DEAUVILLE PARTNERSHIP AND EUROPEAN DEPENDENCY IN NORTH AFRICA

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Acronyms

DCFTA	Deep and Comprehensive Free Trade Agreement
DP	Deauville Partnership
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IFC	International Financial Corporation
IMF	International Monetary Fund
ISA	Implementation Supporting Agencies
ISDS	Investment-State Dispute Settlements
MENA	Middle East and North Africa
MENA TF	Middle East and North Africa Transition Fund
NFT	Non-tariff Barriers to Trade
OECD	Organisation for Economic Co-operation and Development
OTE	Observatoire Tunisien de l'Economie
PLL	Precautionary and Liquidity Line
PMRI	Product Market Regulation Index
PPP	Public-Private Partnership
SME	Small-Medium Enterprises
STRI	Services Trade Restrictiveness Index
TF	Transition Fund
TIVA	Trade in Value Added Database
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

Abstract

The following policy paper will try to assess the role of the Deauville Partnership in making the North African region more dependent from Europe. It will describe that this partnership is part of the same neoliberal European strategy started in the 2000s with the first free trade agreements in the region, also exporting an austerity-like European economic policy and involving similar non-democratic methods that those used for example in the TTIP negotiations. Even though this project is affecting the MENA region as a whole, a closer analysis to single countries will be made. Namely Morocco, Tunisia and Egypt. In order to achieve these goals different strategies are being pursed, such as deeper trade integration, enforcing a financialisation subordinate to European finance and imposing austerity policies. It will show that despite the official inclusive and sustainable growth purpose, more effort is actually spent in increasing the European geopolitical dominance in those countries.

I. Introduction

The European role in North Africa has always been dominant in different terms: geopolitically, economically and also culturally. Since the last decade of the 1990s Europe began a process towards the establishment of deeper trade connections with north Africa beginning with the first free trade agreements in Tunisia in 1998 (European Commission, 1998). This tendency is of course part of a larger plan that includes different countries worldwide, but the current work will focus only on the North African region and more specifically, Morocco, Tunisia and Egypt. Algeria and Libya were not considered for two different reasons. Algeria is not officially part of the Deauville Partnership (DP), while Libya is still facing an internal civil war and just focusing on political economy issues would not give an appropriate representation of the country.

The following policy paper will try to assess the role of the DP in making the North African region more dependent from the EU. It will show that behind the official claim for an inclusive and sustainable growth, the actual plan is rather directed toward enhancing dependency, a process that, if successful, would withdraw part of the sovereignty of these countries. It will be showed that the whole strategy is based on liberalisation, privatisation, financialisation and austerity. Furthermore, even though those strategies might appear independent they are actually deeply connected.

The rest of the policy paper is structured as follows. Section 2 will outline the history of the DP showing both the official institutional version and a more critical approach on the matter. Section 3 will show the three strategies involved in order to make the North African region more dependent upon Europe under the political umbrella of the DP. More specifically three approaches will be presented. First, the free trade agreements and the trade corridor project aiming to develop new infrastructure to increase the trade volumes between North Africa and Europe. Secondly, the generation of new financial policies leading towards the financialisation of those economies and the increase in private debt. Thirdly, a strategy based on the imposition of austerity policies very similar to the same ones imposed in Europe during the Eurozone crisis. Lastly, Section 4 will conclude with a summary of what has been found and a brief advance of policy recommendations.

II. History of the Deauville Partnership

In order to have a better idea on what is the DP it is necessary to start the analysis with the most important document from an institutional point of view: the official agreement signed in May 2011 during a G8 summit in Deauville by the UN, the League of Arab States, the OECD and the Union for the Mediterranean. According to those international organizations the partnership would "promote home-grown strategies for sustainable and inclusive growth accompanied by a process of governance reforms to build efficient, effective and accountable public institutions" (UN, 2011, p.1). To achieve this goal, the partnership would be based on two pillars, a political one and an economic one (G8 2011, 2011, p.2). The first one is aimed at promoting democratization in the region, while the second one focuses on the development of sustainable growth policies. Furthermore, this process will be accompanied by reforms towards more competitive markets and the establishment of stronger relations with developed countries in terms of trade and Foreign Direct Investment (FDI). The initial plan was also set to have a short-term and medium-term action. The short-term one is particularly related with the political reform in order to maintain stability within the region and to not affect the macroeconomic conditions. The medium-term one is macroeconomic related, aiming to sustain trade and investments (G8 2011, 2011, p.2), particularly, the establishment of competitive-oriented reforms and free trade agreements within the developed countries. However, the methods used to carry on this partnership present different issues. For instance, it shall be helpful to consider the Tunisian case in 2011 when the DP was signed, as the Constitutional Assembly was not consulted during the negotiations and subsequent agreement. The international institutions involved mentioned above only invited some branches of the government showing no interest for democracy and sovereignty in not considering the Tunisian people in the process. This approach was already experimented during the Eurozone crisis, when the EU along with the IMF and ECB included only some specific branches of the Greek, Portuguese, Irish, Spanish and Cypriot governments in the bailout negotiations, instead of opening the discussion to the totality of the Member States' democratic institutions in the process. One may argue that this type of approach is very similar to the one used during the negotiations of TTIP, and that it is becoming a new trend (Rouine, 2013, p.8).

In 2012 some changes occurred. Notably the IMF got involved starting to support the partnership, giving policy advices and financial support. Furthermore, also international financial institutions had the chance to get involved providing loans and technical assistance. Two new programs were advanced. The Capital Markets Access Initiative aiming to attract foreign investments and the Private Sector Development Initiative in order to foster a competitive private sector and improving the local capital markets. By the same year (April 2012) the OECD expressed its opinion on the new developments on the partnership. More specifically, the OECD gave policy suggestions in terms of four different areas. First, Open Governance and Anti-corruption policies based on fighting impunity and fostering transparency within governments in order to establish better trust with citizens. Secondly, the Asset Recovery Plan, considered as the high-priority goal involving the "Arab Forum on Asset Recovery" and the G8 in establishing the actual platform in order to recover assets. Thirdly, a plan to develop the Policy Environment for SMEs, in order to make the MENA countries business friendly, fostering inflow of new external funds and developing new banking services, micro-credit and reforming the tax system. Particularly, the European Bank for Reconstruction and Development (EBRD) got involved in establishing a special fund for the MENA countries named "Special Fund for Egypt, Tunisia, Morocco and Jordan". Fourthly, the International Exchanges programs that will train local authorities and institutions. In this case the aim is to converge to western standards in the legislative bodies, local authorities, judges and also labour unions (OECD, 2012). Furthermore, in 2012 another crucial point came out during the negotiations: the tasks given to different supranational institutions in pursuing the DP. The most relevant example involved the EIB, OECD, UNCTAD and the IFC. Respectively, the EIB studied the relations between competitiveness and employability. The OECD measured the role of legal incentives, the UNCTAD studied the social-economic integration and the IFC invested in setting a lawyer team paid to develop a new legal system. Clearly, the most crucial ones are the tasks appointed to the EIB and the IFC, which faced criticism in the past when they established different projects in North Africa. Notably, and according to Bankwatch, the EIB invested more than 3 billion in Egypt and Tunisia in order to obtain energy benefits in Europe rather than to develop the region (Bankwatch, p.1, 2011). Regarding the IFC, in the past years it has been accused of neglecting poverty, and rather to have invested in profit-oriented projects (Bretton Woods Project, 2013).

In 2013 most of the interest on the DP came from the IMF, which in two different occasions advanced policy suggestions and reviewed the outcome obtained so far. The IMF addressed the negative role of elections claiming that the "forthcoming elections and constitutional reform, as well as populations anxious for jobs and higher incomes, complicate policy-making for many governments" in Arab Countries in Transition, affecting the whole region (IMF, 2013, p.1). To overcome that issue, the IMF suggested as main strategy the promotion of the private sector in order to foster international trade and to increase FDI in the region. Furthermore, two main issues were addressed. First, low growth unable to reduce unemployment. Secondly, fiscal deficit that did not present declining trends, which was considered a main issue. In particular, from the IMF point of view, the main issue is related with bonds interest rates that would make public debt rise. An example that can clarify what was just said relates to energy policies in the MENA regions. Indeed, one advice that came from the IMF was that it would be appropriate to reduce the state's role in the national energy companies suggesting privatisation in this sector in order to reduce government expenditure (Momani and Lanz, 2014, p.4). In order to overcome these risks, the IMF gave precise suggestions on how to handle them in the short-term and in the long-term. In the short-term the IMF gave particular attention to public expenditure on wages, subsidies and welfare. Therefore, the IMF suggested an increase in fiscal consolidation, exchange rate flexibility and the launch of structural reforms. In the medium-term, the IMF stressed the promotion of private-sector policies. Together, these three suggestions appear as the most representative. First, to foster a deeper economic-trade integration with developed economies. Secondly, to improve a more business-friendly environment. Thirdly, to reform the labour market. One may say that these advices are particularly in line with what happened in southern European countries. These policy suggestions came from the very same institutions (the IMF) that in the same period admitted the negative impact of austerity policies and public deficit reduction, policies that contributed to put the European economy in a deflationary path (Blanchard et al, 2013). In other words, the DP does not represent a change in terms of the international trade relations, but also in exporting the austerity point of view already experimented in the 80s and 90s during the Least Developed Countries' crisis and then in several European countries such as Greece, Portugal, Ireland, Cyprus and Spain.

Lastly, between 2014 and 2015 during a new G7 meeting and with the cooperation of the OECD, the members of the DP agreed to take further enforcement action by establishing the "Compact on Economic Governance". In this case, one main change occurred related to the technical measurement of outcome. Indeed, in order to overlook the results of the Compact, they decided to use the following specific qualitative indexes: the World Bank's Doing Business Index, the Bertelsmann Foundation's Transformation Index, the Corruption Perception Index of Transparency International as well as the OECD's Trade in Value Added Database (TiVA), Services Trade Restrictiveness Index (STRI), Product Market Regulation Index (PMRI), FDI Regulatory Restrictiveness Index (FDI index) and the Global Entrepreneurship Monitor (GEM) (OECD, 2014, p1). In other words, most of those indexes give a positive outcome the more the economy is business friendly. This group of indexes just mentioned doesn't include indexes measuring impacts on poverty or gender issues, which are crucial problems in North Africa. For instance, in terms of unemployment the WB data regarding North Africa does not give a positive outcome. As Table 2.1 shows, the whole sample for North African countries experienced an increase in total unemployment from 2011 to 2014 except for Tunisia, with a worse situation compared to the world average, meaning that the DP is not achieving the unemployment reduction target. Furthermore, female unemployment is always higher than male one, regarding all countries and all period.

Table 2.1 Unemployment by Gender (% labour force)

Country	2011	2012	2013	2014
Egypt. Male	7.4	8.2	8.8	8.5
Egypt. Female	26.6	26.9	27	27.8
Morocco. Male	8.4	8.6	8.9	9.9
Morocco. Female	10.2	10	9.9	10.9
Tunisia. Male	17.1	13	12.3	12.4
Tunisia. Female	21.6	16.7	15.7	15.8
World. Male	5.7	5.7	5.7	5.7
World. Female	6.5	6.5	6.4	6.4

Source: calculations by the author based on Unemployment, total (% of total labour force), available through the World Bank database.

Moving towards gender inequality issues and female presence in the labour force, the situation gets even worse. Indeed, a different portrait of the country is given by the "Labour force, women (% of total labour force)" data provided by the WB and presented in Table 2.2. Looking at the percentage of female labour force as a ratio of the total, the North African countries have a lower percentage compared to the world's average, with a gap of 12 percentage points. The data also shows that, despite the enormous progress needed in this area, the discussed plans have not produced the expected results; as female participation has remained flat in these countries over the five years of the sample. Above all, these data do not account the labour created in informal sectors, like domestic jobs and housework, which is taken on in a large majority by women in North Africa. Domestic jobs are low pay jobs and housework brings in no income, implying a lower social and economic autonomy for women.

Table 2.2 Labour Force, Women (% total labour force)

País	2010	2011	2012	2013	2014
Morocco	26,72%	26,79%	26,91%	26,98%	27,04%
Tunisia	26,90%	26,92%	26,94%	26,91%	26,99%
Egypt	23,97%	23,96%	24,07%	24,12%	24,12%
World	39,73%	39,68%	39,64%	39,62%	39,60%

Font: càlculs de l'autor basats en la força de treball, dones (% de la força de treball total), disponible mitjançant la base de dades del Banc Mundial.

Lastly, the Human Development Index provided by the United Nations Development Programme presented in Table 2.3 clearly shows that human standards in North Africa are actually closer to those of lower performing countries in the Global South rather than to the standards of best performing countries in the Global North. In the end, all the presented data, alongside many other human development indexes, are not considered by the DP members as development indicators, and instead mainly pro-business indicators are applied even though the DP claims to be willing to foster inclusive growth.

Table 2.3 Human development index (2014)

Position	Country	HDI
1	Norway	0,944
2	Australia	0,935
3	Switzerland	0,93
6	Germany	0,916
14	UK	0,907
22	France	0,888
26	Spain	0,876
27	Italy	0,873
96	Tunisia	0,721
108	Egypt	0,69
126	Morocco	0,628
Sample	**188 Countries**	

Source: calculations by the author based on Human development index (HDI), available through the United Nations Development Programme.

BOX. 1. THE MENA TRANSITION FUND

In December 2012, the MENA Transition Fund (MENA TF) was put in place in order "to support countries in transition to formulate policies and programs and implement reforms" (MENA TF, 2013). In other words, this fund has become an operative branch in order to pursue the DP goals.

Officially, the MENA TF's objective is to invest in sustainable growth, developing inclusive labour markets, enhancing economic governance and increasing competitiveness and economic integration with the rest of the world (MENA TF, 2013). Countries in transition willing to be funded must fulfil the same MENA TF requirements and respect several economic standards that would make them converge towards western ones. In order to achieve these goals, different strategies are suggested such as the development of a business-friendly environment, labour market and public sector reforms, and investment plans in terms of infrastructure, so as to increase the trade connection between north and south. These strategies are in line with the advices put forward since 2011, and a sample of the whole strategy pursued in North Africa by EU and Global North countries.

Furthermore, the participants in the TF have to be considered. Tables 2.4, 2.5 and 2.6 outline them, showing 11 governments donors, 7 implementation supporting agencies (ISAs) and 6 countries in transition. The mechanism that interconnects these three groups is the following. The first group (the donors) provides capital, the second one (the ISAs) manages the funds redirecting them for specific projects supporting the third one (countries in transition) in preparing and employing the funds. The IMF is part of the ISAs, but so far it has never requested a financial transfer in order to sustain a particular project.

Below, three main factors will be addressed. First, the UK is the main donor, having injected $51 million in the fund, while the WB is the first ISAs in terms of requested funds, with more than the 50% of requested funds. Secondly, in terms of the actual decisions, credits are only granted for investments bigger than $5 million. Thirdly, the projects funded so far are just consulting studies solicited by transition countries, regarding larger investments to be implemented in the future. According to the MENA TF, on average they represent only between 1.4% and 1.8% of direct costs in terms of the whole project (MENA TF, 2013). Lastly, in terms of specialisation, the WB funded different projects related to micro-finance with local governments, the OECD supported investments related with employability, while the EIB and EBRD invested in projects aiming to foster free trade between these countries and the developed ones (See Appendix).

Table 2.4. Donor Countries

Country	$ million	%
UK	51	21%
USA	50	21%
Saudi Arabia	25	11%
Germany	21.24	9%
Canada	19.8	8%
France	13.16	6%
Japan	12	5%
Russia	10	4%
Kuwait	10	4%
Denmark	6.3	3%
Qatar	5	2%
Turkey	5	2%
Netherlands	5	2%
United Arab Emirates	5	2%
Total	**238**	**100%**

Table 2.5. ISAs Commitments

ISAs	$ million	%
WB	101.7	51%
ADB	27.5	14%
OECD	23.41	12%
EIB	22.66	11%
EBRD	10.12	5%
IFC	5.95	3%
IDB	3.91	2%
OPEC	3.49	2%
AFED	0.9	0%
AMF	0.4	0%
Transfers	**200.04**	**100%**
Supervision Fees	15	
Administrative costs	3	
Total	**218.04**	

Table 2.6 TCs

TCs	$ million	%
Egypt	50.8	24%
Tunisia	47.3	22%
Jordan	47.1	22%
Morocco	40.6	19%
Libya	11.5	5%
Yemen	17.4	8%
Total	**214.7**	**100%**

Source: calculations by the author based on MENA Transition Fund Database, available through the MENA Transition Fund website.

III. Imposing European Dependency in North Africa

This chapter will address the three main strategies used by international institutions in order to make the North African countries more dependent of the EU. First, free trade agreements signed in the past years and infrastructure projects implemented in order to make them operative will be considered. Secondly, strategies applied in order to financialise the region will be discussed. Thirdly, similarities among austerity policies implemented in the region and policies imposed in the EU will be analysed.

a. Free Trade Agreements and trade corridor project

The establishment of new free trade agreements is one of the official aims in the DP. Their objective is to connect regional markets with global markets. History of free trade agreements between the North African region and the EU goes back to 1995, when the EU signed the first agreement with Tunisia. The same process followed in Morocco and Egypt in 1996 and 2001 respectively. As most free trade agreements, they contained one same general purpose: to establish conditions for the liberalisation of trade in goods, services and capital. But liberalisation is not the only purpose. Indeed, in the past the very same countries (Morocco, Tunisia, Egypt and Jordan) signed in 2001 the Agadir agreement aiming to develop a deeper and more interconnected free trade area. However, this agreement did not work as expected (none of the Agadir members traded more than 3 percent of their imports and exports with partners in this agreement). These were but the first steps towards a trade integration between EU and North Africa. Indeed, the EU is moving now towards a new extent of trade agreements with the region: the so called "Deep and Comprehensive Trade Agreements" (DFCAs). The EU began different rounds of negotiations; with Morocco and Egypt in 2013, and with Tunisia in 2015. On this occasion the aim would be to deepen the existing trade agreements mentioned above. Indeed, these trade agreements would include the liberalisation of additional services sectors, investment protection and the removal of non-tariff barriers to trade (NTBs) harmonizing the local legislation with EU legislation. Some of these proposals are very similar to those included in TTIP negotiation, especially regarding the legal harmonization and the ISDS[1] mechanism to protect companies.

1 Investor-state dispute settlement (ISDS) mechanisms give corporations the right to sue states if they take any measures – including public interest legislation – that might threaten profits (TNI, 2016).

However, a main issue remains. Despite the binding free trade agreements and the ongoing process with the DFCAs, the EU would still face trade barriers in the North African region. According to the WB, the region faces a deficiency of infrastructure that makes trade with Europe and the rest of the world costly, not only in monetary terms, these aspects having greater impact than traditional trade barriers. In other words, physical boundaries may vanish EU efforts to create a free trade area. This is the main reason that convinced the European Commission to promote a large investment process through the EIB and the DP in order to develop new and old infrastructure that would better connect Europe and North Africa. Indeed, the EIB showed its interest in eliminating trade barriers between North Africa and Europe launching the TRANSTRAC (Transport Sector Support for Transition Countries); an initiative supporting an infrastructure development plan that connects North African countries with Europe. This initiative is justified under the stressed importance of trade and transport corridors for Egypt, Morocco and Tunisia (and also Jordan). In terms of the proposals and investment to be implemented in the MENA countries, three areas of intervention were determined: trade facilitation, transport infrastructure and logistics services. Those three areas of intervention would experience different activities such as training of public employees, development of policies aiming to increase cross-border trade and infrastructures along with an institutional strengthening plan.

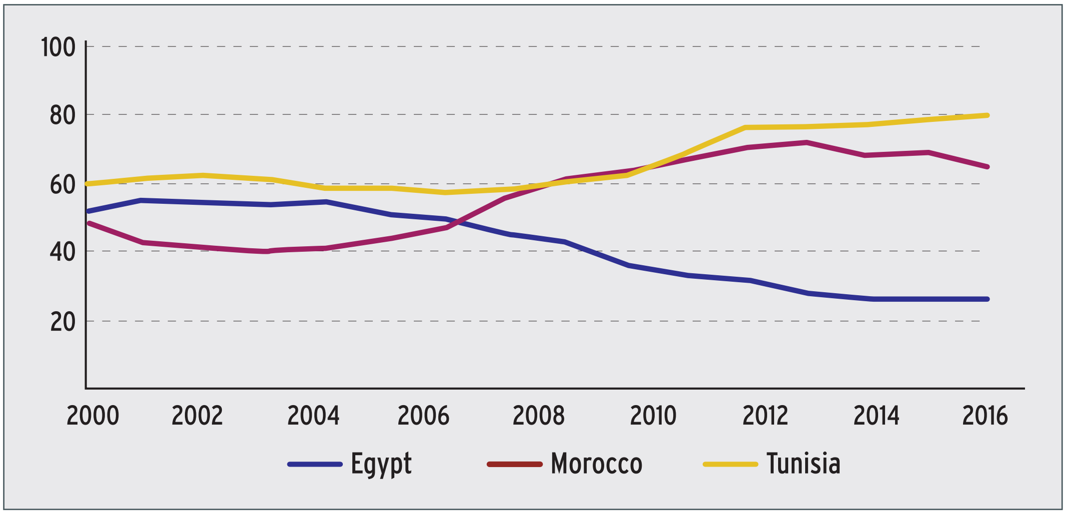
These projects are endorsed through the MENA TF, meaning that they are consulting work and studies sustaining larger projects, as explained in Box. 1. Besides them, the EIB also gave support to other projects related with transport investments with direct loans, in order to overcome the lack of infrastructure that is limiting international trade between Europe and North Africa. For instance, between 2011 and 2014 the EIB granted more than Đ650 million in infrastructure in North Africa, investing in motorways and land connections (EIB, 2014, pp.47-48).

In the end, the EIB put in force those investments claiming one main argument: MENA countries, and more specifically the North African countries, are not well integrated with the rest of the world and with Europe, following the approach at the root of the DP, which is the same approach that is in line with the neoliberal agenda of trade and financial integration pursued by the EU and reflected in the DCFTAs agreement. However, despite what was proposed, the EIB recognises the possible tensions between FDI and social-political interests. Unfortunately, it dedicates only one paragraph to this matter, and it does not advance any proposal. Furthermore, increasing trade liberalisation will not assure an improvement in terms of balance of payments. It might occur that the rise of imports in North African countries will not be compensated by a rise of exports of the same extent (Mohamadieh, 2014, p.26). In the end, claims for sustainable growth have turned into the possibility for the EU to use the EIB in order to make operative the free trade agreements that would not work otherwise.

b. Financialisation and private debt

A second strategy used by the EU to influence the political environment in North Africa is based on the promotion of new financial instruments in the region in order to penetrate also its financial markets and to establish a creditor-debtor relationship with a tendency towards financialisation; considered as the process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes (Palley, 2007). The DP has started a new trend towards financialisation in North Africa (and the rest of the continent), which is still developing its financial sector and its economies have not been financialised yet (Ashman, Mohamed, & Newman, 2013). The actual process that many developing countries, such as the North African ones, are living in terms of financialisation is more related with the concept of "subordinate financialisation". This term involves the idea that the Global North is able to impose its power to the Global South through finance. For example; globalising markets, directing internal profits to foreign investors, increasing consumption through debt and affecting local monetary policies (Powell, 2013). Following this theoretical definition, at least the first three features are part of the DP projects.

Chart 3.1 Domestic credit to private sector (% of GDP)



Source: calculations by the author based on Domestic credit to private sector (% of GDP), available through the World Bank database.

Chart 3.1 helps understanding the debt situation, giving a first glance at the rise of private debt in North Africa. As the WB defines it; credits to the private sector are the "financial resources provided to the private sector by financial corporations, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, which establish a claim for repayment" (World Bank, 2008, p. 271). In other words: private debt. In this case, 2 out of 3 countries (Morocco and Tunisia) increased their level of indebtedness starting from year 2000. Furthermore, in countries like Tunisia the private debt-to-GDP faced a rapid rise after 2011 with the spread of financial projects and developing the conditions for the rise of finance and debt in the region.

It is necessary to recall that making possible the penetration of financial resources, from a micro to a macro prospective, was one of the aims of the DP. This would also happen involving new and complicated financial instruments introduced for the first time to households, private business and governments. For instance, considering the number of projects financed by the EIB and the WB, a relevant portion is directed towards venture finance. For example, the EIB invested more than Đ142 million in risk capital from 2011 to 2014 in Morocco, Tunisia and Egypt. The WB invested even more in this type of projects: over $1.5 billion. Those projects involved investments in terms of housing finance, micro-finance, capital market development and SMEs financing facility. What could follow afterwards would be an increase in private debt that could not be repaid. Furthermore, part of the invested funds mentioned above had another impact. The development of these financial instruments in the region had spread a new phenomenon: the financialisation of infrastructure through PPPs and the involvement of private equity funds only seeking high revenues (ODG, 2015, p.7). In this case, the direct consequence was the exploitation of key sectors, such as energy or transport, controlled by foreign investors to draw revenues from North Africa to Europe and other developed countries, thus making reinvestment through retained earnings very difficult. Furthermore, as mentioned previously, one of the main claims in pursuing this approach is also based on the restriction on public expenditure, which would give the chance for private investors to increase their control over key sectors on the whole region.

In the end the main risk is the following. Without a proper control of the spread of new financial instruments in countries not used to dealing with them, there will be an increase in private indebtedness that will impact economic actors, but will also increase the likelihood of a loss of sovereignty in key sectors such as infrastructure or energy, and resulting in more dependency upon Europe and the Global North in general.

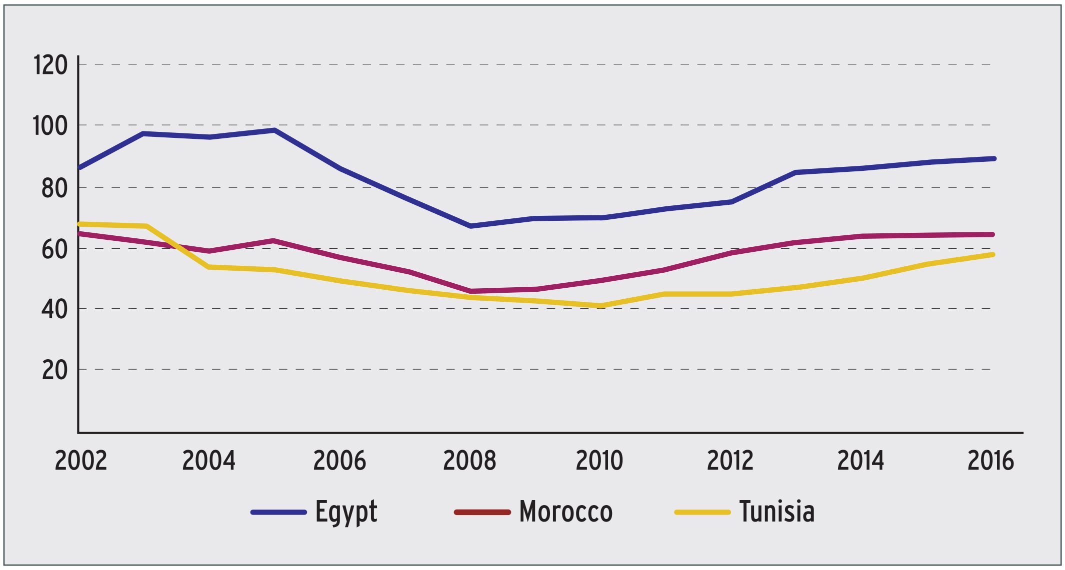
c. Exporting Austerity

Austerity policies failed in many European countries, determining high unemployment and recession in Portugal, Ireland, Greece, Cyprus and Spain. Similar economic policies have been suggested by the IMF to the MENA region since 2011. Clearly, in this case it is not possible to argue that the Troika (European Commission, ECB and IMF) imposed an austerity plan because only the IMF has been involved to some extent in the North African region.

However, the IMF advanced pro-austerity economic suggestions to North African countries, while in different occasions argued and apologised about its involvement in the negative impact of austerity policies. As explained previously, the most controversial argument that changed the view on austerity has been given by former IMF's chief economist Olivier Blanchard. Indeed, he found a direct relation between the austerity plans imposed in some advanced countries (mainly southern European countries) and low GDP growth (Blanchard and Leigh, 2013). Furthermore, the IMF has recently rethought its point of view on neoliberalism. It has been argued that when neoliberal policies were implemented, inequality rose and sustainability was negatively affected (Ostry et al, p.2, 2016). After all these findings, the IMF still proposed austerity policies in the region; so a question arises. Why developing countries, like North African ones, have to implement policies that did not work elsewhere?

Chart 3.2 shows the general government gross debt as ratio of the GDP provided by the IMF. The chart goes from 2000 to 2016 and it shows the public debt trend of Morocco, Tunisia and Egypt. The IMF proposed its austerity policies in order to reduce this variable. However, government debt experienced a decline from 2002 until 2011, and after the Arab spring and the implementation of the DP, it started increase. Indeed, since 2011 the government debt-to-GDP has grown in all the considered countries due to the effect of the social turmoil, the worldwide/European crisis that directly affects the North African region, and the new loan programs with their attached conditionalities. All these variables negatively affected GDP with a consequent deterioration in the government debt-to-GDP variable. Economically speaking, a fall of the denominator (the GDP) determines a further fall of the ratio as a whole.

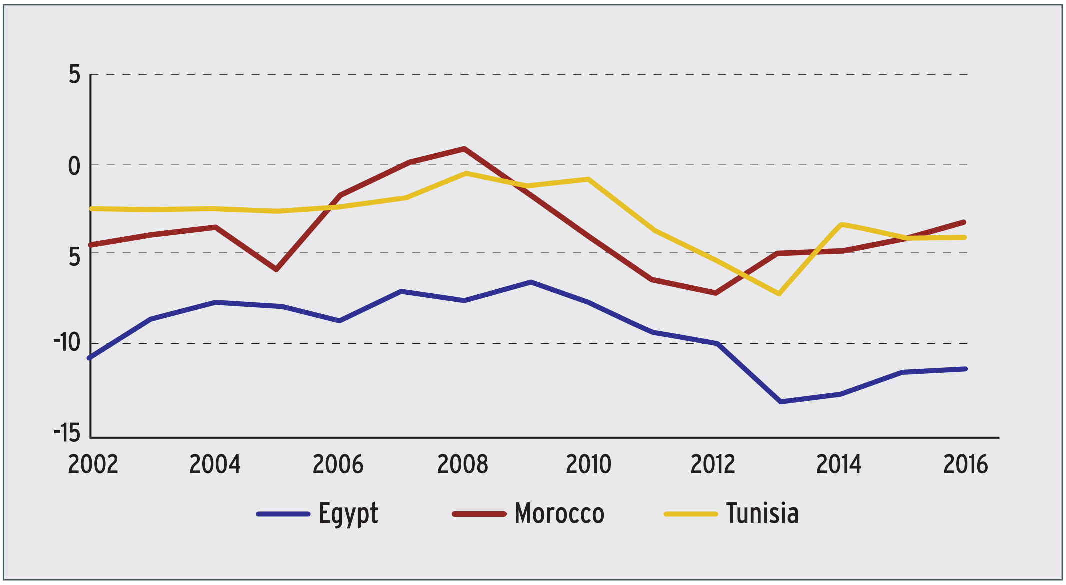
Chart 3.2. General government gross debt (%GDP)



Source: calculations by the author based on General government gross debt (% of GDP), available through the International Monetary Fund, World Economic Outlook Database, April 2016.

To have a better view on this matter another crucial variable will be studied: the general government net lending/borrowing, also known as the government deficit, showed in Chart 3.3. Similarly, as in Southern European countries, the IMF suggested to the North African countries to bring their government deficit below 3% of the GDP, this indicator becoming one of the crucial variables for the IMF (Chandoul, 2013, p.3). In this case, it is also possible to observe that the three studied countries performed better between 2002 and 2010 than later. The trend in terms of government deficit started to get worse with the DP and in 2016 only Morocco is in a better condition compared to the starting point. In other words, the same negative effect that occurred with government debt, also occurred with government deficits, meaning that the austerity programs actually obtained the opposite results sought by the IMF.

Chart 3.3 General government net lending/borrowing



Source: calculations by the author based on General government net lending/borrowing (%GDP), available through the International Monetary Fund, World Economic Outlook Database, April 2016.

Diverse aspects of the different loan programmes launched in North Africa have been commented on so far. In the next section there will be a comment on how these loans impeded national governments from pursuing independent economic policies.

Morocco agreed three different programmes with the IMF. In 2012 the IMF launched a 2-year programme for $6.21 billion dollars as a precautionary and liquidity line (PLL) plan. In 2014, the IMF extended the same plan for another 2 years, adding $3.23 billion dollars. Lastly, in 2016 a new $3.47 billion plan started. In total the IMF lent $12.91 billion dollars since 2012. The requests attached to the plans were very similar to what is requested to European countries that faced the Troika's intervention. The official aim of a PLL is to serve as an insurance in case of external shocks, solving balance of payments' instabilities (IMF, 2016, pp.1-2). However, once the PLL was agreed, Morocco had to fulfil specific goals implementing the so-called structural reforms in terms of fiscal compact policies, reforming the pensions and taxation systems and also reforming the monetary system towards a flexible exchange rate. Furthermore, the IMF imposed on Morocco's government a reduction of subsidies on oil and agricultural products.

Tunisia faced a lighter process that involved a smaller amount of loans. In 2013 the Tunisian government and the IMF agreed on a Stand-by arrangement consisting in a $1.74 billion loan. In 2015, the IMF agreed to extend the plan for 7 extra months, because the requested reforms did not progress as planned. Lastly, in 2016 a new Extended fund facility plan was approved. In this case the two plans had two different aims. A Stand-by arrangement consists in a loan used to face external financing needs in middle income countries such as Tunisia (IMF, 2016, p.1). An Extended fund facility has a similar aim, but it is expected to have a long run impact and long run repayment (IMF, 2016, p.1). However, in spite of the official claim for an inclusive growth programme and the protection of the most vulnerable, as in the previous case, the IMF also has the power to bind the country in advancing structural reforms that so many times obtained an opposite result. In this specific case high importance has been given to the reduction of the public wages bill, freezing them from further increases within a fiscal compact strategy. The IMF also stressed the promotion of export strategies and attracting new FDIs. Furthermore, as in the Morocco's case, monetary reforms to establish a flexible exchange rate regime were advanced.

Regarding Egypt things moved differently from what happened in Morocco and Tunisia. Indeed, Egypt refused the Stand-by arrangement proposed by the IMF. In 2012, it was offered a loan programme of $4.8 billion dollars that would have involved fiscal consolidation policies and reduction of subsidies. In March 2013, the Egyptian government finally refused to carry on this program. However, very recently (July 2016) the Egyptian government has requested a new 2-year loan programme from the IMF of $12 billion dollars that will be discussed in the following weeks.

Lastly, after this analysis of the austerity programmes in North Africa, one lesson can be acknowledged. The IMF, providing a loan that represents just a small ratio of the total debt, is able to bind and force North African countries to promote neoliberal austerity and structural reforms, that lead to free trade agreements, financialisation, neglecting inclusive growth and imposing higher dependency upon Europe and the Global North.

IV. Conclusions and Recommendations

Three main conclusions will be addressed. First, as explained previously, an interconnection between austerity policies, free trade agreements and financialisation has been found. Indeed, when the three studied countries agreed on a loan programme with the IMF they bound themselves in two different ways. On one hand they became a debtor, forced to repay debt and interests. On the other hand, they had to follow neoliberal economic policies imposed by an external authority such as the IMF. What comes along with an austerity programme is liberalisation in terms of goods and capital, leading respectively to trade agreements and financialisation. In other words, the three policies advanced under the DP umbrella (free trade agreements, financialisation and austerity) are not independent from each other, but are rather parts of a common strategy. North African countries should carefully consider signing any further agreements (such as Egypt in future negotiations) and reject the implementation of the existing illegitimate agreements, whilst demanding an effective introduction of inclusive growth policies, set aside so far.

Secondly, the claim of "inclusive growth" seems to be used in order to establish deeper economic relations between developed countries (especially Europe) and North Africa for geopolitical purposes, rather than to sustain the vulnerable and the poor as claimed. After the negative result of austerity policies in Europe, national governments should be aware that those policies do not bring inclusive growth or sustain countries in the Global South. Furthermore, most of the local population were not consulted on these matters leading to a lack of transparency and democracy. Issues that the DP claims it wants to eliminate, but rather is actually worsening them. Here the power to change also depends on civil society movements, which are already trying to warn the population of the risks related to the three policies advanced so far. However, a political stance by national parties is necessary to face these programmes, which sustain the control of the established powers. Furthermore, an audit with citizen participation should be implemented, with the aim of reviewing any unlawful or illegitimate procedures that may have occurred during the negotiation of those agreements and, with the outcomes, have the tools to reject them.

Thirdly, Europe and the Global North are pursuing these policies that deepen dependency of North African countries upon foreign nations. Generally speaking, the crucial aspect of the plans is that they will deepen the dependency of North African countries towards the European Union in several ways, such as in the energy and trade sectors. Specifically, in terms of trade, the main aim of the EU is to pursue an export-led strategy that could boost their exports with a consequent worsening of current account balance for Morocco, Tunisia and Egypt to some extent. Too much dependency might also mean that a European recession will also affect the North African region, as has recently happened. Therefore, national governments should also seek for alternatives, trying to integrate their economies first by launching an economic process based on sustainability, growth and equality, rather than following a pure neoliberal path. For instance, they should also seek to implement policies that protect them from financial instability originated from abroad, such as with capital controls. To do that, they have to first be free from any external agreement undermining their sovereignty in favour of other countries' interests.

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VI. Appendix

Tables 3.1 – 3.3 MENA Transition Fund Investments in Morocco, Tunisia and Egypt

Table 3.1 Morocco Portfolio

Project Name	Approval Date	ISA(s)	Amount (US)	Share
Microfinance Development Project	February 20, 2013	WB	5,560,000	14.11%
Strengthening Micro-Entrepreneurship for Disadvantaged Youth in the Informal Sector	February 20, 2013	WB	5,500,000	13.96%
Local Government Support Program	May 15, 2013	WB	5,045,000	12.80%
New Governance Framework Implementation Support Project	February 20, 2013	WB	4,500,000	11.42%
Strengthening Parliamentary Accountability and Oversight	December 8, 2015	WB	4,000,000	10.15%
Improving Connectivity in the Maghreb	May 18, 2015	OECD/WB	3,577,513	9.08%
Regional Integration through Trade and Transport Corridors (Morocco Activities)	May 15, 2013	EIB	3,550,000	9.01%
Regional Affordable Housing Project (Morocco Activities)	December 31, 2013	AMF/WB	2,110,460	5.36%
Accessing Overseas Job Opportunities for Moroccan Youth Project	June 11, 2014	WB	1,975,000	5.01%
Logismed soft project (Morocco Activities)	February 20, 2013	EIB	1,565,403	3.97%
Development of SMEs Exports Through Virtual Market Places (Morocco Activities)	February 11, 2014	WB	1,000,000	2.54%
Towards inclusive and open governments: Promoting women's participation in parliaments and policy-making (Morocco Activities)	May 18, 2015	OECD	633,333	1.61%
Promoting financial inclusion via mobile financial services in the Southern and Eastern Mediterranean Countries (Morocco Activities)	December 5, 2013	EIB	392,000	0.99%
GRAND TOTAL: $39,408,709				

Table 3.2 Tunisia Portfolio

Project Name	Approval Date	ISA(s)	Amount (US)	Share
Social Protection Reforms Support Project	May 15, 2013	WB	5,055,000	11.78%
Strengthening the Employability of Youth during Tunisia's Transition to a Green Economy	July 22, 2013	IsDB/ OECD	4,475,000	10.43%
Enhancing Domestic Resource Mobilisation through Effective Tax System Design and Improved Transparency and International Cooperation	December 5, 2013	AfDB/ OECD	4,401,800	10.26%
Tunisian Energy Reform Plan	June 7, 2013	OFID	3,836,000	8.94%
Regional Integration through Trade and Transport Corridors (Tunisia Activities)	December 5, 2013	EIB	3,800,000	8.85%
Broadband Internet and ICT for Education Acceleration Project	December 8, 2015	WB	3,285,750	7.66%
Work Readiness Programme	January 21, 2016	AfDB	2,560,000	5.97%
Enhancing governance and economic growth in Tunisia: promoting transparency and integrity in public procurement	May 18, 2015	AfDB	2,528,900	5.89%
Operationalizing Public Private Partnerships	February 20, 2013	AfDB/ OECD	2,300,000	5.36%
Regional Affordable Housing Project (Tunisia Activities)	December 31, 2013	AMF/ WB	2,110,460	4.92%
Set-up of Tunisia Investment Authority	February 20, 2013	IFC/ OECD	1,900,000	4.43%
Implementing priority public actions to enhance competitiveness and improve public services in Tunisia through an innovative and efficient delivery mechanism.	December 8, 2015	WB	1,888,900	4.40%
Developing Leadership Capacity	April 1, 2013	AfDB	1,600,000	3.73%
Logismed soft project (Tunisia Activities)	February 20, 2013	EIB	1,565,000	3.65%
Development of SMEs Exports Through Virtual Market Places (Tunisia Activities)	February 11, 2014	WB	1,000,000	2.33%
Optimising and Monitoring Employment in Infrastructure Investments	December 8, 2015	EIB	609,500	1.42%
GRAND TOTAL: $42,916,310				

Table 3.3 Egypt Portfolio

Project Name	Approval Date	ISA(s)	Amount (US$)	Share
Energy/Social Safety Nets Sector Reforms Technical Assistance Project	May 15, 2013	WB	7,097,200	14.43%
Enhancing the Investment Climate in Egypt, through Equal Access and Simplified Environment for Investment and Fostered Investment Policy, Legal and Institutional Framework	May 18, 2015	OECD/ WB	7,043,400	14.32%
Inclusive Regulations for Microfinance Project	June 11, 2014	WB	4,505,000	9.16%
Building Capacity and Institutional Strengthening of the Ministry of International Cooperation	December 8, 2015	AfDB	4,455,000	9.06%
Regional Integration through Trade and Transport Corridors (Egypt Activities)	May 15, 2013	EIB	4,230,000	8.60%
Strengthening the Rule of Law: Enhancing Effective and Transparent Delivery of Justice and Rule-Making	June 11, 2014	AfDB/ OECD	4,121,000	8.38%
Clearing & Settlement Depositary System for Government Securities	June 11, 2014	EBRD	3,851,900	7.83%
MSME Support Programme and the Social Fund for Development	February 20, 2013	EBRD	2,936,080	5.97%
Support to Parliament: Building Capacity and Mainstreaming Inclusive Growth and Decentralization in Egypt	June 11, 2014	AfDB	2,920,000	5.94%
Green Growth: Industrial Waste Management and SME Entrepreneurship Hub	May 15, 2013	AfDB	2,000,000	4.07%
Support to MSME in Organic Clusters	February 20, 2013	AfDB	2,000,000	4.07%
Logismed soft project (Egypt Activities)	February 20, 2013	EIB	1,565,403	3.18%
Leveraging Regulatory Reform to Advance Financial Inclusion (Egypt Activities)	May 18, 2015	IFC	950,000	1.93%
Promoting Financial Inclusion via Mobile Financial Services in the Southern and Eastern Mediterranean Countries (Egypt Activities)	December 5, 2013	EIB	891,000	1.81%
Towards inclusive and open governments: Promoting women's participation in parliaments and policy-making (Egypt Activities)	May 18, 2015	OECD	633,333	1.29%
GRAND TOTAL: $49199316				

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