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Stability in the Maghreb: an Imperative for Europe

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Paris, May 27, 2021 - Institut Montaigne publishes today the policy paper *"Stability in the Maghreb: an Imperative f*or *Europe*" in which the French think tank urges Europe to include the region in its recovery plan of 750 billion euros. For Europe, especially Italy, Spain and France, helping these three countries through the crisis is socially fair, morally necessary and politically useful.

Hakim El Karoui, Senior Fellow of the think tank and author of this policy paper, draws on an unprecedented collection of financial data and provides a sharp assessment: the economic situation in Tunisia, Morocco and to a lesser extent Algeria, which have been hardly hit by the Covid-19 crisis, is alarming. Moreover, Europe considers that the Maghreb is part of its traditional area of influence and that no competing (or hostile) power can gain a deep and lasting foothold there, that would allow it to compete with (or hinder) Europe. Yet this is what is currently happening with Turkey, Qatar, China and Russia looming on the Maghreb's potential.

If one of these three Maghreb countries were to enter into a long-term social and therefore political crisis, Europe would suffer the consequences in terms of uncontrolled migration, consolidation of Turkish or Chinese influence at the gates of Europe, or even the rise to power of more aggressive Islamist groups than those currently active in the three countries.

"This is an unprecedented situation for wealthy and poor countries alike: the former are responding by creating money, and the latter are being supported by the rich countries. Let us not forget the middle-income countries that cannot create money and are off the international budgetary aid's radar. Algeria, Tunisia and Morocco are facing the same difficulties as Europe, but lack the means and the credibility afforded by the euro. Let us act before it is too late" Hakim El Karoui explains.

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DETAILED ASSESSMENT OF THE
ECONOMIC AND FINANCIAL SITUATION
OF THE MAGHREB COUNTRIES**

France, Spain, Italy and Germany beware: foreign powers are increasingly competing with Europe for influence in the Maghreb.

The time when the Maghreb was a French — and possibly Italian or even Spanish — preserve is truly over. Germany is increasingly present in the region, as is the European Union as an institution. They both have major roles to play. But more importantly, new powers are showing interest in this region rife with comparative advantages: its proximity to wealthy Europe, its inexpensive well-trained labor force, and its ability to project southward.

Tunisia is attracting non-Western powers' attention particularly because of its political symbolism — the only democracy in the Arab world — and its commercial proximity to Europe. **In 2019, its imports came mainly from Italy (15%, a relatively stable figure since the 2000s), France (14% of total imports), while China's share has almost doubled in ten years (from 5% in 2009 to 9% in 2019).** Tunisian exports are also concentrated towards its **European partners. In 2019, France represented 29% of its exports, Italy 16% and Germany 13%**. Tunisia is particularly **important for Turkey and Qatar:** Turkish companies' increasing presence in the fields of public works and infrastructure could go hand in hand with Qatar funding Tunisia's much needed major investment plan.

Morocco is at the heart of regional and international interests, notably because it is a hub for trade towards both Europe and Africa. **Southern European countries remain the main providers of FDI to Morocco**, France in particular at 35% of total FDI in 2019. In terms of development aid, European countries remain a dominant source of bilateral official flows. **Of $24.7 billion in net inflows to Morocco between 2018 and 2017, $4.39 billion came from France (18% of total inflows) and $2 billion from Germany (8%).** However, **China's interest in Morocco continues to grow.** The Chinese diaspora is relatively large on the Moroccan coast. It also built a partnership with Morocco during the Covid-19 crisis (sending masks, advanced testing of vaccines, massive distribution of Chinese vaccines, etc.). China is well-positioned in terms of Moroccan imports, it represented 10% of the total in 2019, but is still behind Spain 15% and France 12%.

Algeria is a paradox: it is a sovereignist country, and yet very open to international trade, with a wide range of clients and suppliers compared to its neighbors. **Algeria's primary clients are Italy (18% of total Algerian exports in 2019), Spain (15%) and France (9%) but Europe and France's share of imports has declined (from 16% in 2009 to 12% in 2019). China and Russia in particular are important non-Western partners for Algeria.** In 2019, 17% of Algerian imports came from China (against 12% in 2009), which has a well-established diaspora in the country (40,000 nationals). Ties between Russia and Algeria are almost exclusively focused on the defense sector, with the exception of the Russian vaccine recently rolled out in Algeria.

A way out of the crisis: what scenarios?

Hakim El Karoui projects precise scenarios for exiting the crisis, evaluating the financing needs of the three Maghreb countries. These assessments aim to:

- absorbing the surplus of current and public deficits resulting from the crisis;
- financing an "additional" recovery plan to make up for some of the loss of income and investment.

1. **According to the most optimistic scenarios, Tunisia's funding needs would be in the $3 to $5 billion range (and between $5 and $9 billion in the pessimistic scenarios).** Of the three Maghreb countries, Tunisia is the worst off in the short term. The country is faced with government instability, various difficulties in implementing reforms, a sharp rise in public debt and trade deficits, greater reliance on support from international donors in addition to a sharp drop in investments since the onset of the health crisis. Thus, Tunisia needs massive, long-term support — without overly stringent trade-offs — in order to avoid a social and political shock that would threaten its fragile democratic structure.

2. **According to optimistic scenarios, Morocco's financing needs would be in the $3.5 billion to $6.5 billion range — versus between $6 billion and $11 billion according to pessimistic**

scenarios (i.e., if it does not receive assistance from international donors). Despite a high level of debt, Morocco has been able to leverage significant domestic resources to support its economy and has very recently been able to turn to money markets for further financing without difficulty. It must nevertheless finance a major medium-term development plan for which a high-level commission was set up shortly before the health crisis began. Nevertheless, given Morocco's excellent relationship with international donors based on its political stability and its ability to implement large infrastructure projects, it is likely that donors will be willing to make a significant contribution to ramping up the country's investment efforts.

3. **Algeria's budget deficit is the largest of the three countries, it is expected to reach 13.5% of GDP in 2021. It considers that it does not require multilateral support** (notably from the IMF), as its relatively reasonable debt ratio (46.3% of GDP in 2019) and its fossil fuel resources allows Algeria easy access to financing on all markets. In addition, Algeria has set up a social system which allows it to absorb both endogenous and exogenous economic shocks (25% of GDP is devoted to social transfers). But Algeria's fiscal and external balances are weakened by the decline in value and volume of hydrocarbon exports, which seems to confirm Algeria's vulnerability to exogenous shocks.

One way to support the Maghreb countries' economies could be through a general allocation of IMF special drawing rights (SDRs) so as to increase their economies' international reserves. A general SDR allocation of around $500 billion would provide $420 million for Tunisia, $690 million for Morocco, and $1,500 million for Algeria. This amount could even be higher if European countries were to make their SDR supplements available to the southern Mediterranean countries.

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