years been characterized by its relative underperformance on the trade front. Notwithstanding some improvements on the intra-regional front, the region as a whole is not considered to be characterized by strong performance.

In particular, the results of integration efforts with the EU have often been considered disappointing (Freund and Portugal-Perez, 2012). In 2005, Ferragina et. al (2005) estimated that the volume of trade between the EU and the MENA countries could be 3.5 to 4 times larger than it actually was.

This is the case even though the European and Central Asian region is by far the most important partner of the MENA region in terms of imports (close to 40%) and together with the East Asia and Pacific region the main destination of MENA exports (around 16%; Figure 1).

Figure 1: Middle East & North Africa Export and Import Partner Share in 2015 (% by geographic region)



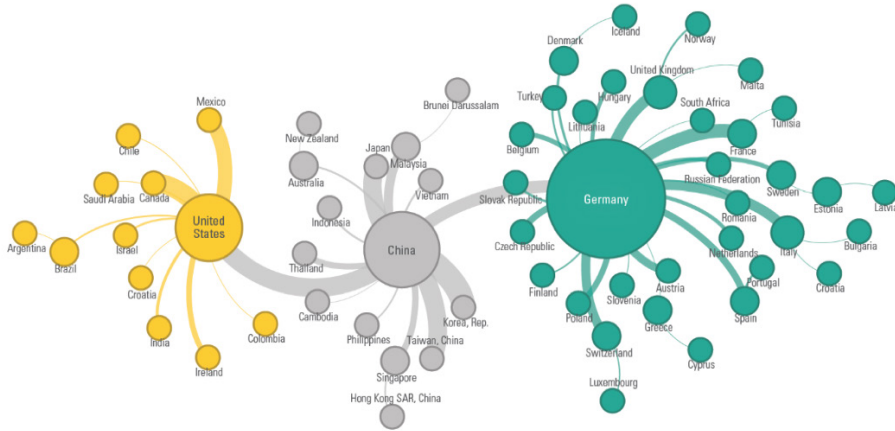
Source: Authors' elaboration based on World Integrated Trade Solution (WITS).

A closer look at import and export flows of MENA countries suggests that MENA trade has at least two characteristics that do not put it in pole position for trade in the 21st century.

First, the MENA region is characterized by an apparent lack of regional integration, which is important to attract foreign investment (ITC, 2017). Figure 1 shows, indeed, that exports and imports within the MENA region represent only 10% and 13% respectively of total flows.

Second, the region is characterized by a relative lack of integration with "factory China" and "factory Germany". The relationship with China and Germany is important given the role these countries play within regional value chains. As illustrated in Figure 2, global trade in parts and components is mostly centred around three important hubs: Germany, China and the US. This distribution suggests that international value chains tend to be regionally diversified, spinning around Factory Europe, Factory Asia and Factory US (Baldwin and Lopez-Gonzalez, 2015).

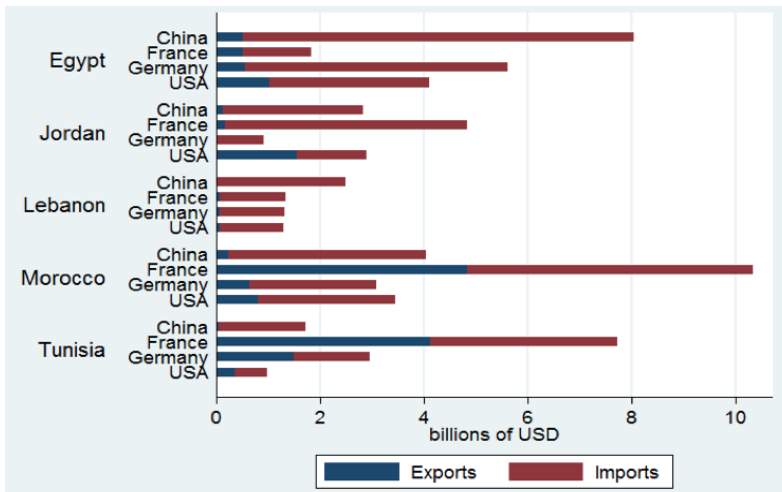
Figure 2: Factory Asia, Europe and US



Source: Santoni, Gianluca, and Daria Taglioni (2015)

MENA countries are somewhat integrated within these regional chains, yet the level of integration differs significantly across countries. As depicted in figure 3, trade relations between selected MENA countries (Egypt, Jordan, Lebanon, Morocco and Tunisia) and Factory Europe, Asia and US already exist, but are dominated by exports to France from both Morocco and Tunisia and by exports to the USA in Jordan.

Figure 3: Bilateral exports and imports of selected MENA countries with China, France, Germany and United States (2016, \$ billion)



Source: Author’s elaboration based on UN Comtrade database.

Note: Exports and Imports of Lebanon and Tunisia are based on data of 2014 and 2015, respectively.

Egypt, Lebanon and Jordan are connected to Factory Europe, Factory Asia and Factory US. Egypt's main trading partners include the United States, Italy, India, China, Germany and Russia. Jordan is among the most open economies with 20 regional trade agreements in-force, covering 53 markets. Lebanon's trading partners include South Africa, Switzerland, UAE, Saudi Arabia, USA, China, Italy and France.¹¹

Morocco and Tunisia, on the other hand, are relatively better connected to Factory Europe (mainly with France and to a lesser extent with Germany). Morocco's largest trading partner is France, accounting for more than 60% of foreign direct investment in Morocco.¹² The country emerged as a platform for European manufacturers and service providers. For example, French banking and call-centre firms set up service operations in Morocco, benefitting from the Moroccans' knowledge of French.¹³ Tunisia's three largest trading partners are France, Italy and Germany. According to German-Tunisian Chamber of Industry and Commerce figures, some 250 export-oriented German companies are currently active in Tunisia, employing a total local workforce of 55,000.¹⁴

Trade patterns in Morocco and Tunisia suggest that they can be explained to a significant extent by cultural, linguistic and colonial links. This is not surprising. Research has shown repeatedly that these variables have a strong impact on how countries conduct trade. According to Felbermayr and Toubal (2007), cultural proximity influences bilateral imports through a preference and a trade cost channel. Empirical studies show that cultural affinity not only stimulates bilateral trade by altering the preference structure of consumers but also by providing information on the product or the origin market (Cheptea, 2007).

Common language also has a positive impact on trade. A study on 701 language effects collected from 81 academic articles reveals that on average, a common (official or spoken) language increases trade flows directly by 44% (Egger and Lassmann, 2011). Melitz and Toubal (2012) show ease of communication is far more important than ethnicity and trust.

While the strong trade links between countries like Morocco, Tunisia and France are therefore rather in line with what economists would expect, policy makers may want to consider how the economic links with the value chain hubs in Germany and China can be strengthened. The following intends to provide ideas as to aspects of the firm level landscape in the region that can be improved in order to make the region more attractive for lead firms in major value chains.

11 Countries/Territories on ITC's website, <http://www.intracen.org/>

12 <http://atlas.media.mit.edu/en/profile/country/mar/>

13 <https://www.ft.com/content/002da754-ea00-11e5-bb79-2303682345c8?mhq5j=e2>

14 http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/Tunesien_node.html

II. SME Competitiveness in the MENA region

Zooming in on the firm level landscape in the MENA region provides the picture of a region in which firm level competitiveness lags behind on performance in countries that are competing in similar markets. Jaud and Freund (2015) have argued that “with the exception of the top firm, MENA’s elite exporters are smaller and weaker compared to their peers in other regions”. More generally, firms in the MENA region have tended to perform inadequately in contrast to the MENA countries’ status as middle-income economies. According to Kinda, Plane and Véganzonès-Varoudakis (2011), this is true for labor productivity and technical efficiency in countries like Egypt, Lebanon, and to some extent Algeria.

When looking at GDP per capita figures by region (see Figure 4), the MENA region is situated well above the Asia-Pacific region and close to the Eastern European and Central Asian region.

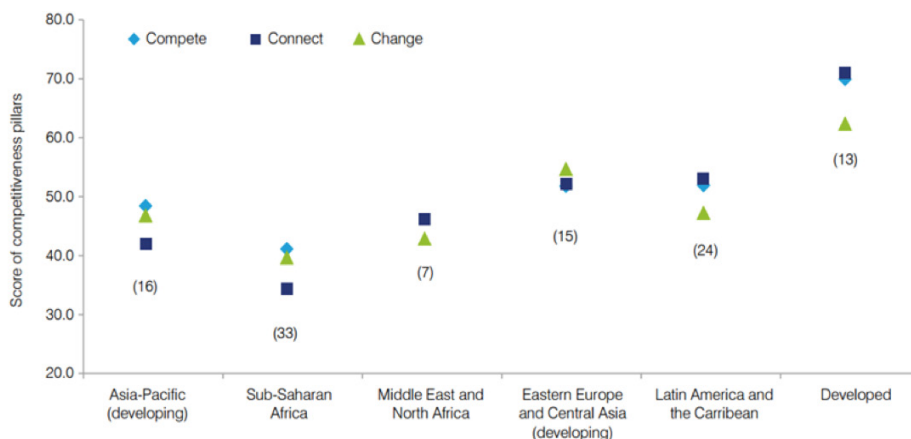
Figure 4: GDP per capita, by region

Region	GDP per capita (\$)
Asia-Pacific (developing)	3305
Sub-Saharan Africa	1851
Middle East & North Africa	4148
Eastern Europe and Central Asia (developing)	4524
Latin America and the Caribbean	8203
Developed economies	18772

Source: IMF World Economic Outlook (2016)

SME competitiveness data as assessed in SME Competitiveness Outlook (ITC, 2016), however, suggest that SME competitiveness in the Asia Pacific region is on average on par or higher than in the MENA region, while the competitiveness gap with Eastern Europe and Central Asia is significant and to the disadvantage of the MENA region (Figure 5).

Figure 5: SME Competitiveness across regions



Source: ITC (2016)

Note: The diamond representing the compete pillar of competitiveness in Middle East and North Africa and in Eastern Europe and Central Asia is behind the square representing the connect pillar of competitiveness.

For investors, the MENA region may therefore be less attractive than other regions both in terms of labour costs (likely to be correlated with GDP per capita) and firm level competitiveness. Four determinants of competitiveness should be on the radarscreen of MENA policy makers in order to turn interest and ultimately investment back to the region:

- the capacity of firms to meet international standards and regulations;
- the innovative capacity of firms;
- the connectivity of firms to market relevant information; and
- the reduction of the regulatory burden within the MENA region

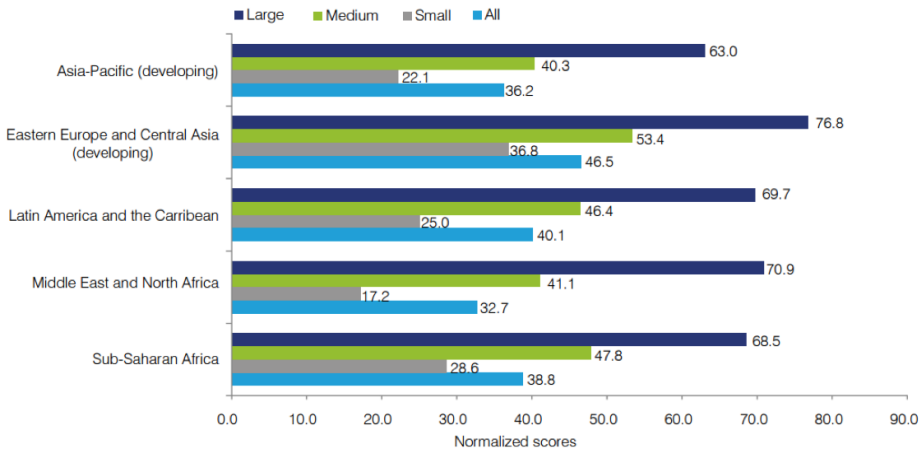
III. Producing up to international standards

Standards and regulations are essential to international trade and value chains. They determine whether inputs are compatible with the next stage in the value chain, final products are safe for consumption and international trade is socially and environmentally sustainable (ITC, 2016).

When lead firms look for the most suitable suppliers into their value chain, they therefore often use firms' ability to meet chain specific standards or international standards as a selection criterion (ITC & European University Institute 2016). The importance of standards within the chain are such that lead firms often participate in

the implementation and certification costs that supplying firms have to incur (ITC and European University Institute, 2016). Figure 6 shows the availability of internationally recognized certificates by small, medium and large firms in different geographic regions, including MENA.

Figure 6: Internationally recognized certificate scores, by firm size and region



Source: ITC (2016).

One of the weaknesses characterizing the MENA region is the relatively weak capacity of firms to meet internationally recognized standards and regulations. ITC (2016) pointed out that the MENA region is the weakest performing region measured by the percentage of firms meeting internationally recognized certificates. This performance is notably driven by the very weak performance of small firms in this criterion. When their products do not meet international quality standards, firms find it very difficult, if not impossible, to find international buyers.

Few Egyptian SMEs have an internationally recognized quality certificate or offer formal training programmes to employees. Jordanian SMEs underperform in using internationally recognized quality certificates and having bank accounts. Lebanese SMEs do not hold internationally recognized quality certifications or foreign technology licences, nor offer formal training programmes to their employees. Few Moroccan small firms have internationally recognized quality certificates (this is in sharp contrast to large firms, which score well in this regard). Tunisian small firms underperform on foreign technology licences (ITC, 2016).

Important exceptions exist within the MENA region. Indeed, for some companies, compliance with international standards has been the key to success in global markets. The Hikma Group, for instance, was established in 1978 in Jordan, is now a global

pharmaceutical giant in the region and the United States. The company's success is marked by compliance with international standards, emphasis on quality management, and being in a supportive policy environment. Capitalizing on its USFDA approval, Hikma became soon the licensing partner of choice for multinational companies looking to expand into the MENA region. Initially, its expansion was mostly directed towards its home region, but later moved to North America and Europe, mainly through acquisition (ITC, 2017).

Jordan's pharmaceutical industry is the country's highest value-added export industry and one of the front-runner sectors in the leadership's strategy of export-led economic growth – accounting for 8.1 percent of all Jordan's exports in 2015. Al Hikma Pharmaceuticals and its parent, the Hikma Group, is the shining star among the constellation of 16 pharmaceutical manufacturers and exporters in Jordan (ITC, 2017).

IV. Innovative capacity

As firms and countries “move up” the value chain, their innovative capacity becomes increasingly important. MENA countries start to become part of relatively high technology value chains as the above example of Hikman Pharmaceuticals shows. Other examples include suppliers in Morocco and Tunisia that are integrated in value chains related to the aircraft industry. This integration has been rather successful, although it is to a certain extent focused around a Franco-Canadian nexus, thus reflecting the importance of linguistic and colonial ties for the MENA region that was explained above.

When asking whether these success stories can be repeated or expanded outside of the MENA-francophone nexus or within different sectors it is useful to look at relative weaknesses and strengths of MENA countries with direct competitors.

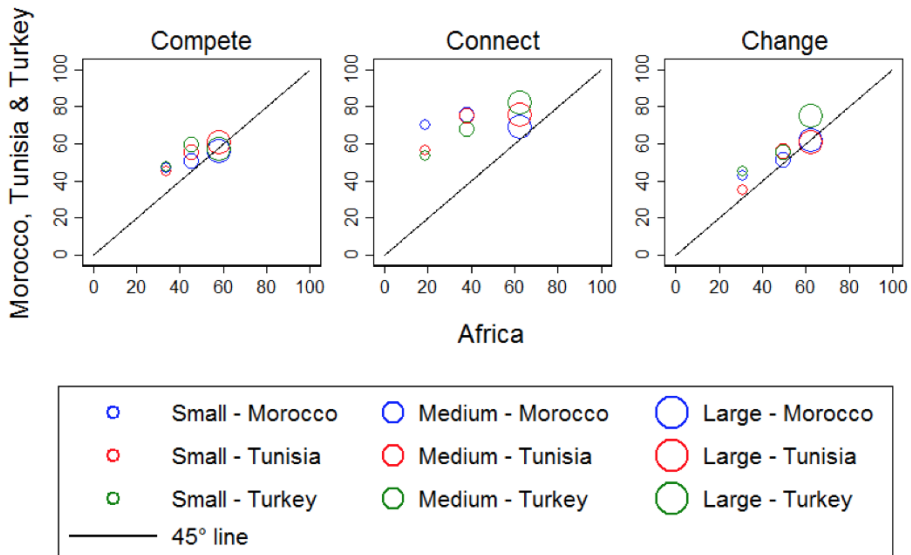
A direct competitor with the aircraft chain is Turkey. When comparing the performance of Moroccan, Tunisian and Turkish firms (Figure 7), Moroccan and Tunisian firms perform rather well. An important exception though is the MENA country firms' capacity to change (ITC, 2017), which captures the ability to invest in physical or human capital and the ability to innovate.

Both Morocco and Tunisia's large firms struggle to keep up with the competitiveness of their counterparts in Turkey, in particular with regards to their ability to access finance and formulate employee training programmes. Small firms notably score much lower than their large counterparts in designing hiring plans and training programs (ITC, 2017).

International markets are dynamic and constantly subject to change. This is particularly the case in high technology product lines and the upper value added segments of value chains. MENA firms may have to up their game in their capacity to

change with the assistance of policy makers, whose role it is to create an environment that is supportive for upgrading and innovation.

Figure 7: Regional benchmarking SME Competitiveness at the firm-level - Morocco

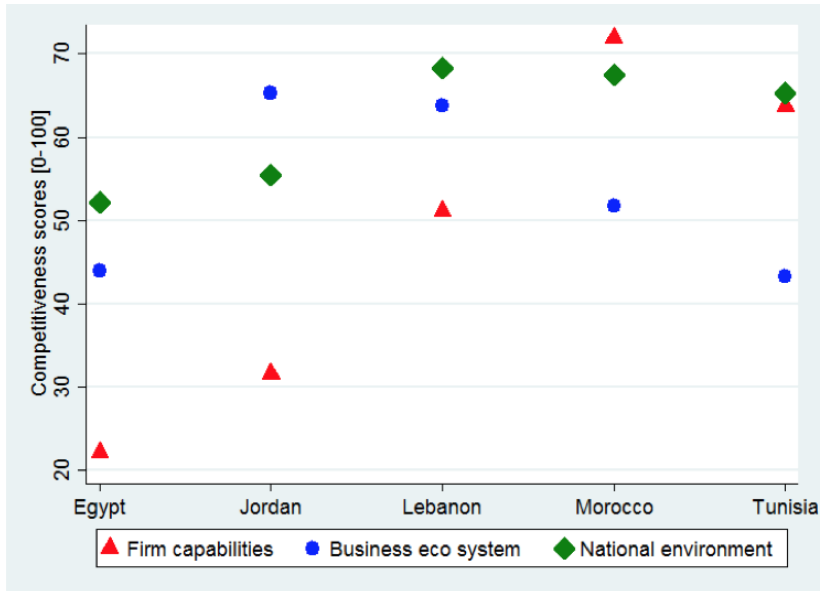


Source: ITC (2017).

V. Connecting to market relevant information

A pre-condition for being able to adapt to change is to be informed about upcoming or ongoing developments in markets. Being connected to market-relevant information is crucial in modern fast moving markets, in which the dynamic competitiveness of firms is critical. Within this regard the five countries analysed in ITC' SME Competitiveness Outlook (2016) show different performances, with Moroccan and Tunisian firms doing relatively well, but firms in Egypt and Jordan lagging behind. Figure 8 depicts the performance of individual MENA countries in the connect pillar of competitiveness. Firms in Morocco and Tunisia present better scores in the connect pillar of competitiveness than firms in Lebanon. Firms in Egypt and Jordan are significantly lagging behind in this pillar (ITC, 2017).

Figure 8: Performance of selected MENA countries in their capacity to connect



Source: Author's elaboration based on ITC, SME Competitiveness Outlook (2016).

The MENA region performs relatively well in the connect pillar of competitiveness, according to SMECO (ITC, 2016). However, the performance of firms from the individual MENA countries in their capacity to connect shows that there is room for improvement. In this context, it is interesting to note the different relationship between the national environment and firm level capacities across countries. While firm behaviour is more or less in line with the national environment in countries like Morocco and Tunisia, this is not the case in Egypt, Jordan and Lebanon, where pre-existing IT and telecommunication infrastructures do not appear to be exploited by the private sector as would be expected.

VI. The regulatory burden on MENA trade

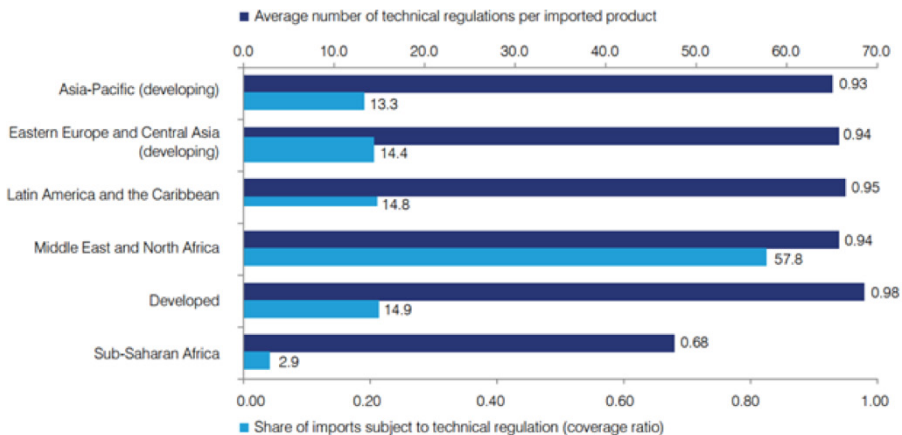
The lack of integration within the MENA region is a well-known phenomenon and – if unaddressed – may continue to be a drag on the region's integration into global markets. Non-tariff measures have been found to present an important explanation for this lack of integration.

Non-tariff measures (NTMs) create heavy burdens for regional trade. Many of these barriers occur "before the border", applied by the home country prior to goods being exported. A sizeable share of NTMs affects domestic and regional trade. In the case

of the European Union, 36% of exporters report that they face restrictive regulations or related procedural obstacles to trade while exporting or importing goods. In the Arab States region, 44% of all trading companies report that they face burdensome NTMs – both within and outside the region. Navigating the maze of NTMs is a particularly complex task for SMEs (ITC, 2015).

An example of a sector with significant unexploited growth potential for the MENA region is fresh and processed food (ITC, 2016). Much of this is for trade within the region itself. Yet, the MENA region imposes, on average, the largest number of technical regulations on fresh and processed food imports – nearly four times more than other regions. Reforming those regulations could be very beneficial for the region.

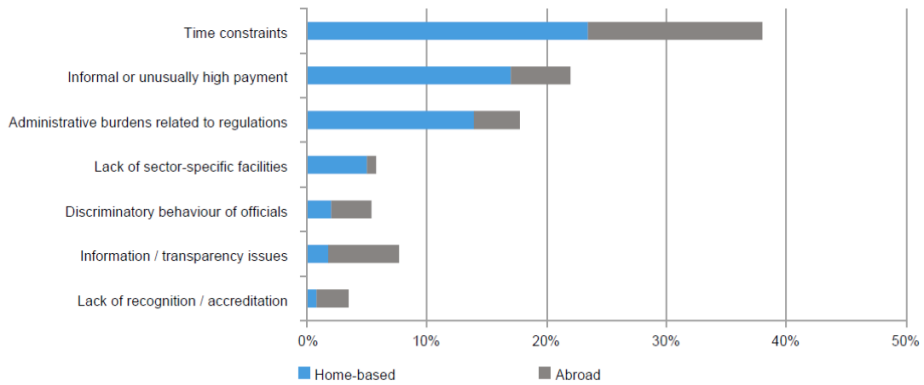
Figure 9: Regulatory entry burdens in MENA are high in the fresh and processed food sectors



Source: ITC (2016)

An analysis based on firm perceptions of NTMs in the Arab States shows that firms face a significant number of NTMs (ITC, 2015). Trade agreements on preferential market access do not appear to insulate against NTM-related problems. More problematic than NTMs themselves are related procedural obstacles, which increase the cost of compliance. Conformity assessment measures and rules of origin are especially challenging. Firms often have difficulties in understanding and complying with product quality requirements. Inefficient testing and certificate procedures are compounded by insufficient infrastructure. And, finally, domestic barriers comprise a large share of reported obstacles. Figure 8 describes where exporters in the Arab States encounter procedural obstacles.

Figure 10: Firm perception of NTMs: Where exporters encounter procedural obstacles?



Source: ITC (2015).

A significant share of partner-country measures is difficult to comply with because of home-based procedural obstacles (Figure 10). These obstacles are primarily linked to bureaucracy (including delays associated with red tape), payments and lack of facilities (e.g. for testing). This is mirrored by the procedural obstacles reported in association with measures applied by the home country (not shown). (ITC, 2015)

VII. Looking ahead

Recent years have witnessed a number of breakthroughs of MENA firms into international value chains, including the presence of Jordanian firms in the pharmaceutical industry and of Moroccan and Tunisian firms in the aircraft industry. Trade agreements seem to have played a role in stimulating these success stories (Augier, Cadot and Dervis, 2016) and in principle it cannot be excluded that other successes are waiting around the corner.

Expansion into new sectors or new markets may, however, not be automatic. The trade performance and competitiveness patterns in MENA countries are characterized by a number of weaknesses that may hamper expansion. The relative weak trading relationship with Germany and China, major hubs for value chain activity in Europe and Asia, is one of them.

Further and deeper regional integration, including within the MENA region can make it more interesting for foreign investors – including from China and Germany - to invest in the region. The consolidation of a regional market requires to minimize the impact of NTMs and to facilitate trade. A more intensive use of harmonization or mutual

recognition within MENA could help to exploit the region's export potential. Assisting exporters to take advantage of pre-existing agreements will also be useful.¹⁵

Last but not least, The MENA region's success to thrive in global markets will fundamentally depend on the ability of firms to meet international standards and regulation, an aspect where the region – and in particular small firms within the region – does not perform well.

If success stories in the pharma and aircraft industry are to be repeated, firms' capacity to change will also be important: access to finance, access to skills and capacity to innovate will determine whether and to which extent firms are able to pre-empt or promptly react to changes in the market. This agility will be a fundamental determinant for successes in the future.

¹⁵ An example within this region is ITC's Euromed Trade Helpdesk containing free information needed to do business in the Euro-Mediterranean region.

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Chapter 3

The Complexity of Climbing the Global Value Chain: The Cases of Morocco and Tunisia

Larabi Jaidi & Yassine Msadfa

Abstract

Global value chains offer new opportunities for structural transformation in developing countries. Today, the vision of global value chains is limited to analyzing trade flows and FDIs on a global scale and is no longer sufficient to answer the key questions of positioning and upgrading in these value chains. These questions call more and more for an insight into the production networks. The purpose of this contribution is an attempt to integrate the logic of corporate strategies and behaviors into our understanding of the deployment of the Global Value Chain (GVC). To analyze this issue, we chose to focus our attention on two Maghreb countries: Morocco and Tunisia for two sectors (Automotive and Aeronautics). Indeed, these two countries are gaining market share in global competition through the structural transformation of their economies, by reallocating resources to these new and more productive sectors.

Introduction

Global value chains offer new opportunities for structural transformation in developing countries. Today, the vision of global value chains is limited to analyzing trade flows and FDIs on a global scale and is no longer sufficient to answer the key questions of positioning and upgrading in these value chains. These questions call more and more for an insight into the production networks. These networks are mainly made by companies that optimize their supplying strategies via geographical reorganization and the separation of production stages. From now on, the competitive advantage is reshaped by the logic of a firm's behavior, it is built through inter-nation and intra-firm cooperation. The purpose of this contribution is an attempt to analyze these new interdependencies and to find how to integrate the logic of corporate strategies and behaviors into our understanding of the deployment of the Global Value Chain (GVC). To analyze these problems, we chose to focus our attention on two Maghreb countries: Morocco and Tunisia. These two countries are gaining market share in global competition through the structural transformation of their economies, by reallocating resources to new and more productive activities. In addition to this, the economic openness of these two countries, their respective integration in a globalized economy, has repercussions on the production of their goods and services production. The clear example underlining this dynamics is the development of the Automotive and Aeronautics sectors in both countries.

I. The Global Value Chain: A state of the art of a multidimensional approach

The economic literature presents various definitions of Global Value Chain (GVC). According to a set of international organizations, "a value chain represents all of the activities undertaken by companies to bring a product or service from its design to its final use by the end consumer". At each stage of the chain, value is added in one form or another. As a result of the economic globalization and the rise of interconnectivity, the activities that form the value chains of many products and services are increasingly fragmented across the globe and between firms. The increasingly "fragmented" global production process means that each activity (that adds value to this process) can be carried out in places where the skills and resources are available at a competitive cost. While the trend towards global value chains is continuing as multinationals seek to gain efficiency and flexibility, the internationalization of supply chains increases uncertainty and the need for responsiveness. Technological advances and the phenomenon of

relocation could lead to a slowdown in the spread of global value chains.

1. Opening GVC black box

The literature dealing with GVC phenomena has been enriched by multiple and varied contributions. The value chain concept has been popularized by Porter, focusing on the complementary activities involved in the design, production and marketing of a given product (Porter M.E 1980, 1986). His work has explored issues of transnational localization and coordination of activities and the importance of national contexts and clusters in terms of competitiveness. A theoretical advance in the value chain approach was produced by Gereffi's work on "global commodity chains". This research differs from the previous ones in that they put more emphasis on firms as actors in the process of globalization and are interested in the development potential offered by these chains to the countries of the South (Gereffi G, 1985). Indeed, research has turned to the concept of "industrial upgrading" process whereby producers in developing countries are likely to improve their position within the GVC.

The new advances in the early 2000s, crossed the governance issues (Gereffi, G. Humphrey, J and Sturgeon, T. 2005) with a more refined approach to inter- firms' coordination. The typology proposed by these authors distinguishes five modes of governance, ranging from the market to the hierarchy, to relational, modular and captive governance based on trust, standardization and integration of suppliers.

A major breakthrough in the reflection on GVC has been made by many international organizations (OECD, UNCTAD, WB, UNIDO, ECA, AfDB ... 2012, 2013), against the backdrop of international trade developments, particularly of trade in intermediate goods and FDI trends. Those reflection have produced a variety of discourses, issues and techniques offering as many possible orientations for future research and they have also enabled the methods of measurement of GVC to progress allowing the capture of countries participation in these chains.

From this review it is clear that the GVC is characterized by various fundamental dimensions, namely their flow structure, geographical location, intra- and inter-firm governance, and socio-institutional context. This multidimensional construction makes it possible to grasp the strategic stakes of the GVC deployment in all their complexity and according to a variety of logics or practices.

2. The automotive value chain: an increasingly fragmented chain

The automotive industry is one of the most fragmented and internationalized industries. For years the global automotive industry has entered a phase of profound mutations that has caused the break-up of many classic schemes. In an automotive sector, there are three main segments: manufacturers, equipment manufacturers of different ranks and assemblers. The relationships between these three players are constantly evolving. The motor vehicle or even a model of a brand can no longer be built entirely in only one country. Conventional export procedures are replaced by complex relocation mechanisms of production; the manufacturers have embarked in a major reorganization of supplying procedures; the development and manufacturing of products tend to be carried out jointly and the manufacturers cooperate with equipment manufacturers.

Table 1: World total vehicle production by manufacturer 2000 - 2015

	Manufacturers	2000	Share		Manufacturers	2015	Share
1	GM	8133375	14%	1	Toyota	10083831	11%
2	Ford	7322951	13%	2	Volkswagen	9872424	11%
3	Toyota-Daihatsu-Hino	5954723	11%	3	Hyundai	7988479	9%
4	Groupe VW	5106749	9%	4	G.M.	7485587	8%
5	DaimlerChrysler	4666640	8%	5	Ford	6396369	7%
6	PSA Peugeot Citroën	2879422	5%	6	Nissan	5170074	6%
7	Fiat-Iveco	2641444	5%	7	Fiat	4865233	5%
8	Nissan-Nissan diesel	2628783	5%	8	Honda	4543838	5%
9	Renault-Dacia-Samsung	2514897	4%	9	Suzuki	3034081	3%
10	Honda	2505256	4%	10	Renault	3032652	3%
11	Hyundai-Kia	2488321	4%	11	PSA	2982035	3%
12	Mitsubishi	1827186	3%	12	B.M.W.	2279503	3%
13	Suzuki-Maruti	1457056	3%	13	SAIC	2260579	3%
14	Mazda	925876	2%	14	Daimler Ag	2134645	2%
15	BMW	834628	1%	15	Mazda	1540576	2%
16	Avtovaz	755997	1%	16	Changan	1540133	2%
17	Daewoo	716250	1%	17	Mitsubishi	1218853	1%

18	Fuji-Subaru	581035	1%	18	Dongfeng Motor	1209296	1%
19	Isuzu	539085	1%	19	BAIC	1169894	1%
20	Gaz	227673	0%	20	Tata	1009369	1%
Total manufacturers		56571101		Total manufacturers		90086346	

Source: OICA Data Base

The global automotive sector is therefore experiencing a phase of redesigning its value chain with a shift in global demand and supply to emerging markets, as evidenced by China’s growing role in the global automotive industry. The division of labor within this industry is redeveloped under new modalities: technological research, know-how, patents and the brand are still the monopoly of major manufacturers; the manufacturing of the engine and other components spread over all the spheres of the globe. This new restructuring of the global value chain has led to a significant shift in production capacities between major geographical areas. Morocco and Tunisia strive to take part in this deployment of the value chain.

Figure 1: Sales of new passenger vehicle 2016

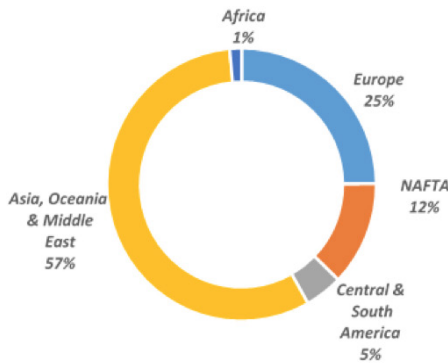
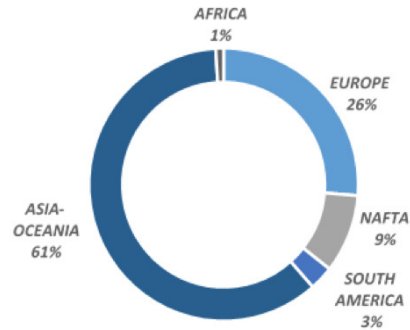


Figure 2: World Passenger vehicle production in 2016



Source: OICA database

3. The Aerospace Value Chain: a more Complex Value Chain

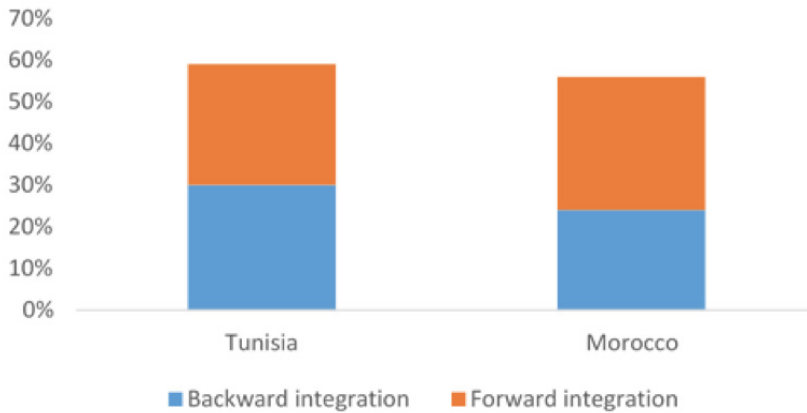
Like the automotive industry, the global aerospace sector is characterized by a rapidly expanding global market driven by the emerging major powers (Asia and Latin America). Strong global trends have compelled large global contractors to reorient their

strategies towards increased outsourcing, especially to highly competitive countries. The aerospace GVC is comprised of seven stages: research and development (R&D), design, components manufacturing, sub-assembly, systems integration, post-sales services (e.g. parts supply, maintenance, repairs and overhauls) and end-of-life activities. Sub-assemblies include airframes, propulsion engines, fuel systems, landing gears, avionics and flight control systems (flight, navigation and communication systems), electrical power supply, and interior fittings amongst others. In this case too, Morocco and Tunisia have made intense efforts to capture the interest of major manufacturers in this sub-industries.

II. Trends of Morocco and Tunisia Integration in the GVC

In general, there are different forms of participation in Global Value Chain, either at first stages of production with export of commodities or economies that process crude materials and thus are located at the final stage of production. Regarding Tunisia and Morocco, it is clear that the upstream component is relatively prevailing, meaning that these countries operates more at the beginning of the value chains, maybe as providers of commodities and raw materials.

By sectors and in terms of captured value added to gross exports, the two countries have witnessed a slight decrease in their domestic value added in the last two decades, especially since 2000. This feature should not be considered as negative evolution but rather as an integration to GVC and optimization of the production system. Indeed, empirical observations suggest that participation in the GVC comes at the expense of domestic value added. Countries that were able to capture a higher share of trade value added are less integrated in the GVC. It is whether they are a relatively closed economy that exchange mainly finals goods or they reached (mainly developed economies) a level of maturity, in which they were able to develop a domestic network through increasing attractiveness and thus investment in these countries. Accordingly, economies that resist to this changing landscape of trade and productions networks are not prone to admit that increasing domestic value added requires importing foreign value added are doomed to failure. Nowadays, competitiveness requires an optimal production system which goes hand in hand with specialization through an international division of labor.

Figure 3: Global Value Chain Participation in 2011

Source: The UNCTAD/Eora Trade in Value Added database

Geographically speaking, the rise of the flow of intermediate goods of these countries is focused more on Europe as destination and provider of intermediate goods. The historic trade relations between these regions, the increasing trade agreements and the flow of FDI entering these economies made that most of GVC participation is achieved along with European partners.

1. Industrial Policies in Favor of Global Value Chain integration

In Tunisia, a new industrial policy is being put in place to accelerate the structural transformation of the industry (goods and services) and allow its integration into the global value chain. This policy is based mainly on an environment favorable to investment in general and specific sectorial incentives to encourage investment in some sectors with high development potential and in which Tunisia has comparative advantages. These sectors include aerospace, electronic components mainly for automotive, pharmaceutical, textile / clothing, and other service industries such as communication technologies and tourism. Concerning Morocco, the industrial sector faces the major challenge of positioning itself in the process of geographical fragmentation of production processes. The progressive modernization of the national industrial fabric and its anchoring in the global value chains observed in recent years is the result of the emergence of new specializations with a higher contribution to national value added, skilled employment and exports. Indeed, sectors like automobile, aeronautics, electronics and offshoring played a leading role in exporting. Their contribution to skilled employment has been substantial. But the relative weight of these sectors in overall industrial employment is still limited.

Figure 4: Tunisia domestic value added in exports of final products as a share of total gross exports

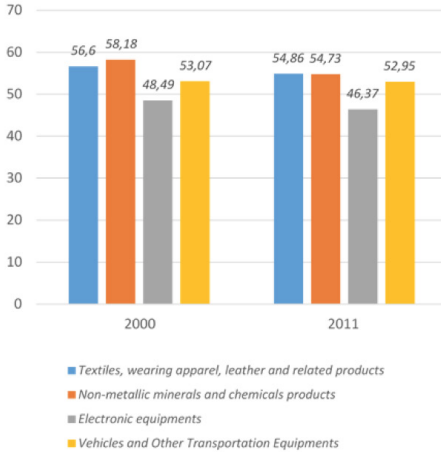
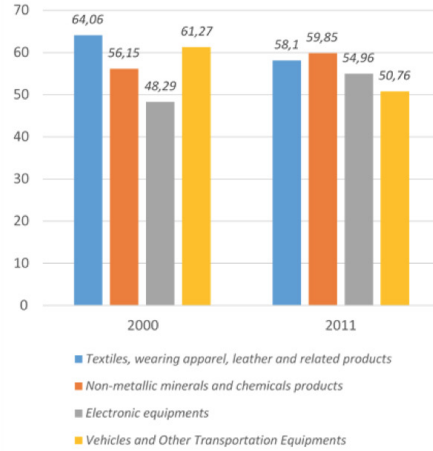


Figure 5: Morocco domestic value added in exports of final products as a share of total gross exports



Source: Tiva, OECD Database, 2016

2. Strengthening the Automotive VC in Morocco and Tunisia: Capitalizing on Gains

The Moroccan automotive industry is strengthening its positioning in the global automotive value chain, as shown by the remarkable performances recorded in recent years. Morocco became the second largest vehicle producer in Africa after South Africa. As a result, the exports of this industry have increased by 18% per year between 2008 and 2015. Similarly, skilled employment generated by the sector has evolved by 17% per year during the same period.

Table 2: Africa Cars Production By Top Producers

		2000	Share		2016	Share	
1	SOUTH AFRICA	230577	77%	1	SOUTH AFRICA	335539	48%
2	EGYPT	39888	13%	2	MOROCCO	313868	45%
3	MOROCCO	17359	6%	3	ALGERIA	42008	6%
4	NIGERIA	7834	3%	4	EGYPT	10930	2%
	Total AFRICA	298778			Total AFRICA	702345	

Source : OICA data

This dynamic has been based on the development of a diversified industrial fabric around major projects. Thus, 20 new Renault suppliers have set up to supply both Renault in Tangier, SOMACA in Casablanca and the international market of parts previously nonexistent in Morocco. Thanks to their establishment, a subcontracting fabric was able to develop and setting up the first real milestones of an industrial value chain of the automotive sector in Morocco. The export performance of the Moroccan automotive industry during the last decade confirms the position of the country as Africa second producer. Exports from the automotive industry grew at a compound annual growth rate of 34% from 2005 to 2015. Exports of final passenger vehicles account for a large part of Morocco's automotive export. Evolving from 2% in the total exports of the Moroccan automotive industry in 2005 to reach 61% in 2015. In the components part, electrical systems had the highest compound annual growth rate, 30% during the period 2005-2015, mainly due to the performance of wire harnesses Morocco exports. Automotive Imports have in turn evolved steadily and in a relatively balanced manner, with a compound annual growth rate of 12% since 2005 and with a share of imports of components and final passenger vehicles of 45% and 48% respectively in 2015.

Table 3. Morocco Automotive Exports and Imports by Value Chain Segment, 2005-2015

Value Chain Stage and Sector	Export Value (US Dollar thousand)		Share of Morocco Auto exports (%)		CAGR (%)	Import Value (US Dollar thousand)		Share of Morocco Auto Imports (%)		CAGR (%)
	2005	2015	2005	2015	2005-2015	2005	2015	2005	2015	2005-2015
Total Morocco Auto Exports/ Imports	155638	3941436	100%	100%	34%	954533	3297177	100%	100%	12%
Components	152699	1522093	98%	39%	23%	292911	1493580	31%	45%	16%
Of the Body system	51177	158698	33%	4%	11%	171343	827022	18%	25%	15%
Of the Drive train	5361	81808	3%	2%	28%	54884	223072	6%	7%	14%
Electrical systems	69688	1268453	45%	32%	30%	44165	412131	5%	12%	23%
Of the Body system or Drive train	26473	13134	17%	0%	-6%	22519	31355	2%	1%	3%
Sub-assemblies	338	2464	0%	0%	20%	14358	210929	2%	6%	28%

Body system	0	1	0%	0%	-	283	15469	0%	0%	44%
Drive train	338	2463	0%	0%	20%	14075	195460	1%	6%	27%
Final Passenger Vehicles	2601	2416879	2%	61%	86%	647264	1592668	68%	48%	9%

Source: Authors elaboration using UNComtrade, HS02 6D, Morocco export and import to/from the world

The Tunisian automotive sector first developed thanks to assembly activities with low added value and high employability with a clear predominance of exporting companies (64% in 2014). This sector has been experiencing sustained growth since the 2000s, both in terms of output and export, with an average annual growth rate of production of 11% between 2005 and 2014 and exports of 7.5% between 2008 and 2014. The Tunisia automotive components industry has developed in various fields such as cable, plastics, electronics, textiles, accessories. This industrial network allows Tunisia to position itself as the 2nd largest producer of automotive components in Africa.

Table 3. Morocco Automotive Exports and Imports by Value Chain Segment, 2005-2015

Value Chain Stage and Sector	Export Value (US Dollar thousand)		Share of Tunisia Auto exports (%)		CAGR (%)	Import Value (US Dollar thousand)		Share of Tunisia Auto Imports (%)		CAGR (%)
	2005	2015	2005	2015	2005-2015	2005	2015	2005	2015	2005-2015
Total Tunisia Auto Exports/ Imports	447508	791572	100%	100%	5%	867004	1351487	100%	100%	4%
Components	430663	776887	96%	98%	6%	436800	541630	50%	40%	2%
Of the Body system	155556	237154	35%	30%	4%	130070	135310	15%	10%	0%
Of the Drive train	15384	99794	3%	13%	19%	101267	96607	12%	7%	0%
Electrical systems	198742	363414	44%	46%	6%	150160	224384	17%	17%	4%
Of the Body system or Drive train	60981	76525	14%	10%	2%	55303	85329	6%	6%	4%
Subassemblies	7461	4520	2%	1%	-4%	31553	34122	4%	3%	1%
Body system	0	0	0%	0%		20162	12592	2%	1%	-4%
Drive train	7461	4520	2%	1%	-4%	11391	21530	1%	2%	6%

Final Passenger Vehicles	9384	10165	2%	1%	1%	398651	775735	46%	57%	6%
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Source: Author elaboration using UNComtrade, HS02 6D, Tunisia export and import to/from the world

The Tunisian automotive sector first developed thanks to assembly activities with low added value and high employability with a clear predominance of exporting companies (64% in 2014). This sector has been experiencing sustained growth since the 2000s, both in terms of output and export, with an average annual growth rate of production of 11% between 2005 and 2014 and exports of 7.5% between 2008 and 2014. The Tunisia automotive components industry has developed in various fields such as cable, plastics, electronics, textiles, accessories. This industrial network allows Tunisia to position itself as the 2nd largest producer of automotive components in Africa.

Table 4. Tunisia Automotive Exports and Imports by value Chain Segment, 2005-2015

Value Chain Stage and Sector	Export Value (US Dollar thousand)		Share of Tunisia Auto exports (%)		CAGR (%)	Import Value (US Dollar thousand)		Share of Tunisia Auto Imports (%)		CAGR (%)
	2005	2015	2005	2015	2005-2015	2005	2015	2005	2015	2005-2015
Total Tunisia Auto Exports/ Imports	447508	791572	100%	100%	5%	867004	1351487	100%	100%	4%
Components	430663	776887	96%	98%	6%	436800	541630	50%	40%	2%
Of the Body system	155556	237154	35%	30%	4%	130070	135310	15%	10%	0%
Of the Drive train	15384	99794	3%	13%	19%	101267	96607	12%	7%	0%
Electrical systems	198742	363414	44%	46%	6%	150160	224384	17%	17%	4%
Of the Body system or Drive train	60981	76525	14%	10%	2%	55303	85329	6%	6%	4%
Subassemblies	7461	4520	2%	1%	-4%	31553	34122	4%	3%	1%
Body system	0	0	0%	0%		20162	12592	2%	1%	-4%
Drive train	7461	4520	2%	1%	-4%	11391	21530	1%	2%	6%
Final Passenger Vehicles	9384	10165	2%	1%	1%	398651	775735	46%	57%	6%

Source: Author elaboration using UNComtrade, HS02 6D, Tunisia export and import to/from the world

Tunisia has developed significant comparative advantages in the automotive components industry through (i) availability of skilled human resources (ii) training infrastructure and (iii) competitive costs of inputs. This has enabled it to successfully climb the automotive value chain, e.g. ensure the transition from assembly to more value-added activities and develop a large network of suppliers and partners. The assembly of the vehicles in Tunisia remained marginal given the annual quantities produced (5,000 vehicles per year). The tariff and customs protection of the Tunisian market for commercial vehicles and buses nevertheless favored the creation of a certain numbers of assemblers and allowed the transfer of technology to local firm.

Trade between Morocco and Tunisia in the automotive industry remains very limited despite a positive development over the period 2005-2015. Moroccan exports rose by 32% during this period, driven mainly by final passenger vehicles exports. Morocco imports from Tunisia automotive components mainly of the car body system and electrical systems.

Table 5. Automotive Trade Flows between Morocco and Tunisia, by Value Chain Stage and Sector, 2005-2015

Value Chain Stage and Sector	Export Value (US Dollar thousand)		Share of Morocco Auto exports to Tunisia (%)		CAGR (%)	Import Value (US Dollar thousand)		Share of Morocco Auto Imports from Tunisia (%)		CAGR (%)
	2005	2015	2005	2015	2005-2015	2005	2015	2005	2015	2005-2015
Total Auto trade between Morocco and Tunisia	1420	28918	-	-	32%	4414	7842	-	-	5%
Components	1100	1022	77%	4%	-1%	4405	7842	100%	100%	5%
Of the Body system	114	94	8%	0%	-2%	827	3870	19%	49%	15%
Of the Drive train	23	811	2%	3%	38%	121	741	3%	9%	18%
Electrical systems	963	104	68%	0%	-18%	3369	3173	76%	40%	-1%
Of the Body system or Drive train	0	13	0%	0%	-	88	58	2%	1%	-4%
Subassemblies	0	0	0%	0%	-	0	0	0%	0%	-
Body system	0	0	0%	0%	-	0	0	0%	0%	-
Drive train	0	0	0%	0%	-	0	0	0%	0%	-
Final Passenger Vehicles	320	27896	23%	96%	50%	9	0	0%	0%	-

Source: Author elaboration using UNComtrade, HS02 6D, Morocco export and import to/from Tunisia

3. The Aerospace Industry in Morocco and Tunisia: a Sector Seeking Greater Added Value

The Moroccan aerospace sector has strengthened its position in the sector's global value chain, achieving an average annual growth of 17.5% of its export turnover. This dynamic is the result of the implementation of structuring projects including an industrial infrastructure (the Nouaceur aéroport and the P2I MidParc) offering an integrated range of services designed to attract large international groups, which lead to the signing of investment agreements with major world players in the aerospace field, such as the Eaton Group and the two Aéroolia and Alcoa groups. The situation in the Moroccan aerospace sector shows the following main conclusions: (i) an industry based on 8 Aérospatiale professions (ii) 100% of the Moroccan Aérospatiale industry production is made by 100 companies engaged in the production, service and engineering activities which constitute the main components of the global Aérospatiale value chain.

Table 6. Morocco Aerospace Exports and Imports by Value Chain Segment, 2004-2015

Value Chain Stage	Value Chain Sectors		Morocco Exported value (US Dollar thousand)				Share of Morocco Aerospace Exports (%)				Morocco Imported Value (US Dollar thousand)				Share of Morocco Aerospace Imports (%)			
	2004	2014	2015	2004	2014	2015	2004	2014	2015	2004	2014	2015	2004	2014	2015	2004	2014	2015
Total Morocco Aerospace Exports/Imports	10706	390429	372837	-	-	-	-	-	-	407059	649471	521676	-	-	-	-	-	-
Final Products	36	8661	0	0%	0%	0%	2%	0%	0%	128237	285523	103822	32%	44%	20%			
Landing Gear	46	15	218	0%	0%	0%	0%	0%	0	0	250	795	0%	0%	0%			
Aircraft part & assemblies (Generic)	7319	347450	351914	68%	89%	94%	89%	94%	41067	285418	309835	10%	44%	59%				
Propellers & Rotors	67	1	0	1%	0%	0%	0%	0%	103	270	210	0%	0%	0%				
Other Parts	6	30637	17461	0%	8%	5%	8%	5%	10	9933	12364	0%	2%	2%				
Main Engines (Propulsion)	1	2038	1494	0%	1%	0%	1%	0%	232387	55881	68099	57%	9%	13%				
Other Engines (Other on-board engines)	1083	16	2	10%	0%	0%	10%	0%	3231	75	2266	1%	0%	0%				
Launching Gear	0	0	0	0%	0%	0%	0%	0%	0	0	0	0%	0%	0%				
Ground Trainers	0	0	0	0%	0%	0%	0%	0%	0	25	258	0%	0%	0%				
Interior	749	6	4	7%	0%	0%	0%	0%	482	1175	1353	0%	0%	0%				
Total Sub-assemblies	9271	380163	371093	87%	97%	100%	87%	97%	277280	353027	395180	68%	54%	76%				
Main Engines	90	1596	1730	1%	0%	0%	1%	0%	142	9641	21566	0%	1%	4%				
Other Engines (Other on-board engines)	0	0	11	0%	0%	0%	0%	0%	60	63	19	0%	0%	0%				
Landing Gear	1	0	0	0%	0%	0%	0%	0%	212	1100	1054	0%	0%	0%				
Electronic Instruments	1308	9	3	12%	0%	0%	12%	0%	1128	117	35	0%	0%	0%				
Total Components	1399	1605	1744	13%	0%	0%	13%	0%	1542	10921	22674	0%	2%	4%				

Source: Authors elaboration using UNComtrade, HS02 6D, Morocco export and import to/from the world

For its Aérospatiale industry, Tunisia relies on a dynamic network of enterprises with 95% foreign participation. Since 2004, the number of companies operating in this sector has multiplied by six. Tunisia wants to consolidate its position in the global Aérospatiale value chain by developing an Aérospatiale cluster “Tunisia Aeronautic Valley” to welcome new players in the sector, who will benefit from specific advantages, the objective is to develop synergies between actors and to favor economies of scale.

Table 7: Tunisia Aerospace Exports and Imports by Value Chain Segment, 2004-2015

Value Chain Stage	Value Chain Sectors						Share of Tunisia Aerospace Exports (%)	Tunisia Imported Value (US Dollar thousand)	Share of Tunisia Aerospace Imports (%)			
	Tunisia Exported value (US Dollar thousand)		Tunisia Imported Value (US Dollar thousand)		Tunisia Imported Value (US Dollar thousand)				2004	2014	2015	
Total Tunisia Aerospace Exports/Imports	2004	2014	2015	2004	2014	2015	2004	2014	2015	2004	2014	2015
Final Products	8355	409191	292294	-	-	-	124797	493326	528915	-	-	-
Fina Aircraft	0	264	107	0%	0%	0%	7626	107877	333023	6%	22%	63%
Landing Gear	3078	3554	1283	37%	1%	0%	8098	5998	2595	6%	1%	0%
Aircraft part & assemblies (Generic)	942	388515	270589	11%	95%	93%	11956	238107	148625	10%	48%	28%
Propellers & Rotors	0	47	0	0%	0%	0%	17	207	112	0%	0%	0%
Other Parts	0	12	11	0%	0%	0%	0	48	42	0%	0%	0%
Main Engines (Propulsion)	2231	6	51	27%	0%	0%	45849	42358	6767	37%	9%	1%
Other Engines (Other on-board engines)	0	30	18	0%	0%	0%	2747	169	60	2%	0%	0%
Launching Gear	0	0	0	0%	0%	0%	0	0	0	0%	0%	0%
Ground Trainers	0	0	0	0%	0%	0%	0	0	0	0%	0%	0%
Interior	0	0	143	0%	0%	0%	244	421	265	0%	0%	0%
Total Sub-assemblies	6251	392164	272095	75%	96%	93%	68911	287308	158466	55%	58%	30%
Main Engines	305	4302	4345	4%	1%	1%	37857	91723	33090	30%	19%	6%
Other Engines (Other on-board engines)	2	11573	14878	0%	3%	5%	321	283	28	0%	0%	0%
Landing Gear	0	8	0	0%	0%	0%	478	759	603	0%	0%	0%
Electronic Instruments	1797	880	869	22%	0%	0%	9604	5376	3705	8%	1%	1%
Total Components	2104	16763	20092	25%	4%	7%	48260	98141	37426	39%	20%	7%

Source: Authors elaboration using UNComtrade, HS02 6D, Morocco export and import to/from the world

III. Key Issues in Global Value Chain climbing

1. Control entry costs and future risks

Whether in Morocco or in Tunisia, the implementation of value chains in the automotive or aeronautical sectors is the result of an industrial policy seeking to optimize relative advantages and to modify its profile through technological learning. It is also the result of a negotiation where the countries concerned are not just passive stakeholders. They have highlighted their strengths and attractiveness in a very pragmatic and coherent offer (The Morocco and Tunisia Offer) focusing on various key aspects: A quality supply of land capable of meeting businesses' needs, within dedicated Industrial Platforms benefiting from the status of a free zone; Local banking support for SMEs in the sector; An international standards logistical infrastructure in developing sites; Tax incentives; The availability of skilled and trained labor. It is interesting in assessing value chain contribution in terms of foreign investment attraction, generation of growth points, export flows or job creation, to take into account the costs incurred by the host countries in order to capture a share of the activities developed around these value chains. This "cost / benefit" calculation is all the more useful as the risk coming from a new "nationalization" trends of trade and industrial policies pushing to relocate more and more activities delocalized in developing countries.

2. The role of public policies: from factors of attractiveness to ecosystems construction

Despite the progress, major challenges remain to be overcome by Morocco and Tunisia to rise to the rank of emerging industrial nations. To promote local industrial integration and establish a diversified and more competitive economy positioned on higher value activities, it is necessary to build industrial transformation around integrated ecosystems. This requires a better convergence of the different sectoral policies concerned, sustained consultation between public and private actors, involvement of local public and private actors, universities and research institutes. This also requires continuous monitoring and evaluation to make the necessary readjustments in a timely manner and to guarantee an efficient allocation of the public funds mobilized in the framework of this new industrial impulse. The "Industrial Acceleration Plan of Morocco" is part of this new configuration of industrial policies, giving a fundamental role to the institutional mechanisms of involvement and coordination of various actors in the process of achieving the defined objectives. This Plan has gradually evolved towards

high-performance industrial ecosystems in order to reinforce the achievements and amplify the results. Public policy in the industry is now a tool for building up complete value chains. It is no longer a question of producing parts under a subcontracting policy, but of accessing more elaborate modules in the final product by integrating more value added created locally. Four ecosystems were set up in consultation with the professional organization of the automobile sector¹⁶, namely interior-seat, metal-stamping, batteries and wiring. Tunisia seems to follow the same trend.

3. Firm Behavior: Networking Under Construction

The Renault plant in Tangier, with its role as a large-scale international assembler, has attracted a large number of companies (already supplying the Group) to Morocco. Integration of the Moroccan automotive sector has gradually increased, strengthening the local supply chain in the sector and increasing the variety of automotive parts and components for export. However, the current level of industrial linkage (manufacturing value chain) is still low: only a few local SMEs operate as first or second rank suppliers in the value chain. The promotion of local SMEs is a major challenge in establishing industrial links between local suppliers and potential and existing investors, including global automakers and auto parts manufacturers. Renault tried to build a part of its supply network locally by seeking to help the local players with the highest potential reaching the level of technological competence required. A program to support the upgrading of Moroccan equipment manufacturers has been set up jointly by the Ministry of Trade and Industry, representatives of Moroccan equipment manufacturers and the French manufacturer. This program aims to identify the potential suppliers of the Tangier plant and to accompany them mastering certain international standards of quality (ISO certifications) and competitiveness. But, the setting up of partnerships between local and international suppliers is limited. Despite the fact that recently three joint venture projects have been initiated, the supply of components and materials is almost exclusively from abroad.

The aeronautics industry, in the other hand consists of dozens of foreign companies that are well established around the original core (EADS, Safran) and formed into clusters. Most of the companies in the sector are subsidiaries of French companies or, in some cases, a joint ventures between national and French operators. The anchoring of this major aeronautics manufacturers in the two countries is an asset for their national subcontracting fabric. The diversity of local SMEs allows to offer complementary skills and know-how in several areas such as mechanical activities, metalworking, plastics,

¹⁶ L'Association Marocaine pour l'Industrie et le Commerce Automobile (www.amica.org.ma)

electronics, etc. However, complementarities between SMEs are not sufficiently valued. This does not favor their rapprochement in order to obtain a sufficient size enabling them to improve their financial capacities, their competitiveness and to position themselves in international markets. This industry with a strong technological and strategic content continue to attract new players and countries. However big players like Airbus and Boeing now want to reduce the number of their suppliers while imposing strong price reduction targets, strengthening therefore the hierarchy of the industry. The Moroccan and Tunisian sites will be more and more confronted with the competitive aggressiveness of countries with diverse advantages (extensive internal market, human skills, proximity to sources of demand, efficient incentive system).

Conclusion and Policy Recommendations

In order for Morocco and Tunisia to seize the opportunities offered by global value chains, public policy must identify and then provide the best possible environment for value chains with the greatest potential. Public action, efficient companies and competent and innovative managerial resources are needed to progress along the value chain. Generally, we can summarize the actions to be taken as follow:

- **Capitalize on the potential from the rise in global value chains to revitalize the structural transformation of economies:**

Structural transformation involves the growth of more productive new activities and the shift of resources from less productive activities to these new activities, raising overall productivity. Global value chains can enable Morocco and Tunisia to implement the new and more productive activities needed for structural transformation.

- **Identify the positioning in the value chain according to its capabilities:**

Sector strategies cannot aim to covers all stages of production, but must strive to find the best place for the sector concerned within a global value chain. In a context of global value chains, the importance of imports of intermediate goods is no longer the same. In other words, imports of intermediate goods are no longer a sign of declining competitiveness, but a means for domestic firms to access the most efficient inputs and thus produce more competitive goods. Standards and product specifications of leading companies are increasingly replacing public-sector prices and commercial standards as key determinants of participation in global value chains.

- **Enhancing the attractiveness of Moroccan and Tunisian economies and building ecosystems:**

Outsourcing and offshoring offer the Moroccan and Tunisian economies the opportunity to capture the advantages of their geographical location and to increase efficiency if they increase their attractiveness. Therefore, the strengths of the two national economies should be exploited in order to attract foreign direct investment more effectively and stimulate new areas of activity. It is no longer sufficient to position themselves in the labor-intensive production stages that are often relocated to countries where the wage level is lower. As these two countries improve their attractiveness (human skills, infrastructure), they will optimize their integration into the large international firms networks and will gain in profitability. The question of transforming productive opportunities into a genuine leverage for industrial development assumes that clustering logics, which are a source of local technological and training externalities, are deployed within the automotive and aeronautical sectors before they are more widely adopted in other industries

- **Strengthen the competitiveness foundation in order to better integrate the GVC:**

The choice of insertion in GVC bring back into question the dominant precept of public action in terms of competitiveness. Today, exports are increasingly dependent on the technology, labor and capital embodied in imported intermediate goods. In addition, competitiveness policies reflect a growing tension between the international dimension of the firms strategies in the GVC and, on the other hand, the public policy of employment and value added at the local level.

The effective positioning strategy in the global production and innovation networks is chiefly to invest in skills and build quality infrastructure. Also the quality of institutions and administrations are very important in a company's decision to invest and carry out economic activities in a given country.

- **Promoting the supply capacities and participation of domestic firms in global value chains:**

In global value chains, large leading companies are exerting increasing control over their local trading partners both upstream and downstream of the production process. Their dominance lies in their particular capacities, especially the ability to innovate or to coordinate the entire production and / or distribution process. Multinational companies constantly require from their SMEs suppliers to improve the cost, quality and delivery conditions of their products.

It is therefore essential to understand the characteristics of the GVC and the conditions they impose, to identify the difficulties faced by domestic firms (mainly SMEs) to participate in these channels, as well as the possibilities they have for progress.

- **Improving human resources:**

Labor market policies and social policies do not always address the essential question of skills. Without sufficient investment in skills, individuals stagnate on the margins of society, technological progress and GVC participation are not accompanied by any productivity gains, and the national economy is less able to compete in an increasingly knowledge-based global economy.

To become more innovative and productive, the economy requires more highly skilled workers, or an appropriate combinations of qualifications. The upgrading of the workforce is necessary for supporting the shift in economic activity towards higher value-added areas. Addressing this issue through an education and training policy requires a greater emphasis on lifelong learning.

- **Consolidating innovation policies:**

Progressing in the value chain means changing, innovating and increasing productivity. Innovation policies can contribute raising the level of knowledge and technologies integrated in production and exports, making competition from countries with lower

wages (and lower costs and productivity) less likely on the markets concerned. Policies aimed at enhancing the firm's creativity or enhancing intangible assets as sources of value creation are closely linked to these innovation policies. It is also important that regulations and practices in place to protect intellectual property stimulate innovation. Intellectual property rights regulation must be accompanied by tools that improve access to knowledge. In this context, it is important to achieve a balance between technological diffusion and incentives to innovate.

- **Provide efficient business services to help firms become more productive and flexible:**

Supporting companies to acquire new capacities to fit into a value chain enabling them to upgrade their production. Integration into a global value chain can reduce local value-added, but it can generate growth if there is an upgrade in production. An environment conducive to business practice, training and other essential services such as infrastructure is indisputably essential. Strengthening participation in global sectoral value chains requires efficient logistics and low barriers to importing intermediate goods and also reliable energy supply.

- **Ensure good governance of the chain:**

The upgrading potential also depends on the governance of the chain, i.e. the balance of power within this chain. Governance refers to "hierarchical and power relationships that determine how financial, material and human resources are distributed and circulated within a chain".

- **Implement a strategy for regional value chains:**

Morocco and Tunisia have acquired in some sectors a certain level of manufacturing capacity that can promote greater regional participation. They have all developed a presence in the automotive and aeronautics GVCs. These sectors deserve a more detailed sectoral analysis to identify specific opportunities and develop GVC strategies. The development potential of the automotive industry in the region is not limited only to exports but also to domestic demand. The establishment of integrated regional production networks will eventually help to boost these sectors and improve the type of activities undertaken in the region. The difficult question is to know what added value should be created by regional integration and how to encourage regional and global actors to use more than one location in the region, integrate these places and ensure that this effort contribute to the general improvement of industrial activities in the region. To this end, the Asian model should be followed by identifying the specific advantages of each location along the various value chains and coordinating these advantages in order to attract more regional foreign direct investments.

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Chapter 4

Development and / or security: Stakes of the Relationship between the European Union, the Maghreb and the Sahel

Abdelhak Bassou

Abstract

How can North and South Mediterranean countries strengthen their partnership to enhance regional security, and consequently lead to social and economic development? The interactions between development and security, particularly human security, are emphasized in a troubled environment marked by political upheavals, terrorist threats and migration issues. In this framework, it is relevant to shed the light on how security concerns can influence economic growth and social development in Europe and in the Maghreb, without neglecting the involvement of the Sahel as a major actor conditioning the regional security strategies' success.

Introduction

In reference to the Mediterranean as a cooperation area between the North and the South, it is now established that this cooperation brings together the following:

- A Northern partner, which is the European Union (EU) in its entirety. The Mediterranean countries of Europe are inseparable from their integration area, which is the European Union.
- A Southern partner is difficult to define, due to lack of institutional integration. The African Union does not seem to have reached a level of integration that allows it to act as a united entity. The Arab Maghreb Union (AMU) is far from constituting a true institution for integration.

The European Union is thus involved in a cooperation process with a fragmented area, and the partner is therefore difficult to define. This fact obliges the EU to consider its southern neighborhood as a group of countries that are in a dispersed order, hence the need for separate and practically customized policies to respond to the ambitions of each country instead of an integrated and coherent whole. The most illustrative example is North Africa, which is regarded as the EU's immediate vicinity, and where the latter, despite a common general framework (European Neighborhood Policy), is forced to approach each country individually.

The problem of cooperation with this North African area is all the more complicated because it is interdependent, both in terms of economy / development and in terms of security / stability, with its southern neighborhood comprised of the Sahel and sub-Saharan.

In addition to the risks related to a fragmented area and its expansion due to the interference between the neighborhood and the neighborhood's neighborhood, there is also the question concerning the present circumstances in North Africa as well as in its Sahelian and sub-Saharan neighborhood. It is characterized by a quest for development and prosperity in a climate undermined by threats to security and stability,¹⁷ hence the need for the EU to combine the imperatives of economic development and security / stability in its relationship with the South.

¹⁷ In September 2016 the G5 Sahel Permanent Secretariat had developed a special strategy called "Strategy for the development and security of G5 Sahel Countries." In the introductory message, the President of Chad summed up the purpose of the strategy: "Indeed, the G5 Sahel peoples, united by centuries-long and multiform ties, determined to combine their efforts to make their region a haven of peace, prosperity and harmony, and convinced of the interdependence of security and development challenges, are resolutely determined to confront the challenges they face "

Development and security are therefore the two objectives that govern cooperation between the European Union and its southern neighborhood in its extensive sense. In this neighborhood, some countries benefit from relative stability, which leads to hopes for a better future in terms of development and prosperity, while other countries in this neighborhood experience the obvious shortcoming of either development or security and even in the absence of both notions, in some cases.

Despite these uncertainties and handicaps, the European Union cannot afford to not pay particular attention to the neighborhood to its South. Indeed, the situation in the Mediterranean has shown that the security of the North depends on the stability of the South. The collapse of Libya and the new conditions of instability it generated in the Sahelian and even sub-Saharan region have seriously jeopardized the security of the Mediterranean's northern shore in its broad sense, meaning the entire European Union.

In 2015 and 2016, traditional migration corridors proved to be vulnerable, in particular those with points originating in a destabilized southern country (Libya-Italy corridor), and resilience or even efficiency in corridors with points originating in countries spared by the Arab Spring events (Morocco-Spain corridor).

While the concerns in the southern neighborhood were development-oriented, it is clear that since the Arab spring, security issues have emerged as a major problem.

Security concerns have compounded the economic and development concerns. How, then, can the security situation be restored in the countries where it has deteriorated, while supporting economic development efforts? Is it necessary, or is it possible to achieve both objectives in parallel or should priority be given to one at the expense of the other? If so, which one should be prioritized?

I. On the links between Security and Development

1. **Uncertainties about revealed and automatic linkages between economy and security in situations concerning several African countries:**

How do the issues of security/stability and economy/development come together? If we draw from the general theory, we do not find any established rules of relations or links between security on the one hand and the economy on the other. This lack of a general rule linking development/wealth and security/prosperity is also true in Africa:

- In some African countries where GDP appears to indicate economic growth (notably through a cash economy), security does not seem to follow suit: The

case of Nigeria is the most striking in this respect. Sometimes the first and sometimes the second-largest GDP in Africa, Nigeria is not known for its security. The persistent disparities between communities and regions, Boko Haram's resistance to the measures initiated but not completed, and the actions carried out by the Delta of Niger Avengers leaves the country one of the most unstable with an uncertain future. The security risks in this country cannot be attributed to poverty or lack of resources, but rather to a bad management of capital, which hinders development and generates disparities that are, in turn, sources of social unrest, instability and insecurity.

- In other countries, stability and security do not appear to enable significant economic growth. As an indicative example, Madagascar (given the GDP per capita) is ranked 5th among the 25 poorest countries in the world despite the calm and stability that seem to prevail there. This is also the case for Malawi, which ranks second among the poorest countries. The absence of destabilizing elements does not seem to lead to prosperity. Why are these poor countries not experiencing major security problems?

These two examples therefore demonstrate that it is not by ensuring a good ranking in terms of GDP that a country can reach satisfactory levels of security, and that it is not by being without security problems that a country can escape from poverty. These two examples may also lead to the conclusion that for security and stability, it would be necessary to:

- Have natural resources and capital;
- Govern this capital well and manage it in order to mitigate the social disparities that generate disturbances.

However, by examining the situation in another category of countries, it is observed that they appear to be able to cope both in terms of stability and economic growth without having considerable natural resources.

The case of Morocco is to be noted, which seems to assert itself as a stable state in the middle-income category, without having hydrocarbon resources. One question, however, arises: Is stability in Morocco due to the socio-economic system, which tends to adopt the right rules of economic governance? Or does stability permit a better management of wealth creation mechanisms?

2. The security / development balance in the North and the priority issue in the South.

The question of the link between security-related facts and their corollaries of peace and stability on the one hand, and questions of development, economy and prosperity on the other, does not arise in the same terms between partners around the Mediterranean:

- The so-called developed countries of the North are less concerned with the issue of security/development as a priority. Both objectives are generally achieved. The question is only to maintain the level of equilibrium between the two concepts by introducing adjustment elements capable of dealing with possible imbalances.
- In the South, which is the geographical area in which African countries are situated, prosperity and security are difficult to ensure concomitantly. This difficulty raises questions about the priority between the objectives of security/stability and those of economy/development.

In the South, it is often noted that the efforts invested in socio-economic development are hampered by a lack of stability and security. Prioritization is all the more necessary in that the means available to these countries do not make it possible, either through their weakness or due to their mismanagement, to meet needs on both fronts.¹⁸ But this prioritization is also problematic because it is not established that prosperity is the only way to ensure security, or that security is a prerequisite for prosperity.¹⁹

As a result, there is a focus on an image of the Sahel and sub-Saharan area, which leads to a vicious circle where underdevelopment generates instability which in turn

¹⁸ "Chad is a small country with little resources, which has had enormous problems in its recent history. It is therefore the duty of all those who have more means to help it in military, material, logistical and financial areas. Apart from information from time to time, training, since our intervention in Mali, Cameroon, Nigeria, and Niger, we have not received financial support. Chad has disbursed more than 300 billion CFA francs [about 460 million euros] of its own resources in its fight against terrorism without any support from outside. Until now we are alone in this struggle ... We cannot continue to be everywhere, in Niger, Nigeria, Cameroon, Mali and monitor 1,200 kilometers of border with Libya. All this costs too much and if nothing is done, Chad will unfortunately be obliged to withdraw," reminded the Chadian president when he was a guest of RFI's "Internationales" program, TV5 Monde and the daily newspaper, Le Monde, on June 25, 2017.

¹⁹ The question remains unanswered in spite of certain theories, which assert that security is a prerequisite for development. As an example, the 2003 European strategy states that: "Security is a necessary condition for development. Not only do conflicts destroy infrastructure, including social infrastructure, but they also encourage crime, discourage investments and make it impossible for normal economic activity."

re-generates underdevelopment, and the big question remains, which is how can this trend be reversed? More precisely, how can it be reversed in a way where it would be able to achieve the following:

- Ensure the security and stability that can foster development, otherwise
- Ensure economic development and growth that can promote stability and security.

Whichever option is chosen, middle- and low-income countries are faced with the question of which concept is a prerequisite to the other and what priority should be chosen? The weakness of the resources precludes them from conducting the two efforts in parallel.

However, the situation is not the same in all countries in EU's southern neighborhood. While in some countries the ingredients of development are available but only handicapped by governance and mismanagement issues, in other countries states are nearly failing and the issue of development is challenged by the difficulty of rehabilitating the state.

Therefore, there is not a standard solution to ensure security and prosperity. While the Maghreb and Sahel states are broken up by a lack of a reliable integration processes, they are each experiencing different circumstances. Economic systems develop distinct vulnerabilities. The causes of insecurity are multiple and specific, and solutions must therefore be adapted.

How can we bring prosperity where security is not lacking, and bring security where certain natural resources, in particular natural resources, facilitate economic growth and where do we start in states where poverty and instability are combined? What role can the relatively stable southern states play in improving the situation of other states?

II. European action in the Maghreb and the Sahel: Customized solutions are needed.

1. States showing security capabilities but which are economically threatened.

Chad is the prototype of this kind of state, and the country has built a reputation as a safe power among its African peers. The wars against Gaddafi's Libya and also in Darfur in addition to its commitments in the Central African Republic and Mali alongside the French troops ended up making the Chadian army a military structure that dominates

its subject both within and outside the country. Domestically, the regime dominates its opposition and ensures the essential stability, even if certain human rights bodies decry the methods used. In the region, the Chadian army, whose firepower can only be equaled or surpassed in Central Africa by Angola, appears to be a military structure with seasoned and experienced troops, capable of evolving with a certain degree of ease in hostile Sahelian environments. Due to these qualities, the Chadian army is often solicited by French military interventions in the region. The Chadian army was present alongside the French in the Serval operations, followed by Barkhane and also in Operation Sangaris.

In 2013, the Chadian army, which had 25,000 men, was ranked third among ECCAS countries, behind the DRC and Angola. For the inhabitants per armed forces ratio, the country was also third with one soldier for 433 inhabitants, behind Angola (1/169) and Gabon (1/342). It was also third in terms of percentage of GDP devoted to defense with 2.6% after Equatorial Guinea (3.7) and Angola (3.5).²⁰

However, if Chad overcomes and can project a certain security / stability, the image that the country projects in terms of prosperity, development and governance, raises concerns about the future of this state. A relatively weak economy, based on the rent of modest oil production and the stagnant political model of pre-democracy, indicate a certain level of vulnerability. Moreover, security aspects dominate Chad's projection ambition. The 2016 budget law allocated 76% of the civil service budget items for security and defense services. What was left to provide the other sectors with executives and officials?

In this type of country, European cooperation or aid is called upon to provide the ingredients for economic development and democratic promotion, but not to take any action that may lead to the weakening of security and defense skills. In such a country, democratization must take place in an evolving and non-disruptive process in order to avoid destabilization. The country must also be assisted in order to improve the management of its wealth and ensure the proper redistribution of its income. Cooperation should be aimed at supporting the country to diversify its economic resources and identify opportunities for wealth creation, while avoiding slowing down the economy with military efforts that can wipe out its struggling economy.

²⁰ Source: Military Balance 2013, SIPRI Yearbook 2013, cited by Michel Luntumbue & Simon Massock, "Afrique Centrale: risques et envers de la pax tchadiana." GRIP Analysis Note, February 27 2014, Brussels.

2. States with economic potential but affected or threatened by insecurity.²¹

Two major African hydrocarbon producers illustrate this case: Libya and Nigeria. These two countries have so many security problems - many of them different - that OPEC has exempted them from the reductions that were recently decided upon.

Nigeria has made hydrocarbon production its only, if not its main source of income. By 2016, nearly 70% of Nigeria's (non-offshore) oil wells were shut down due to insecurity and sabotage. A country whose oil supplies two-thirds of its budget revenues and almost all of its export revenues is being penalized by falling prices and reduced production.

The management of the oil wealth, in terms of distribution, social justice and governance in general, remains problematic in Nigeria, mainly in the Niger Delta region. This wealth is a capital that could have brought prosperity. However, in the absence of good governance it generates insecurity. At first glance, it seems that insecurity hinders development and prosperity, but it turns out that this insecurity is a result of an inequitable distribution of the country's wealth.

Oil in Nigeria is extracted from the Niger Delta where the population believes that it does not receive its equitable share of the oil windfall. First, the Movement for the Emancipation of the Niger Delta (MEND) and then the Niger Delta Avengers (NDA) have never stopped fighting, and even war, against foreign companies and the State of Nigeria, which they consider to be "looters of their wealth." Today, NDA is demanding that 60% of oil revenues be allocated to local communities.²²

In Libya, a politically unstable country, control of black gold is crucial for the two competing authorities, each wishing to assert their legitimacy. These two authorities are not the only ones on the ground to want to appropriate oil resources. Terrorist groups as well as tribes mingle in the conflict. Some armed groups regularly attack wells and terminals, and sometimes tribes take them over in the name of social demands. If on the one hand the conflict situation affects oil production, this resource fuels the covetousness of the disputing parties and delays or even makes impossible any solution to the Libyan crisis. The country has capital that could ensure its development and prosperity. However, without a process of reconciliation that can bring about security and peace, this wealth becomes a deadly stake.

²¹ See the policy brief on the vulnerability corridor between Nigeria and Libya: http://www.ocppc.ma/sites/default/files/OCPPC-PB1608vEn_1.pdf.

²² See chapter II of ARCADIA 2017

Oil is indeed power in Libya. Each faction struggling to capture power in Libya must first struggle to control the production sites.

Thus, the oil war that prolongs the Libyan conflict and hampers any political solution opens the country not only to a fratricidal struggle but to the action of terrorist groups on all fronts.

Any cooperation with Nigeria or Libya is not about protecting them from danger (Boko Haram in Nigeria and Daech in Libya), but helping them to find solutions for governance for Nigeria and reconciliation for Libya. They will thus be able to overcome instabilities and invest their capital in development.

3. States, simultaneously poor and unstable.

Mali and even Niger are examples of the category of countries where current resources do not appear to be able to provide the necessary support for establishing a system that can, at least in the medium term, ensure the prosperity of these two States. Despite the availability of the uranium resource available to Niger and Mali's relative gold production, the two countries remain among those that can be described as poor.

Moreover, the security situation in these states remains alarming, in particular because of terrorist activity:

- In Mali, the security crisis that has hit the country since 2012 began by threatening the northern part of the country, but soon took over the Central regions with the Macina Liberation Front and in the South with the Katibas Khalid ibn Al Walid. Mali is on the way to becoming a terrorist-base that aims to spread to the whole of West Africa. The new group formed in March 2017 called "Support of Islam and Muslims (GSIM)" led by a well-known Malian, Iyad Ghali, illustrates the important role that Mali has in the terrorist movement shaking the region.
- In Niger, a country spared from the last Tuareg separatist uprising, is nevertheless triply targeted by terrorism.
 - On its western flank, Niger is threatened by the groups settled in Mali, which are constantly making murderous incursions, particularly in the regions adjoining Gao.
 - In the South, Boko Haram constantly threatens the country by regularly conducting raids that result in the deaths of soldiers and sometimes long or short occupations of entire villages.
 - In the north, the country remains handicapped by the porous border with

Libya, which is hundreds of kilometers away, and where several terrorist groups operate.

It therefore appears that neither Mali nor Niger can today, for lack of resources, combat the poverty and the rampant insecurity that prevail due to the proliferation of terrorist groups.

The challenge for Western efforts in general, and in Europe in particular, in these two countries remains to ensure not only the construction of an economic management system that can bring development and prosperity, but also to build the ability in those states to secure their territories against terrorist threats.

On the latter point, experience has shown that foreign military actions cannot replace the ability of these States to ensure their own safety. This is all the more necessary since the foreign presence in these states constitutes a significant argument for the radicals and their recruiters.

In view of the financial costs involved in concomitantly strengthening the defense resources and the structures to be created in order to initiate the appropriate modes of development, the effort to be deployed seems to be very great, hence the usefulness to ask oneself whether to start with development or security.

In order to avoid the choice imposed by such an equation, Europe must therefore get involved with all its member states and even be assisted by the international community as a whole, especially for security and defense. The effort to be made cannot be limited to training but also equipment because the present resources of the countries concerned are insufficient to acquire the required resources.

4. Relatively stable and middle-income states.

The problem of reconciling security/stability and development/prosperity is not experienced in the Maghreb and the Sahel to the same degree of acuity.

As stated above, some countries are rich in capital but suffer from a lack of security. Some others show security capacity while lacking development and prosperity, while a third category is lacking in both areas.

In order to complete the picture, however, it is necessary to examine the case of certain countries which have been able to achieve stability / security and relative economic development by stabilizing themselves as mid-sized economies. As with other categories, a country is chosen to illustrate the characteristics: Morocco.

Having been one of the few countries to surpass the impacts of the Arab spring in terms of destabilization, Morocco has both a stable socio-political system and a relative tendency toward economic growth.

Moreover, the country even shows soft power projection capacities especially within the African continent where it tries to associate itself with its African peers in the quest for stability and prosperity. Recent orientations of Moroccan policy towards Africa in the context of solidarity partnerships based on the win-win principle under the framework of South-South cooperation demonstrate the capacity of sub-regional powers to project themselves.

In terms of European behavior vis-à-vis such countries, it is clear that the European Union is not particularly interested in the opportunity that this category of country could offer in the efforts towards implementing a triangular cooperation strategy. Such countries share common values with both Europe and sub-Saharan Africa and can thus constitute the transmission link between the two shores.

This kind of complementarity has emerged on some occasions with regard to Morocco:

- When, in 2013, Operation Serval responded to the most critical needs and helped to avoid Mali's takeover by terrorist groups. Immediately afterward Morocco took the lead, particularly in the social and religious area, notably by training Imams qualified to fight radicalization and extremism and to establish a tolerant Islam to free the country from extremist and jihadist pursuits.
- When the Franco-British forces also intervened by preventing the massacre of the Libyan populations by their former "leader," Morocco subsequently deployed all diplomatic efforts under the aegis of the United Nations to reach the Skhirat agreement considered by the majority of the international community as the gateway to a final resolution of the Libyan issue.

Europe would benefit from encouraging this kind of complementarity by relying on the countries in the South that have a relative stability and tendency towards development.

Conclusion.

The challenge for Europe in its relationship with its neighborhood is the realization of the main objective of the European Neighborhood Policy: to present the neighborhood with an economic offer that includes an offer concerning security.²³ Thus, it is a question of two objectives, one economic and the other security.

Yet despite the absence of a clear relationship between security and the economy, the effects of one sector on the other cannot be automatically denied.

It is easy to recognize empirically that the economy responds to security. The stronger the economy, the more it provides the means to ensure security and minimize the effects of the uncertainties of the phenomena of insecurity. On the other hand, capital, the driving force of economic development, has the tendency to flee insecure or poorly secured areas and therefore security is necessary for economic growth.

It has, however, been discussed above that in Africa, wealth does not always lead to security and the latter does not always ensure development. Hence the challenge for Europe support to each of its neighbors and in a climate marked by:

- South-level fragmentation in which partners are dispersed;
- A mismatch between the countries' levels of development and security;
- A lack of synergy between Europe's efforts and the potential of southern countries with projection capabilities, in joint action with countries in the region that require assistance for their security and/or development.

This situation therefore makes a quasi-personalized European policy towards their neighborhood of the South more necessary than ever.

²³ According to the European Commission, the objective of the European Neighborhood Policy (ENP) to focus on the mutual interest of the EU and its neighbors in sharing an area of stability, security and well-being. It is a joint program to promote good governance in order to better manage our common neighborhood. It is based on common values and interests, including the need for a collective response to common challenges such as gaps in prosperity, migration, crime, environmental issues, public health, extremism and terrorism. In this sense, the ENP also contributes to global and regional stability and security.

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Towards EU-MENA Shared Prosperity

This joint Bruegel-OCP Policy Center publication comprised of four policy contributions from researchers of both institutions is the result of the establishment of the “Platform for Advanced & Emerging Economies Policy Dialogue”. This second publication comes to further enhance a collaboration that led to a first policy report under the theme of “Seven Years after the Crisis: Intersecting Perspectives”. In the first paper, “The Political Economy of Middle East and North Africa Oil Exporters in Times of Global Decarbonisation”, Simone Tagliapietra highlights on the lack of incentives for MENA oil exporters to pursue paths of economic diversification, making use of the Rentier State Theory and of a business-as-usual projection of the exploitation of oil resources in MENA countries. The second paper, “SME competitiveness in the MENA region: connecting to ‘global’ supply chains” by Marion Jansen and Mario Filadoro, explains how the absence of a strong intra-regional market may be one of the factors that makes the MENA region less attractive for foreign investors and reduces the potential of SMEs in the region to exploit their full potential. The analysis in this chapter focuses on Egypt, Jordan, Lebanon, Morocco and Tunisia. Larabi Jaidi and Yassine Msadfa contribute with the paper “The Complexity of Climbing the Global Value Chain: The Cases of Morocco and Tunisia”, where they chose to focus on two Maghreb countries: Morocco and Tunisia for two sectors (Automotive and Aeronautics). Indeed, these two countries are gaining market share in global competition through the structural transformation of their economies, by reallocating resources to these new and more productive sectors. In “Development and/or security: Stakes of the relationship between the European Union, the Maghreb and the Sahel”, Abdelhak Bassou emphasizes interactions between social and economic development and security, particularly human security, in a troubled Mediterranean environment marked by political upheavals, terrorist threats and migration issues.

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