



North Africa: The Hidden Risks to Regional Stability

Claire Spencer

Middle East and North Africa Programme | April 2009 | MENAP BP 2009/01

Summary points

- North Africa may not be as stable as it looks: socio-economic and political pressures are fracturing the consensus between governments and governed and may overtake terrorism and criminality as the region's main destabilizing forces.
- With political leadership in the region effectively a lifelong position, the growth of authoritarianism is undermining the prospects for achieving political and economic liberalization.
- Despite the worsening global economic climate, a window of opportunity exists to accelerate socially sensitive and productive domestic investment and open space for greater autonomous political and economic development.
- Success depends on renegotiating the social contracts on which North Africa's states are based. A broadening of participation, above all through the extension of legal employment, targeted investment on education, health and skills, and the establishment of independent legal and regulatory frameworks, will go some way towards addressing socio-economic stresses.
- A change in the political environment, however, requires a re-evaluation of how the region's security climate is seen from outside, with adjustments in the kind of support given to regional governments by its key international partners, the European Union and the United States.

Introduction

North Africa, also known as the Maghreb, is the most heavily populated sub-region of the Arab world, but is rarely seen as at the heart of developments in the broader Middle East. Instead, external security assessments of the region usually focus on the regional spread of terrorism, together with the threat of illegal migration and criminal networks moving northwards into Europe. Current European Union security policy priorities towards the region are focused on controlling and managing the interactions between southern Europe and North Africa. Not only have major restrictions on North Africans' entry to the EU been imposed in recent years, but nationals of the four states considered here, Algeria, Morocco, Libya and Tunisia, have featured to a greater or lesser degree as members of the international networks and affiliates of al-Qaeda. Since 2007, the formation of the Algerian-based Al-Qaeda in the Islamic Maghreb (AQIM) has intensified international monitoring of Islamist influences in the region and links with terrorist networks elsewhere in Europe, Africa and the Middle East.

The stability of Algeria and Libya is also critical to Europe, and to a lesser degree, the United States, in their capacity as strategic suppliers of gas and oil. Through an expanding range of gas pipelines and liquefied natural gas (LNG) projects, the proximity of North African energy sources to European consumers has accorded the region an increasingly important role in EU diversification strategies. These are directed towards energy security, especially for Europeans fearing an over-reliance on Russian gas. Since Libya emerged in 2003–04 from years of UN and US-backed sanctions imposed in the aftermath of the Lockerbie crisis of the late 1980s, both US- and European-based international oil companies have renewed their interest in investing in the development and upgrading of North African energy sources and infrastructure.

Because of gas and oil, very few of North Africa's partners have sought to upset the regional balance in recent

years by pressing too hard on regional governments to accelerate their domestic reform programmes. Local leaderships have all provided intelligence to the US and its allies and intensified policing and the detention of suspects to combat the rise of terrorism. Most have suffered at least one local terrorist attack since 2001, and all of North Africa's leaders, Libya's Muammar Qaddafi included, have been seen to be strong partners in the 'global war on terror' launched by the administration of George W. Bush after the 9/11 attacks.

The downside has been a retreat by the US and European governments from raising concerns about human rights and extra-judicial detentions that featured large in their previous policy initiatives towards the region. Allegations of Western complicity in extra-judicial investigations of terror suspects have also weakened the credibility of US and EU positions that urge reforms in these areas.¹

“ Because of gas and oil, very few of North Africa's partners have sought to upset the regional balance in recent years by pressing too hard on regional governments to accelerate their domestic reform programmes ”

The promotion of liberal economics and trade, meanwhile, has continued apace, but is likely to weaken as a result of the growing pressure for protectionism in the world's largest economies. The groundwork is now being laid for the expansion of economic opportunities to a wider population than hitherto, in the form of the extension of regional electricity grids, critical infrastructure and road, port and rail transport networks. In

¹ See the case of Binyam Mohammed, released from Guantánamo Bay in February 2009: <http://news.bbc.co.uk/1/hi/uk/7906381.stm>.

an era of global uncertainty, however, the temptation to retreat from engaging in the next stage of reforms will be strong. To differing degrees across the region, market distortions still exist in banking and financial services, in public subsidies and non-tariff barriers, and because of the almost ubiquitous absence of robust regulatory and legal frameworks. Where these frameworks do exist, they are often deliberately ambiguous in their application. In a less favourable global environment, security imperatives also look set to prevail, especially if reform strategies continue to privilege macro-economic over micro-economic reform and state-led joint investment with foreign capital over the mobilization of domestic private capacity.

Over the short term, central government controls have kept the region calm and the spread of terror has been limited, if not entirely eliminated.² The price, however, has been paid in the failure to address and respond to the ambitions of the region's citizens, the majority of whom have no link to terrorist activity at all. Largely absent from reporting in the Western media are the signs of a growing popular disengagement from the models of governance espoused by the region's leaderships. Voter apathy over less than convincing electoral processes; wildcat and national strikes over wages, prices and working conditions; local protests over the lack of health, education, housing and transport facilities; and sporadic demonstrations by region's young and long-term unemployed all point to an underlying fragmentation of society.

While not yet a crisis, nor indicative of imminent organized or widespread violence, this type of civil unrest in North Africa is not without historical precedent. In 1988, nationwide strikes and protests in Algeria started a process of political upheaval that led to a

decade of insecurity and violence, resulting in 200,000 deaths and a prolonged reign of terror, the roots of which have still to be fully explored.

The challenges – the regional context

North Africa already has many of the elements in place to steer its way through the troubled waters of the current global economic downturn. As medium-sized economies, with untapped financial reserves and human resources of their own, North African states no longer need the kind of foreign assistance that creates dependencies or investments which reinforce existing economic and political imbalances.

Although the region's overall share of global foreign direct investment (FDI) has improved markedly in recent years, it continues to compare unfavourably with the levels attracted to Asian and Latin American markets. Within Africa itself, North African states attract only 4–5% of European FDI, compared with 50% invested in South Africa.³ For many external assessors (see Table 1), this is due to the continuing difficulties of doing business in North Africa. These range from a lack of transparency, corruption, unfavourable terms of investment, and the personalization of contacts needed to overcome bureaucratic hurdles.

For US investors in particular, it is the absence of regional markets and attendant economies of scale that make investment in individual markets unattractive.⁴ Despite attempts since the late 1980s to move the dependency of North African economies away from Europe, which accounts for up to 60% of their combined imports and exports, North Africa's intra-regional trade barely rises above 5% between Libya and Tunisia, and represents less than 2% of total commercial exchanges for the rest of the region.

² In late February 2009, for example, terrorists were reported in the Algerian press to have killed nine security guards of the state-owned Sonelgaz company (*BBC Monitoring Alert ME1 MEPol ak*, 24 February 2009), but no major attacks have occurred since September 2008. The Algerian Interior Minister claimed in early March that the Algerian security forces had killed 120 militants and detained a further 322 over the past six months: 'Algerian minister says 120 killed', *International Herald Tribune*, 1 March 2009, <http://www.iht.com/articles/ap/2009/03/01/africa/AF-Algeria-Fighting-Terror.php>.

³ Observation by participant at project workshop, Chatham House, October 2008.

⁴ As of mid-2008, the combined population of the four North African states stood at 82.5 million – equivalent to the market size of Germany. Individually, population levels were: Morocco 31.2 million, Algeria 34.7 million, Tunisia 10.7 million and Libya 6.3 million. See Population Reference Bureau, '2008 World Population Data Sheet', 2008, http://www.prb.org/pdf08/08WPDS_Eng.pdf.

Table 1: North Africa: international ratings for transparency, freedom and business competitiveness

Name	Year	Algeria		Morocco		Tunisia		Libya	
		Score	Rank	Score	Rank	Score	Rank	Score	Rank
Freedom House Index	2009	5.5/7	Not Free	4.5/7	Partly Free	6.0/7	Not Free	7.0/7	Not Free
Bertelsmann Transformation Status Index	2008	4.72/10	84/125	4.65/10	86/125	5.37/10	73/125	4.24/10	97/125
Heritage Foundation Economic Freedom Index	2009	56.6	107/179	57.7	101/179	58.00	98/179	43.5	171/179
Economic Freedom of the World Index	2008	5.57/10	124/141	6.24/10	95/141	6.44/10	82/141	N/A	N/A
World Economic Forum Global Competitiveness Index	2008	3.71/7	99/134	4.08/7	73/134	4.58/7	36/134	3.85/7	91/134
Milken Institute Capital Access Index	2008	N/A	N/A	4.08/10	71/122	4.6/10	59/122	N/A	N/A
World Bank Ease of Doing Business Index	2008	N/A	132/181	N/A	128/181	N/A	73/181	N/A	N/A
UNDP Human Development Index	2008	0.748/1	100/179	0.646/1	127/179	0.762/1	95/179	0.840/1	52/179
Transparency International Corruptions Perception Index	2008	3.2/10	92/180	3.5/10	80/180	4.4/10	62/180	2.6/10	126/180

Sources: eStandards Forum: Financial Standards Foundation, <http://www.estandardsforum.com/>
Freedom House http://www.freedomhouse.org/uploads/fiw09/CompHistData/FIW_AllScores_Countries.xls
Bertelsmann Transformation Status http://www.bertelsmann-transformation-index.de/fileadmin/pdf/Anlagen_BTI_2008/BTI_2008_Ranking_EN.pdf
Heritage Foundation <http://www.heritage.org/index/ranking.aspx> 2009
Economic Freedom of the World: <http://www.freetheworld.com/release.htm>
World Economic Forum <http://www.weforum.org/pdf/gcr/2008/rankings.pdf>
Milken Institute <http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801036&cat=ResRep>
World Bank/International Finance Cooperation: <http://www.doingbusiness.org/economyrankings/>
UNDP <http://hdr.undp.org/en/statistics/>
Transparency International http://www.transparency.org/policy_research/surveys_indices/cpi/2008

The main reason for this is political. The lingering conflict over the future of the Western Sahara (claimed as sovereign territory by Morocco, but still subject to a UN-backed popular referendum to determine its status) has compounded the souring of relations between Algeria and Morocco which culminated in the closing of their border in 1994. The reason at the time was an attempt to limit the overspill effects of Algeria's terrorist crisis into Morocco, following the killing of a group of tourists in an attack in Marrakesh. Subsequent and more recent Moroccan attempts to reopen the border have been rebuffed by the Algerian authorities, partly because of residual security concerns of their own, and partly to resist Morocco's *de facto* assumption of control over the Western Sahara. Differences between Algeria and Morocco also still persist over the still unresolved list of participants eligible to take part in the referendum over the future of the Western Sahara.

The net effect has been to stall not only the exploration of complementarities of trade between the two states – where Algeria is a net supplier of energy and Morocco of agricultural produce lacking in Algeria – but also the prospects of developing a wider regional framework for cooperation and trade. The Arab Maghreb Union (which includes Mauritania, along with Morocco, Algeria, Tunisia and Libya) has failed to evolve much beyond its initial diplomatic framework, launched in 1987. Yet recent studies have estimated that the benefits of regional integration would almost double current levels of regional trade and account, in the short term alone, for a gain of \$1 billion in merchandise trade, or an estimated \$10 billion increase for every 1% increase in trade.⁵

All the states of the North African littoral are separately constructing coastal highways, which under the original conception of the AMU should become a single Trans-Maghreb Highway linking all four of the main

5 See Stuart Eizenstadt and Gary Clyde Hufbauer, 'Executive Summary' p. xii, in Gary Clyde Hufbauer and Claire Brunel (eds), 'Maghreb Regional and Global Integration: A Dream to Be Fulfilled' (Washington, DC: Peterson Institute for International Economics, October 2008).

economies. Until the regional political climate shifts to address the demands of the less favourable global economic circumstances they all now face, it is unlikely that either the sections of this road or the region's development strategies will be joined up.

Domestic politics

Domestic politics do not compensate for the lack of regional cooperation, which survives on limited security cooperation, itself hampered by rivalries over attracting external financial and political support. Most regional leaderships have largely identified the next stage of development priorities for themselves and have engaged in rolling four- or five-year plans to achieve specific socio-economic objectives. To differing degrees, however, they have been slow or unwilling to act on them consistently.

The reasons are specific to each state, but all share a reluctance to shift from models of centralized planning, expenditure and control to more devolved political and economic structures. In practice, the weak institutionalization of state structures beyond the key agencies of state – the security services, the army, central banks and strategic economic sectors – is one of the key indicators of the blockages facing North African states: namely, their inability to attract and sustain local and international investment at the levels their status as medium-sized economies should warrant.

Across the region, patronage is so endemic to both political and economic systems that few local actors are able to operate autonomously outside elite structures. State judiciaries are still subject to political interference, allowing governments to react to circumstances with a degree of arbitrariness which stifles the emergence of both constructive opposition and broad-based entrepreneurialism.

Even where advances have been made in freedoms of speech and association in recent years, the liberalization of the press in Algeria and Morocco has not

resulted in greater political oversight or accountability of public officials, except in selected 'show cases' with international visibility.⁶ Journalistic excesses, in turn, are dealt with on an ad hoc, rather than a procedural basis, despite the existence of press codes and libel laws. At heart, however, the print media are a minority sport, where the national broadcast media remain largely in state hands. What is missing is a national forum to air and regulate differences. With parliaments enjoying little capacity to influence the direction of national politics, the views of the vast majority of North Africans remain unrepresented.

‘ Across the region, patronage is so endemic to both political and economic systems that few local actors are able to operate autonomously outside elite structures ’

One consequence of the uneven development experienced by Maghreb countries over the past twenty years is that the social make-up of the two largest, Morocco and Algeria, has become increasingly fragmented. As John Entelis writes: 'As long as civil societies exhibit a variety of socioeconomic and cultural cleavages and remain seriously divided along religious-secular, urban-rural, male-female, modern-traditional, literate-non-literate and indigenous-global lines, it will be difficult for high levels of popular mobilisation to develop, thus facilitating the state's ability to repress political reform and choose coercion over compromise when such challenges do emerge.'⁷

6 See, for example, the arrest in August 2007 of the chief of police of the Moroccan capital Rabat on alleged drug-smuggling and prostitution charges, reported in US State Department '2008 Human Rights Practices: Morocco', <http://www.state.gov/g/drl/rls/hrrpt/2008/nea/119122.htm>.

7 John P. Entelis, 'Democratic Desires and the Authoritarian Temptation in the Central Maghreb', in Yahia H. Zoubir and Haizam Amirah-Fernandez (eds), *North Africa – Politics, Region and the Limits of Transformation* (London: Routledge, 2008) p. 11.

Despite the initiation of officially sanctioned democratic processes since the 1990s, elected political parties rarely represent more than a front for the presidency or monarchy. The self-styled ‘presidential coalition’ of the National Liberation Front (FLN) and National Democratic Rally (RND) represents this trend in Algeria, as does the Democratic Constitutional Rally (RCD) in Tunisia, which gained 87.7% of the vote and 152 of 189 seats in the national assembly elections of 2004.⁸ In Libya, there are no parties, no official constitution, and only intermittent indirect elections to the 760-member General People’s Congress (last held in March 2006).⁹

In Morocco, the centrality of the monarchy has seen few parliamentary parties of significance emerge at the national level beyond those organized along regional, ethnic, religious or socio-economic lines. The reversion in 2007 to government under the historical-nationalist party Istiqlal (or ‘independence’ party, founded to challenge French protectorate rule in the 1940s) illustrates the paucity of new political alternatives.

Across the region, the creation of the context for democracy has been stifled in favour of what one school of thought sees as a drift towards authoritarianism that is both deliberate and opportunistic.¹⁰ It is deliberate in so far as the centralization of political control has proved the best means of survival for regimes facing diminishing legitimacy or perceived, if unsubstantiated, threats of popular mobilization against their rule. It is opportunistic in the sense that centralized governments have used a variety of devices, including co-opting or clamping down on political opponents and stage-managing electoral processes, to resist the restructuring of political models that have remained substantially unchanged for over forty years.

Challenges to authoritarianism

The dangers to these systems are now mounting. The first is the risk of succession crises hanging over the region’s increasingly ageing and personalized leaderships. Colonel Muammar Qaddafi, who is officially the ‘guide’ of the revolution he launched in Libya in September 1969 rather than Libya’s official head of state, will celebrate forty years in power in 2009. With a political system based on a series of ‘People’s Committees’ enjoying little autonomy, and a government comprised of appointees – which Qaddafi threatened to disband entirely in 2008 – there is no institutionalized means of passing control to a successor, presumed to be one of Qaddafi’s sons or his daughter.¹¹

‘The short-term risks to internal security inherent in loosening controls are real, but so are the dangers in allowing alternatives to build up within the gaps left by the collective failures of state-building over previous decades’

Elsewhere in the region, constitutional changes approved in 2002 in Tunisia and in late 2008 in Algeria now mean that along with the hereditary monarchy in Morocco, all the region’s leaderships are effectively in place for life. Constitutional safeguards limiting presidential terms have been lifted and despite health concerns, President Abdelaziz Bouteflika (aged 72) retained the presidency for a

8 See CIA World Factbook, Tunisia, <https://www.cia.gov/library/publications/the-world-factbook/geos/ts.html>.

9 See CIA World Factbook, Libya, <https://www.cia.gov/library/publications/the-world-factbook/geos/ly.html>.

10 See Eva Bellin, ‘The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Context’, *Comparative Politics*, Vol. 36, No. 2 (January 2004), pp. 144–6, and Entelis, ‘Democratic Desires’, pp. 9–30.

11 Dana Moss, ‘Succession Scenarios Still Unclear’, *Bitter Lemons International*, 2 December 2008, <http://www.washingtoninstitute.org/pdf.php?template=C06&CID=1192>.

third term with a reported 90.24% of the vote in early April 2009. But at least three opposition parties succeeded in persuading the electorate to boycott the presidential elections, thus damaging President Bouteflika's third-term credentials locally, if not internationally, and despite his attempts to appeal to younger voters during the electoral campaign.¹² Indeed, opposition groups and eye-witness accounts questioned the officially reported 75% turn-out of the electorate, estimating it to have been no more than 18% at the national level.¹³

A similar outcome is anticipated in the Tunisian presidential elections due in October 2009, when President Zine El Abidine Ben Ali (now aged 73) is likely to be confirmed in office for another five-year term.

Who or what will emerge after these leaderships, however, remains unclear. Only in Morocco has a smooth leadership transition been effected, following the succession from King Hassan II to his elder son, now King Mohammed VI, in 1999. However, the weakening of parliamentary oversight in Morocco means that the monarchy could be dangerously exposed to blame if social discontent increases. In September 2007, national parliamentary elections attracted only a 37% turn-out of eligible voters, the lowest in the country's history.

All these cases illustrate the second risk, which is not so much voter apathy as voter dissociation from the official political system. The tried and tested approach of co-opting, dividing or isolating political opposition groups has in practice diverted politics towards other channels. Whether through the social activism of non-violent Islamist movements such as Adl wa'l Ihsan (Justice and Charity) in Morocco, or through the more recent appeals to a wider audience of the otherwise quiescent Sheikh Abdallah of the Islamic Renaissance Movement in Algeria,¹⁴ maintaining a distance from formal politics has now become an alternative form of politics in itself.

The leaders of the largely secular political models of North Africa thus find themselves in a bind. They no longer enjoy the broad-based appeal that the popular mobilization of nationalist or socialist ideologies afforded them from the 1960s to the 1980s, nor have they been able to co-opt sufficient numbers of people through their limited distribution of the benefits of increased trade, employment and prosperity. Even if they now choose to devolve political and economic responsibilities away from the centre, as has been partially attempted in Morocco, they face the difficulty of managing transitions in the timeframe needed for more institutional checks and balances to take root.

The short-term risks to internal security inherent in loosening controls are real, but so are the dangers in allowing alternatives to build up within the gaps left by the collective failures of state-building over previous decades.

Socio-political challenges: Islamism and civil unrest

Almost uniquely with respect to other forms of political opposition, the growth of Islamist alternatives across North Africa has the capacity to highlight the flaws and inequities of the existing systems on strong moral and cultural grounds. Unlike the more newsworthy jihadist, or violent tendencies – of which AQIM has raised most international alarm – the gradualist approach of the largest Islamist movements in the region, like the Muslim Brotherhood in Egypt, has sought to change society from within.

Through reference to neglected or abandoned religious and social values, Islamism also opposes the strong association of current leaderships with largely failed Western development models, which are perceived as having been imposed from outside with the latter's blessing. The increasing incidence of veiled women in the streets of Algiers or Tunis represents not so much an overt challenge to the political process as a means of asserting different forms of social and political

¹² See 'Ce que Bouteflika réserve comme surprises aux jeunes: et la réduction du service national?', *Le Jeune Indépendant* (Algeria), 2 March 2009.

¹³ See *BBC Monitoring Alert ME1 MEPol ak*, 'Berber party says Algeria's presidential poll turnout no more than 18 per cent', *El Watan* website, Algiers, in French, 11 April 2009.

¹⁴ 'Les jeux sont faits', interview with Abdallah Djaballah in *Le Quotidien d'Oran* (Algeria), 16 February 2009.

cohesion based on Islamic precepts. Over the longer term, this creation of a parallel set of national identities is far more challenging to the secular North African state than the violence that erupted across Algeria in the 1990s.

In contrast to the destructive violence espoused by the far fewer adherents of AQIM, this wider Islamist movement has the capacity to be gently subversive at all levels of society. Its leaders have also learnt from the disastrous confrontations of the 1990s in Algeria, which saw the dispersal, detention and radicalization of a whole generation. Keeping political criticism within the thresholds of acceptable public discourse, and suffering occasional arrests, their activism is focused at local and grassroots levels to promote an entirely alternative way of organizing politics and society. Islamism's ideological leaders pose a challenge both to the legitimacy of current governments and to their ability to deliver on their reform agendas. Islamists are confident that both will ultimately be overtaken by history.

It is a long-term view, unlike the more immediate challenge posed by the jihadist groups. Both AQIM and the more fractured Moroccan groups linked to terrorist networks in Spain, France and Belgium have succeeded in recent years in launching a number of attacks notable for reaching more central state, foreign and security targets than any comparable terrorist groups in the 1990s. The introduction of suicide bomb attacks and multiple targeting, such as the simultaneous attacks of December 2007 on the central Algiers offices of the UN, the Supreme Court and Constitutional Council, which resulted in 67 deaths, point to the importation of more sophisticated techniques and technology. At the psychological level and in Western media, AQIM has succeeded in terrorizing and destabi-

lizing both local and international interests in Algeria, if not across the rest of the Maghreb.

While lethal in small numbers, however, these groups have shown few signs of infiltrating wider society. In periods of retreat, as now, they have extended their activities to kidnapping for ransom in the Sahel region further south, especially in Mali, Niger and Mauritania. Here, AQIM's linking up with trans-Saharan criminal routes used by drugs-, arms- and people-traffickers, as well as the Touareg insurgencies in Mali and Niger, may be a factor in their search for alternative targets and sources of income as the Algerian security forces have claimed more success in curtailing their activities in Algeria.¹⁵ In Morocco, no major terrorist incident has occurred since the 2003 Casablanca bombings which killed 33 people as well as twelve of the perpetrators. This suggests that intelligence shared with the Spanish and other European police forces has largely prevented further attacks.

Despite the widespread arrests of potential terrorists, and the pre-emption of incidents of any note in either Tunisia or Libya since 2002, this does not mean that AQIM's attempts to create a regional terrorist network will cease. It takes only a few successful terrorist attacks to severely dent local and international confidence, although to a large degree, the price paid for more vigilant internal policing has been the imposition of greater restrictions on the ordinary citizens of North Africa.

Less immediately controllable are the outbursts of social and economic discontent that hit the whole region, especially during the sharp price rises affecting imported foodstuffs, above all wheat which rose by 30% in early 2008. Algeria has seen the most sporadic unrest in both urban and rural areas,¹⁶ but

15 See note 2 above; in December 2008 two Canadian diplomats were kidnapped in Niger, and in early 2009 four tourists were taken on the Mali-Niger border, both incidents being attributed to AQIM or its local affiliates. See AFP 'Africa's Sahel states to hold security summit', 16 February 2009, <http://www.google.com/hostednews/afp/article/ALeqM5iuktV-08tE0hbEOw7fQwJ-pk8FMA>. Levels of violence increased in Algeria in early 2009 in advance of the April 2009 elections. See 'Algeria political violence death toll up in Feb', *Reuters*, 2 March 2009, <http://www.alertnet.org/thenews/newsdesk/AHM256042.htm>.

16 See the log (in French) of Algerian newspaper articles on unemployment, strikes and falling standards of living filed under 'Dégradation de la situation sociale', on <http://www.algeria-watch.de/fr/article/eco/soc/degradation.htm>.

both Tunisia and Morocco witnessed sudden outbreaks of violence during 2008 in regions of high youth unemployment, especially Gafsa and Sidi Ifni respectively.¹⁷

“The knowledge that North Africa’s economies are not impoverished but are directing too few resources to meet the younger generation’s needs can be very destabilizing for those forced to stay.”

It is not, in general, the very poor who are vulnerable to protests, since they receive state subsidies on food and other essentials. It is more often the impoverished lower middle classes and working poor who represent the most volatile sectors of society. Being mostly concentrated in urban areas, they also pose the greatest threat to governments.¹⁸ Few outlets or popular leaderships exist to galvanize this trend into an organized political or social force, but it may start to manifest itself in various forms of civil disobedience.

The most striking recent illustration of the extent of social disaffection emerged in a poll of young Algerian men aged between 15 and 34, which revealed that 49.5% of those interviewed wanted to emigrate and 81% knew of someone ready to leave.¹⁹ The knowledge that North Africa’s economies are not impoverished but are

directing too few resources to meet the younger generation’s needs can be very destabilizing for those forced to stay. Not all of them turn to Islamist alternatives, but many find ways round the official system to survive, especially within parallel economies. This does little to ensure long-term loyalty to either government or the state. Economic choices, in other words, are now influencing the political stability of this region in ways that are only now beginning to be appreciated within, as well as beyond, North Africa’s borders.

The economic challenges

At the macro-economic level, all four North African states have done well in recent years, above all in reducing the crippling high foreign debt burdens of the 1980s to less than 20% of GDP in all but Tunisia, where foreign debt is a still manageable 51% of GDP.²⁰ Regional growth rates over recent years have averaged 5–6%, and even with the fall in oil prices in late 2008 affecting Algeria and Libya, growth is likely to slow less rapidly than in neighbouring Europe. Trade liberalization and privatization plans in Morocco and Tunisia have won international plaudits, even if results have been patchy and concentrated in some sectors rather than others, above all in tourism, construction, textiles and agricultural exports. While these endeavours have soaked up some regional unemployment, the gaps between rich and poor have nevertheless accelerated and the global downturn could mean that current expenditure levels are unlikely to be sustainable beyond the next two to four years.

The rapid rise of oil and gas prices in 2007–08 meant that Algeria and Libya ended 2008 with record levels of

17 See ‘Cautious calm in Redayef after fatal clash’, *Maghreb Online*, 11 June 2008, http://www.magharebia.com/cocoon/awi/xhtml1/en_GB/features/awi/features/2008/06/11/feature-02; ‘Moroccan government, NGOs disagree over Sidi Ifni clashes’, *Maghreb Online*, 11 June 2008, http://www.magharebia.com/cocoon/awi/xhtml1/en_GB/features/awi/features/2008/06/11/feature-01.

18 Observation of a participant at project workshop, Lake Como, December 2008.

19 ‘Près de 50% affirment être de futurs harragas’, *Liberté* (Algeria), 3 December 2008. The term *harraga* refers to those Algerians, mostly young, who want to leave. http://www.algeria-watch.de/fr/article/pol/migration/dossier_harraga.htm.

20 2007 figure from IMF Executive Board Article IV 2008 consultations, Public Information Notice, 8 August 2008, http://www.bct.gov.tn/bct/siteprod/documents/fmi_20081010_a.pdf.

foreign currency and gold reserves: \$150.5 billion and \$99.4 billion respectively.²¹ Both states have signalled their intention to deploy large sums towards diversifying economies which still derive 97% of foreign earnings from hydrocarbon exports.²² Yet because the public sector is still so prominent in both states, even large cash flows, such as the \$155 billion economic growth support programme (PCSC) budgeted for 2005–09 in Algeria, have run the risk of being depleted in meeting public-sector wage bills and recurrent expenditure, as well as in subsidizing uncompetitive, state-run or para-statal enterprises.

‘The longer-term reform of the business and investment climate is still subject to political controls that even liberalizing economies such as Tunisia have so far resisted removing’

In both states, the hydrocarbon sector continues to dominate the domestic economy, which is highly dependent on imported consumer goods to compensate for shortfalls in local production. Even in the more efficiently run hydrocarbon sector, Algeria’s most recent licensing round for exploration permits attracted only nine bids out of 15 blocks on offer to foreign investors. Increased taxation on foreign companies’ earnings, a 49% ceiling on foreign ownership, and legal and bureaucratic hurdles all compound the unattractive commercial terms on offer relative to previous rounds.²³

Morocco and Tunisia have made greater strides towards building up the role of the internal economy in each state’s overall GDP, in attempts to move away from models that still depend to a high degree on export-led growth and import substitution. In recent years, both countries have sought to attract industrial production and assembly plants to North Africa, relying on lower wages relative to eastern Europe and a young workforce.

Morocco, in particular, completed the first stage in 2007 of a large transshipment port, the Tangier-Med, on its northern Mediterranean coastline, partly to act as an entrepôt facility for the now overstretched port facilities of southern Spain, and partly to attract industrial plants to free-trade zones in the hinterland of the port. The Renault-Nissan production plant, due to come on-line in 2010, has seen the withdrawal of Nissan owing to the collapse of the world car market, but is still hoping to create 6,000 assembly-line jobs in the short term and a prospective further 35,000 as it attracts component suppliers and associated industries.²⁴ Tunisia is echoing this strategy in concluding an agreement with Airbus Industries to open a \$76 million plant, employing 1,500 workers, in 2010.

Constrained in part by what foreign investors are willing to commit to, however, the construction of luxury housing projects, sports facilities and coastal marina developments often contrasts starkly with the lack of focused investment in more socially sensitive sectors.

In the absence of impartial regulation, moreover, only well-protected foreign joint ventures escape informal systems of taxation, bribes and corruption. Many local privatized enterprises remain linked to the state through their acquisition by elite interests close to the government, as in Tunisia. Others have been locally bought or only semi-privatized; in

21 31 December 2008 estimates from *CIA World Factbook*, Algeria and Libya, <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

22 See ‘World Bank Managing Director encouraged by Libya’s Transition Vision’, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/LIBYAEXTN/0,,contentMDK:22077513~menuPK:410789~pagePK:2865066~piPK:2865079~theSitePK:410780,00.html>.

23 ‘Algeria gas export growth may disappoint Europeans’, Reuters UK, 9 February 2009; ‘Algeria: steady but stale’, *The Economist*, 5 March 2009.

24 ‘Manufacturing: the rise of the Maghreb’, *Business Week*, 5 March 2009.

Algeria, for instance, only 100 of 987 state enterprises listed for privatization since 2001 have been sold or otherwise disposed of. In all but Morocco, where financial sector reforms were introduced in 1983, the region's banking sectors are largely if not entirely state-owned, thus limiting the generation and flow of risk capital to all but the well-connected. Interest rates on national savings also discourage private endeavour; it is still deemed safer to keep private savings under mattresses than in unproductive and inflexible bank accounts.

Above all, the longer-term reform of the business and investment climate is still subject to political controls that even liberalizing economies such as Tunisia have so far resisted removing. This means that despite limited pressure from the international financial institutions (such as the World Bank and the International Monetary Fund) and with the partial exception of Morocco, there has been no shift in the role of the state and central government, from being the instigator of all new initiatives towards being the ultimate guarantor and regulator of autonomous economic activity. As the regulatory functions of the US and European governments have failed to prevent the global financial crisis, North Africa's leaders may feel justified in maintaining, and indeed strengthening, their stranglehold over state-run financial sectors, as well as limiting the emergence of genuinely autonomous private sectors. Yet it is precisely at a time of falling oil and gas prices and during a global

economic downturn that the centrality of the state is becoming a handicap – above all to the future stability of the region.

Distorted development

Many of the strategies adopted by the Maghreb's leaderships still rely on forms of 'trickle down' economics and import substitution that have long been seen as having failed to integrate modern with subsistence economies, or urban business centres with neglected rural interiors. This has led in recent years to some sharp shocks. From the vulnerability of the Moroccan economy to drought and floods, to the steep increase in the price of imported wheat for Algeria and Morocco in early 2008, the region is only now addressing the consequences of its lack of immunity to global economic and climatic trends.

State-led financing of infrastructure, housing and overdue reforms of the agricultural and agro-industrial sectors, as in Algeria, only address part of the problem. Much of the construction work currently under way in Algeria is being undertaken through sub-contracting to foreign companies, most notably Chinese firms which bring in their own workforce, thus doing little to alleviate local unemployment and fuelling resentment of foreign workers. In Morocco, 40% of the population is under-employed in traditional subsistence agriculture which in value-added contributes only 15% to national GDP.

Table 2: North Africa: educational enrolment and literacy rates

Country	Human Development Index 2006 (rank out of 179)	Literacy rates, 15 and older (%) (1995–2005)	Net primary education enrolment rates (%) (2005)	Net secondary education enrolment rates (%) (2005)	Public expenditure on education as % of total government expenditure (2002–05)
Algeria	100	69.9	97	66	-
Libya	52	84.2	-	-	-
Mauritania	140	51.2	72	15	8.3
Morocco	127	52.3	86	35	27.2
Tunisia	95	73.4	97	65	20.8

Note: Mauritania included for comparison: for much higher public expenditure, Morocco achieves similar literacy rates.
Source: UNDP. *Human Development Indices: A Statistical Update, 2008* (December 2008), <http://hdr.undp.org/en/statistics/>

Table 3: North Africa: growth rates and poverty indices

Country	Population at mid-2008 (m) ^a	GDP per capita (PPP \$) (as of 2007) ^b	Real GDP growth (%) (as of 2008) ^b	Human Poverty Index 2005 (rank out 177) ^c	Population below income poverty line (%) ^d
Algeria	34.7	7,879	3	51	15.1
Libya	6.3	15,335	6.3	-	-
Mauritania	3.2	-	-	87	63.1
Morocco	31.2	4,087	5.3	68	14.3
Tunisia	10.3	7,357	4.7	45	6.6

Note: Mauritania included for comparison.

a Population Reference Bureau: 2008 World Population Data Sheet

b *The Economist*

c UNDP, *Human Development Report 2007/2008*, http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf

d \$2 a day 1990–2005. UNDP, *Human Development Report 2007/2008*

The consequences for the rural population (which to the Moroccan government's credit have been fully acknowledged) are seen in a number of indicators of neglect: female rural illiteracy rates of 80%, low ratings on health and education relative to overall GDP on a number of UN Human Development Index criteria, and higher than national average unemployment and poverty levels (see Tables 2 and 3).²⁵ Algeria, with its greater wealth, hardly fares better, especially in tertiary education and training for a workforce of which 72% of the under-30s are unemployed.²⁶ Even in the demographically smaller Tunisia and Libya, the lack of job opportunities has created rising tensions among unemployed Tunisian graduates, while 80% of Libyans remain dependent on the state for employment, housing and subsidized living costs.

State-created employment has failed in the past and there is nothing to suggest that it will succeed now, despite recent falls in official unemployment figures. Moreover, official statistics do not reveal the full dimensions of the challenge. Official unemployment has been reduced in both Algeria and Morocco in recent years, in the former from 30% only two or three years ago to less than 13% now. However, these figures do not chart under-employment or the strains

created by falling wage levels relative to rising costs of living. Many are driven into parallel or illicit market activities. Situated outside fiscal nets and any form of legal or financial regulation, these represent as much as 40% of the official economies of Algeria and Morocco.

The central 'souk' (market) of Casablanca, Derb Ghallef, for example, has operated outside the official economy since the 1950s, by mobilizing diaspora communities and contacts in Europe to smuggle in goods that are unavailable or too expensive for local consumers to buy in the official Moroccan marketplace. Its success, which is estimated to generate sales figures of over \$140 million a year, is largely based on the clustering of specific products and services in one place (along the traditional models of North African souks), encouraging even formal-sector businesses to set up in the same vicinity.²⁷

This kind of activity demonstrates that entrepreneurialism is alive and thriving in North Africa. For those who wish to start a business legally, however, a number of hurdles remain. Across the region, both public- and private-sector transactions are still subject to patronage, red tape and the personalization of commercial relationships. This makes the avoidance of

25 Morocco's Haut Commissariat au Plan (<http://www.hcp.ma/publication.aspx>) has produced strategy papers on how to address reform in areas where state investment has been increased (e.g. education), but where results have been proportionally little better than in its much poorer neighbour Mauritania (see Table 2).

26 See World Bank, 'Algeria Country Brief, September 2008, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/ALGERIAEXTN/0,contentMDK:20188043~pagePK:141137~piPK:141127~theSitePK:312509,00.html>.

27 'Morocco: Black market avant-garde', in *Executive* magazine (Beirut), August 2008, pp. 64–66, www.executive-magazine.com.

official fiscal nets and of the legal arbitration of contracts and business practices more attractive than the incentives governments may propose, such as the reduction in corporate taxation levels introduced in Morocco in 2008. Few economic actors are operating on a level playing field; it is common knowledge that in the circles of ruling elites, access to land, licensing agreements, easy credit and low interest rates are the norm. For those outside, it is still a reliance on personal contacts and family savings that mobilizes new business ventures, which are themselves often informally taxed by corrupt state officials.

What has worked well in the past will not necessarily suffice to maintain social cohesion in future, especially in view of the scale of the challenges now facing the region. Two-thirds of the population of Algeria and Morocco (the two most populous states) are currently under 25 years of age; yet it is in these states that education and training for the marketplace (Morocco) and the opportunities for officially supported entrepreneurship (Algeria) are at their weakest. Taking all four states into consideration, an estimated 16 million jobs need to be created by 2020 just to sustain current levels of employment. In Morocco and Algeria around 250,000 new job-seekers enter the market each year.²⁸

This matters for the future security and stability of the region, not least since popular expectations remain high that the state will continue to provide jobs, health care, housing and welfare support. The global economic downturn is likely to limit the ability of governments and state agencies to respond to popular demands in coming years, just as public scepticism is rising over the willingness of ruling elites to curtail their own consumption patterns in favour of creating integrated economies to meet the needs of all.

Conclusions

External interest in North Africa tends to highlight the more violent manifestations of insecurity in the region, whether these are related to terrorism, drugs- and arms-

smuggling or clashes between police and would-be migrants seeking entry to Europe. This perspective often fails to identify the less visible but nonetheless mounting instability within each state. The real security threats are not so much transnational as local and human. Symptomatic of this are the growing social and economic divisions engendered by endemic unemployment and corruption, and the widespread disengagement from electoral politics that achieve more international approval than representation of their citizens.

‘ The real security threats are not so much transnational as local and human ’

Economic reforms have certainly improved overall growth rates and nominal income levels, but the neglect of institutional reform, above all in the legal and political spheres, has encouraged different forms of parallel engagement to take root. Both the increase in Islamist activism across the region and the rise in illicit migration and economic activity can be traced to the weakening bonds between state and society.

Macro-economic success, however, has now opened a window of opportunity for regional governments to rethink their development strategies and re-engage with their citizens. New leaderships may be required to see through fundamental changes, but what the region lacks, in combinations specific to each state, are three essential ingredients:

- (a) a skilled and informed workforce, ready to adapt to the challenges of globalization;
- (b) the (re-)deployment of public and private funding towards meeting development needs, especially through increased funding to education, health and welfare systems;

28 Observation of a participant at project workshop, Lake Como, December 2008.

(c) political and economic environments that encourage and support innovation, creativity and endeavour.

All the competitive advantages that this region, so close to Europe, should but does not yet enjoy hinge on progress being made, simultaneously, in these three areas. This is not to minimize the importance of continuing to build up the region's physical infrastructure, but it is precisely in the unbalanced nature of current development paths that most challenges to the region's stability now lie.

Thus, while Tunisia leads the field in educational achievement and workforce skills, it critically lacks the political freedoms that will nourish the sustainability of its already diversified economy. Algeria, in turn, has set ambitious investment targets that can only be realized if it radically decreases its reliance on import substitution and allows an autonomous private sector to develop in the domestic economy. Morocco, which has the most open political and financial environment, still has a long way to go to merge

the modern sectors of its economy with the subsistence economies in its hinterland. Libya remains the most patrimonial, because wealthiest, of states, yet stifles innovation through an over-reliance on hydrocarbon revenues to prolong personalized dependencies in an all but institutionless system of governance.

It is in the interest of North Africa's partners to recognize where their assistance towards these goals can most effectively be directed. This is not in arms sales, which in 2006–07 reached \$15 billion for Algeria's purchases of Russian equipment, largely unrelated to any current or potential security threat arising internally or externally to its borders.²⁹ Nor is it in forcing the pace of political and economic liberalization without ensuring that the appropriate legal, social and financial safeguards are in place. Rather, it will require rethinking the state-centric relations that EU and US policy frameworks, in particular, have encouraged. The region's rising manifestations of socio-economic and political exclusion require new forms of engagement if the longer-term stability of North Africa is to be assured.

29 Observation of a participant at project workshop, Lake Como, December 2008.

North Africa and Southern Europe



Source: Library of Congress, Geography and Map Division. Reproduced with permission.

This paper is based on research conducted under a project entitled *'Transatlantic Relations in a Changing Mediterranean Context: Smaller Steps to Security?'* sponsored by the German Marshall Fund of the US and the European Commission in Washington, DC. The focus of this project has been to reflect on the implications for US and EU policy of the changing dynamics of the Mediterranean region and the largely domestic security threats facing North African states and societies. It also examines whether differences in transatlantic policy approaches towards North Africa reflect fundamental divergences in EU and US priorities towards this region, or whether more coordinated and targeted policy goals might be identified under a new US presidency.

This briefing paper, the first of two, analyses contemporary developments in North Africa with a view to challenging prevailing assessments of the security challenges facing the region. The second paper focuses on the specific analytical and policy adjustments on which EU and US policy-makers should reflect, to realign their short-term policy actions with their long-term goals in the region. Particular attention is given in both papers to revisiting security policy towards the region, to highlight areas in which a more conscious convergence between EU and US policy could accelerate the achievement of their shared objectives.

Two project workshops were held under the Chatham House Rule in October and December 2009; the author is grateful to participants for a number of observations included in this and the following paper.

Chatham House has been the home of the Royal Institute of International Affairs for over eight decades. Our mission is to be a world-leading source of independent analysis, informed debate and influential ideas on how to build a prosperous and secure world for all.

Dr Claire Spencer is Head of the Middle East and North Africa Programme at Chatham House.

The author would like to thank Jessica Forsythe (MENAP Administrator) and Eliska Waldstein (MENAP Intern) for their assistance in the research and production of this paper.

Chatham House
10 St James's Square
London SW1Y 4LE
www.chathamhouse.org.uk

Registered charity no: 208223

Chatham House (the Royal Institute of International Affairs) is an independent body which promotes the rigorous study of international questions and does not express opinions of its own. The opinions expressed in this publication are the responsibility of the author.

© The Royal Institute of International Affairs, 2009

This material is offered free of charge for personal and non-commercial use, provided the source is acknowledged. For commercial or any other use, prior written permission must be obtained from the Royal Institute of International Affairs. In no case may this material be altered, sold or rented.

Designed and typeset by SoapBox, www.soapboxcommunications.co.uk