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Maghreb Region: A Study of India's Trade and Investment Potential

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Introduction

The ***Arab Maghreb Union (AMU)***, formed in 1989 by Algeria, Libya, Mauritania, Morocco and Tunisia, aims to safeguard the region's economic interests, foster and promote economic and cultural co-operation, and intensify mutual commercial exchanges as a precursor for integration and the creation of a North African Common Market.

The importance of the Maghreb region as an important oil and gas producer, and transit centre to southern Europe, as also increased economic activity in the region in recent years, would present opportunities to further enhance India's commercial presence in the region.

Economic Environment

In the ***Maghreb region***, real GDP growth is projected to strengthen from 4.0% in 2005 to 5.8% in 2006, accompanied by a sharp rise in current account surplus.

In ***Algeria***, real GDP growth was 5.8% in 2005, boosted by economic activity in the hydrocarbons, construction and services sectors, while in ***Libya***, real GDP growth was a robust 8.5% in 2005, accompanied by greater domestic liquidity.

Strong growth in services and donor-funded infrastructure projects, kept the growth rate of ***Mauritania***'s real GDP at 5.5% in 2005. In **Morocco**, real GDP growth is projected to strengthen to 5.9% in 2006 from the subdued growth of 1.5% in 2005. ***Tunisia***'s economy grew at 4.0% in 2005, led by the services and the industrial sectors.

Foreign Trade

Reflecting the rapid rise in both exports and imports, total trade of the Maghreb region has risen two-fold during 2001-05, from US$ 78 bn to US$ 158 bn. Total exports of the Maghreb countries doubled during 2001-05 from US$ 44.2 bn to US$ 93.9 bn. Algeria is the leading exporter in the region, followed by Libya. Total imports of the region also increased two-fold during 2001-05 from US$ 33.8 bn to US$ 64.3 bn. Algeria is the largest importer amongst these nations, followed by Morocco.

The EU nations, especially France, Italy, Spain, Germany, are the largest trading partner for the Maghreb countries. Switzerland, Turkey, UK, China, Japan, South Korea and the US are other important trade partners for these countries.

Mineral fuels dominate ***Algeria***'s exports basket, while fresh dates are Algeria's main non-hydrocarbons exports. In the case of ***Libya*** also, hydrocarbons products, viz. oil, gas and refined products, dominate exports basket. ***Mauritania***'s exports basket consists of two main exports – fish & fish products and iron ore, while oil production that has begun in 2006 would allow Mauritania to diversify its exports basket. Textiles are major export items for ***Morocco*** and ***Tunisia***.

Foreign Direct Investment

The importance of the Maghreb countries as major recipients of FDI in the African region is reflected in the increased FDI inflows, from US$ 1.3 bn in 2000 to US$ 2.8 bn (15.5% of total FDI inflows in Africa) in 2004 **(Table)**.

FDI INFLOWS IN THE MAGHREB COUNTRIES, 2000 – 2004

(US$ mn)

	2000	2002	2004
Africa	***8728***	***12994***	***18090***
Algeria	438	1065	882
Libya	-142	145	131
Mauritania	40	118	300
Morocco	215	481	853
Tunisia	779	821	639
Total of Maghreb Countries	**1330**	**2630**	**2805**
Share of Maghreb Countries in Africa (%)	15.24	20.24	15.51

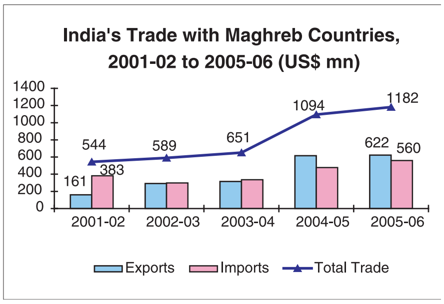
Source: World Investment Report, UNCTAD

Among the Maghreb countries, Algeria is the largest recipient of FDI with US$ 882 mn, followed by Morocco and Tunisia. In 2004, FDI inflows into Mauritania have risen significantly to US$ 300 mn, while FDI inflows into Libya were US$ 131 mn.

Multilatural funding agencies such as World Bank, African Development Bank (AfDB) and European Investment Bank (EIB) are active in financing and promoting developmental projects in the Maghreb region, and are also trying to renew interest in regional integration among the Maghreb countries to improve intra-regional cross border trade.

Trade and Investment Relations with India

Underlined by the rise in both India's exports and imports from the Maghreb region, India's total trade with the Maghreb countries has doubled from US$ 544 mn in 2001-02 to US$ 1182 mn during 2005-06 (**Chart**).



There has been a four-fold rise in India's total exports to the Maghreb region during the period 2001-02 to 2005-06 from US$ 161 mn to US$ 622 mn, while imports from the region have also risen from US$ 383 mn to US$ 560 mn during the same period.

Algeria is India's leading export market in the Maghreb region with a share of 43.2% of India's total exports to the region in 2005-06, while Morocco, with a share of 77% during 2005-06, is the most important source for India's imports from the region.

Major items of India's exports to the Maghreb region include: transport equipment, manufactures of metals, machinery & instruments, petroleum products, cotton yarn & fabrics, manmade yarn & fabrics, plastic & linoleum products, drugs & pharmaceuticals, dairy products, pulses and marine products. India's major imports from the Maghreb region include inorganic chemicals, crude fertilizers, metaliferrous ores and metal scrap, and pig iron steel based items.

During the period 1996 to 2006 (January), India's approved investments in the Maghreb region amounted to US$ 88.56 mn, accounting for 3.65% of India's total approved investments in Africa. Two joint ventures (JVs) in the areas of manufacture of phosphoric acid, and fertilizers & pesticides have been approved in ***Morocco***, while in ***Libya***, two JVs in trading of oil & oil seeds, and oil exploration have also been approved. As regards wholly owned subsidiaries (WOS), seven Indian WOS have been approved in ***Algeria*** in areas such as iron & steel, ferro alloys, pig iron, and shipping, while in ***Libya*** one WOS has been approved in the area of machinery.

Trade & Investment Potential

Trade Potential

Based on India's export capabilities and demand existing in the Maghreb region, potential items of exports to ***Algeria*** would include: articles of iron & steel, petroleum products, pharmaceuticals; chemicals products; plastics & articles; aluminum & articles; electrical & non-electrical machinery & equipments; transport equipment; and food products.

Potential items of exports to ***Libya*** would include: food products, organic chemicals, pharmaceuticals, chemical products, paper & paperboard, articles of apparel & clothing, iron & steel articles, aluminum & articles, and machinery, instruments & transport equipment.

Looking at the growth in India's trade with ***Mauritania*** and import demand, potential items of export for India would include: food products, petroleum products, iron & steel and articles, and machinery & transport equipment.

With a view to enhance India's trade relations with ***Morocco***, potential items of export to the country would include: machinery & instruments; transport equipment; articles of iron & steel; food products; petroleum products; chemical products; pharmaceuticals; articles of apparel and clothing; plastics & articles; paper & paperboard; cotton yarn & manmade staple fibres; and glass & glassware.

Based on India's export capability and import demand in ***Tunisia***, potential items of export would include: articles of iron and steel; machinery and transport equipment; food products; chemical products; pharmaceutical products; plastics and articles; paper and paperboard; cotton yarn and manmade filament & staple fibres; articles of apparel and clothing.

Investment Potential

***Algeria* –** The National Agency for Development of Investment (ANDI) has support schemes for investment in various sectors such as agriculture, fisheries and aquaculture along the Mediterranean coastline, mining, handicrafts, energy and tourism sector with investment in the hotel industry, beach holidays and resorts, tours in the mountains and deserts. The hydrocarbons sector has also been further opened to investment. With new housing projects and renovation projects, there are investment opportunities in the cement and construction sectors also.

***Libya* –** In Libya, opportunities for investment exist in a number of sectors. Apart from oil & gas, areas of growth in the non-oil sector, which are also encouraged by the Libyan government, include: telecommunications, information technology, banking services, electric power generation, construction & engineering, health & medical services, wastewater treatment, desalination, agricultural technologies, marine sector, transportation, tourism, and education & training.

***Mauritania* –** Potential areas for investment would include: exploration & exploitation of hydrocarbon & other mineral deposits; processing and packaging equipment and technology in the fisheries sector; agricultural and agro-based sector and food processing industry; tourism sector; telecommunications sector including fixed line, mobile telephone services as well as the Internet; road, sea and air transport services; artisan sector, especially handicraft industry; financial & insurance services; health & education; cement industry; renewable energy resources.

***Morocco* –** Morocco is specifically trying to attract FDI in five main sectors namely: banking, industry, holdings, real estate and trade. There is potential for investment in cement, iron, steel and oil refining sectors; textile industry; chemical industries; electrical, mechanical and metallurgical industries.

***Tunisia* –** Potential sectors for investment would encompass industries with high value addition and infrastructure projects in energy, telecommunications, manufacturing, hotel, entertainment, computers, consulting and research & development, agriculture, education and training, health, and transport sectors. Incentives are also offered especially to export oriented industries such as textiles, footwear, electrical, electronic & mechanical industries.

Exim India in the Maghreb Region

Export-Import Bank of India (Exim India) operates a comprehensive range of financing and support programs to facilitate and promote India's trade and investment relation with countries in Africa, including the Maghreb region. Exim India has extended a number of Lines of Credit (LOCs) to African countries. In the Maghreb region, Exim India has, in operation, a LOC of US$ 10 mn to the BMCE Bank, Morocco.

Indian companies have implemented numerous contracts in the Maghreb region with Exim India's support in sectors/areas such as engineering consultancy services; rehabilitation and quality control activities of refinery installations; transmission line and hotline stringing projects in ***Algeria***; transmission line projects, supply of conductors and earthwire in ***Tunisía***; and transmission line projects, gas pipeline projects, supply of saw pipes, supply and installation of gas turbine based power project in ***Libya***.

Exim India supports overseas investment by Indian promoters through JVs / WOS, either through equity finance or direct participation in equity along with Indian promoter. The Bank has supported several ventures in Africa, including in ***Morocco*** in the chemicals and fertilizer sector.

Further, Exim India assists Indian companies to participate more effectively in projects funded by Multilateral Funding Agencies such as World Bank and AfDB. Exim India and AfDB have a Memorandum of Understanding (MOU) for co-financing projects in Africa in regional member countries of AfDB, including the Maghreb countries.

Exim India has a long standing working relationship with the International Finance Corporation (IFC) (of the World Bank Group) to facilitate the utilization of Indian consultants for initiatives / project facilities promoted and sponsored by IFC to develop private sector SMEs in Africa. To date, Exim India has supported over 50 assignments in Africa under the managements with IFC .

Exim India has taken up equity in African Export-Import Bank (Afrexim Bank), the West African Development Bank (BOAD) and Development Bank of Zambia (DBZ).

In the Maghreb region, Exim India has signed MOUs with *Banque Internationale Arabe de Tunisie, Tunisia; Société Tunisienne de Banque, Tunis; Foreign Investment Promotion Agency, Tunisia; Banque de Financement des Petites of Moyennes Enterprises (BFPME)*.

Under its MOU with the Central Food Technological Research Institute (CFTRI), to promote small-scale food processing projects in the African region, Exim Bank's publication titled "Market Maker: Technology Aided Business Solutions" contains project profiles in food processing sector based on CFTRI technologies, appropriate for SME units in Africa, including the Maghreb region. Exim India also helps bring out a bilingual (English and French) magazine titled "*Indo-African Business*", which focuses on bilateral trade and investment between India and countries in Africa, including the Maghreb region.

Exim India has been actively involved in organizing the Conclaves on *Indo-Africa Partnerships*, held in New Delhi in March 2005 and in November 2005, and in Mumbai in March 2006, as also in the mini-conclaves held in Lusaka, Zambia and in Addis Ababa, during April 2006, and in Accra, Ghana, during May 2006.

Strategies For Enhancing Trade & Investment Relations

Some broad strategies and recommendations to enhance two-way transfer of trade and investment between India and the Maghreb countries, would include the following:

Focus on Multilateral funded projects

Multilateral funding agencies such as World Bank, AfDB and EIB are active in financing developmental projects in the Maghreb countries. The funded projects in the Maghreb region broadly cover areas such as agriculture, irrigation & watershed management; marine & coastal resource protection; water supply & sanitation, sewerage; health & nutrition; education & distance learning; rural & urban development; finance; environmental protection; social protection; export development; and regional economic integration.

Focus on such funded projects as also participation in technical assistance is terms of project in such funded projects preparation and advisory services would support increased presence in the region.

Closer Cooperation with Investment Promotion Agencies (IPAs)

Besides streamlining investment regimes and regulations, these countries have set up specialized investment promotion agencies to facilitate inflows of foreign investments and act as one-stop-shops for investment related activities. These specialized agencies include: *National Agency for Investment Development (ANDI), Algeria*; *Libyan Foreign Investment Board (LFIB), Libya*; the *Foreign Investment Promotion Agency (FIPA), Tunisia*; *Ministry of Economic Affairs & Development, Mauritania*; and *Ministry of Economy & Finance, Morocco*.

Business Hub in the Maghreb Region

The complementary economic structures of these economies present good opportunities for mutually beneficial trade not only within these countries, but also for the Indian exporter / investor to develop both bilateral trade and investment relations with these countries. A business hub in any one of the Maghreb countries would enable Indian exporters / investors to gain access to local regional markets, as also to the rest of the African and European markets.

Wider Dissemination of Information

Indian Missions in these countries, Chambers of Commerce & Industry, Industry Associations in India as well as in the Maghreb countries have an important role to play in facilitating wider dissemination of information to potential exporters and investors in India and the Maghreb countries. This could be facilitated through visits by trade and industry delegations from India and the Maghreb countries. Trade fairs and exhibitions would facilitate the process of collating information on potential investors and exporters and promoting Indian expertise & consultancy services.

Preferential Trade Agreement (PTA) with the Maghreb Countries

In light of the rise in bilateral trade relations in recent years and the potential thereof, India could consider putting in place a Preferential Trade Agreement with the Maghreb region.

Access to the EU Market

The Association Agreements signed by Algeria, Morocco and Tunisia with the European Union (EU) allow these countries' products to enjoy duty–free access to the EU market. By trading or investing in these countries, the Indian exporters / investors could also gain access to the vast and lucrative EU market.

Internet Portal

The Internet is becoming central to the exchange of information on products, projects and companies, incentives offered, promotional measures undertaken, studies and surveys conducted as it allows fast and continuous information flow about the different events conducted to bring together potential traders and investors from India and the Maghreb countries.

Cooperation in the Tourism Sector

Better marketing of the tourism industry, better hotel facilities, upgrading transport services, incentives to tour operators, developing more attractive and affordable holiday packages, are focus areas of the governments to attract more tourists and boost revenue receipts from tourism. Indian entrepreneurs could benefit from the opportunities offered by this industry.

Cooperation in the IT sector

Focus of Indian IT firms could be on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Designing specialized e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities.

Privatisation and FDI

With a view to enhance contribution by the private sector in economic development, the governments of the Maghreb countries are moving towards privatization of enterprises, encouraging both foreign as well as private domestic investment. The tourism, banking, textile, telecommunications, transport sectors and various small and medium enterprises are being privatized. Opportunities offered by the privatization programmes in the Maghreb countries could be targeted to enhance India's commercial presence in this region.

Cooperation in the Banking / Financial Sector

Several Indian banks have set up operations, in terms of branches/ subsidiaries/Rep. offices/JVs, in select countries in Africa with the aim of improving commercial relations with countries in the African region. For instance, State Bank of India, Bank of India, Bank of Baroda and ICICI Bank are active mainly in the sub-Saharan African region. Setting up operations and developing correspondent banking relations in the Maghreb region would serve to enhance commercial relations.

Entrepreneurship Development & Institution Building

India could share its expertise and experience in developing entrepreneurship and capability creation with the Maghreb countries, particularly in the SME sector where India has successfully developed SME clusters. Further, Indian institutions could also share their experience in the fields of institutional strengthening, export capability creation and developing exports through site visits and technical assistance.

Natural Resource Development

Developing the mineral and natural resources of the Maghreb countries could benefit the Maghreb countries as well as India. For instance, ***Algeria*** has large deposits of oil and natural gas, high-grade ore, phosphates, lead, zinc, mercury, barite, antimony. Both ***Morocco*** and ***Tunisia*** present opportunities for phosphate mining and processing. ***Libya's*** extensive oil and gas fields and the Great Man-made River (GMR) project also offer considerable investment opportunities. ***Mauritania*** is rich in iron ore, copper, gold, cobalt, gypsum and phosphates, has substantial oil reserves and significant diamond deposits.

Other Measures

With extensive use of the French language in these countries, knowledge of the language would be beneficial for better communication and dissemination of information and enable a wider reach among potential partners for trade and investment.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupees are referred in crore and lakhs:
1 crore : 10 million
1 lakh : 100 thousand

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