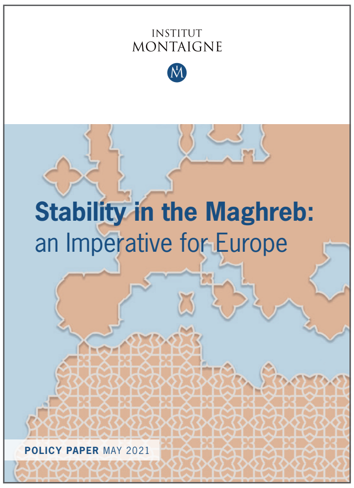
Executive Summary



The important flow of people, ideas, goods and money between the north and south of the Mediterranean means that the destinies of France and Europe are closely tied to what happens in the Maghreb countries. Yet the importance of the Maghreb for Europe is still largely underestimated. Europeans have yet to include Morocco, Algeria and Tunisia into their overall strategic thinking. Europe should strive to support these countries' economies – guaranteeing social and therefore political stability – while also respecting their sovereignty.

While Europe and the Maghreb have both been hard hit by the Covid-19 crisis, they are facing different consequences. Europe is wealthy and united by a shared currency, whereas the Maghreb is a group of middle-income countries, they are not united and have limited monetary creation capacities due to their fragile economies. The European recovery plan, aimed at ensuring the stability of its members, does not attempt to benefit its "near-abroad" neighbors, including the Maghreb. However, given the ties between peoples and economies, instability in the Maghreb is a risk for Europe. Destabilization in one of these countries as a result of the crisis would lead to known and undesirable chain reactions (growing influence of powers hostile to Europe, risk of Islamist extremism, uncontrolled migration). It is therefore urgent for Europe to engage in reinforced economic and financial cooperation with these Maghreb countries.

Foreign powers are increasingly competing with Europe for influence in the Maghreb

The European Union's support for the Maghreb countries is mainly financial (with the exception of Algeria). The EU considers the region part of its traditional preserve and reckons no competing (or hostile) power can gain a deep and lasting foothold in the area. However, this is exactly what is happening: major regional and global players are vying for influence in these three Maghreb countries, and Europe's influence is gradually waning – France's even more so.

Less strategic than its neighbors in economic and commercial terms, 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. France remains a major partner but its share in Tunisian imports is eroding (14% in 2019, versus 21% in 2009), while China's share has almost doubled in ten years (from 5% in 2009 to 9% in 2019). 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. However, China's interest in Morocco continues to grow. The Chinese diaspora is relatively large on the Moroccan coast, China is looking closely at logistics facilities, particularly in Tangier, and it already exports many manufactured goods and equipment to Morocco. 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's 15% and France's 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. 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. Nevertheless, Algeria's financial situation – which is much less deteriorated than that of its neighbors, as its external public debt is still reasonable – leaves little room for massive investment from a country seeking to take on a major political role in exchange for offering economic support.

Maghreb countries' economies are marked by structural fragility, exacerbated by the crisis

The Tunisian economy was unable to reach its full potential even before the Covid-19 crisis. Since the revolution, the institutional system has been unable to secure stable parliamentary majorities, nor has it been able to implement any of the significant reforms that the Tunisian economy so badly needs – i.e., to stabilize price hikes, improve labor productivity, fight against protected rents, limit public employment, and ultimately to achieve its full growth potential. While the Tunisian response to the Covid-19 pandemic is consistent from a health perspective, it remains limited from a financial stand point. Emergency measures were taken as early as March 2020, but with a total of only about 2 points of GDP, the recovery plan remains modest compared to the global average and to emerging countries. Tunisia received an emergency loan of about $753 million from the IMF in April 2020, which will not be enough to cover the country's entire public financing needs in 2021. An additional $1 billion could be provided, on the condition that Tunisia implements the structural reforms negotiated with its previous government.

Unlike Tunisia, Morocco's political stability has enabled it to refinance its debt on the markets and to contain inflation. But inequality and unemployment, especially among young people, remain high and are now exacerbated by the crisis. Following the first wave of the pandemic, Morocco quickly leveraged a large number of economic support tools and endeavored to support the purchasing power of those most vulnerable. Nevertheless, the rapid increase in the debt ratio and the current account's growing deficits – by two to three points of GDP according to the IMF – threaten the sustainability of the Kingdom's finances, whose sovereign rating could be downgraded.

Algeria's growth model is based on its resources, notably fossil fuels, with a relatively low level of tertiary activity, and an even stronger State presence than in the other two Maghreb countries. The fall in oil prices, which has lasted for several years, has had a significant impact on the Algerian economy and on the country's political and social stability – guaranteed since the 1990s by generous social transfers that make up for a very low employment rate. Algeria's response to the Covid-19 crisis has been twofold: health measures (not as drastic as elsewhere), and support for their economy (although less significant than in Morocco, for example). In the summer of 2020, the government announced a plan to diversify the Algerian economy, which includes strengthening food and pharmaceutical security, promoting a favorable business climate and encouraging high value-added sectors as well as international trade and FDI.

The health crisis has contributed to increased instability in these three Maghreb countries – whose social situation was already a source of concern. Unemployment is on the rise among young people, especially university graduates, and among women, whose participation rate was already low. Furthermore, unemployment has recently spread to men in their prime, especially those working in the tourism and transport sectors. This is a tenuous situation that could have worrying consequences for Europe (immigration, security issues, establishment of hostile powers).

A way out of the crisis?

Of the three Maghreb countries, Tunisia is the worst off in the short term. 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). 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.

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. 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). 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.

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).

One way to support the Maghreb countries' economies could be through a general allocation of IMF special drawing rights (SDRs). An SDR allocation would be a way 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.

Greater awareness in Europe is necessary

Our analysis clearly highlights that the Maghreb countries – especially Tunisia – require support throughout the health crisis. This crisis could be an opportunity for these countries to get back on their feet in the long term, if they can access the liquidity that would allow them to accelerate the transformation of their development models. After all, this is what Joe Biden is doing in the United States with his infrastructure investment plan. Given the human, political, economic and social interrelationships between southern Europe and northern Africa, this is a major challenge for the EU. How can the European plan of 750 billion euros not include its "near-abroad" neighbors, who are facing the same difficulties, but lack the means and the credibility afforded by the euro?

Of course, temptation to reduce external action funds will be great, as after any economic crisis, when the prospect of spending cuts inevitably comes up again. However, 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. For Europe, especially Italy, Spain and France, helping these three countries through the crisis is socially fair, morally necessary and politically useful. Let us act before it is too late.