NORTH AFRICA TODAY: THE ECONOMIC SITUATION AFTER THE ARAB SPRING

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Introduction

In recent years, Italy has seen a steady increase in economic relations with the five countries of North Africa bordering the Mediterranean (see Table 1). The excellent political relations with the governments of the countries in the area have contributed to an increase in trade and partnerships with local firms and institutions in the investment projects necessary for economic development of the southern shores of the Mediterranean.

Table 1 - *Exports from Italy to North Africa (in Millions of Euros)*

	2006	2007	2008	2009	2010	2011	2011 Jan-Jun	2012 Jan-Jun
Morocco	1.148	1.440	1.684	1.369	1.429	1.477	768	687
Algeria	1.558	1.848	3.013	2.587	2.871	3.018	1.526	1.741
Tunisia	2.590	2.906	2.954	2.543	3.429	3.050	1.544	1.612
Libya	1.403	1.623	2.645	2.438	2.702	613	402	1.140
Egypt	1.539	2.147	2.906	2.603	2.940	2.590	1.272	1.344
OVERALL	*8.238*	*9.964*	*13.202*	*11.540*	*13.371*	*10.748*	*5.512*	*6.524*

Source: ICE.

The Arab Spring has radically changed the institutional context: of the five countries in the area, three have changed government. These include Libya, a country where Italian firms have always had a preferential channel in trade negotiations.

At the moment, the political situation in all the countries is far from stable: Tunisia, Libya and Egypt are currently undergoing a

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phase of transition (more advanced in the case of Tunisia), while in Algeria it is still not clear who will succeed Bouteflika in the spring of 2014. In Morocco the reign of Mohammed VI does not appear to be under threat, but the parliamentary elections of last November showed a considerable fragmentation of political power. The current situation is therefore continuously evolving, and this makes it even more important to monitor the situation in order not to lose the advantages gained in the past.

The political and economic situation of the individual countries is analysed below, highlighting the potential economic opportunities for Italian firms in the short/medium term (see Table 2).

Table 2 - *Main Business Opportunities for Italian Firms in Short/Medium Term*

	ALGERIA	EGYPT	LIBYA	MOROCCO	TUNISIA
1°	Petrochemical industry	Textile machinery	Road Network	Railway Engineering	Woods and plastic machinery
2°	Iron and steel products	Tourism	Petrochemical industry	Agricultural and food Technologies	Agricultural machinery
3°	Renewable energy	Renewable energy	Construction industry	Port and related infrastructures	Telecommunications services

Algeria

The strong power of Bouteflika in Algeria, together with a certain prestige, due to his national reconciliation plan, has prevented the many protests and riots leading to a full-scale revolution. Uncertainty remains concerning his state of health and it is unlikely that he will stand for the next presidential elections, scheduled for spring 2014. Despite the situation of uncertainty, at the moment a drift towards Islamic fundamentalism appears unlikely, given the strongly secular preferences of the majority of the population.

The country's economy continues to rely heavily on the hydrocarbon sector, which is exclusively government-controlled via the national oil company Sonatrach.

A large part of the resources generated by the hydrocarbon sector are used to finance a programme of public spending on infrastructures (roads, railways) and housing, which is also designed to stimulate employment and consequently the demand for consumer goods. At the moment, however, despite the funds allocated, infrastructure construction is very slow.

Compared to other countries in the area, the economy of Algeria is less open to Foreign Direct Investment (FDI), which can only be implemented in partnership with local firms, but without exceeding the ceiling of 49% capital, therefore leaving control in the hands of the local firms.

For the next two years, a 3.3% annual GDP growth rate is forecast, which is still insufficient to alleviate the problem of unemployment (especially among young people) and allow development of the poorest regions. There will be current-account balance surpluses and consequent accumulation of foreign exchange reserves (see Table 3a) which will result in low counterparty risk. However, future potential will increase if the medium-term political results lead to sufficient stabilisation.

This would allow the much-needed diversification of the economy (hydrocarbon production currently accounts for approximately 40% of GDP), which would increase the demand for plants and machinery.

Stabilisation could also lead to relaxation of the restrictions on foreign ownership of firms.

However, the fact that over 95% of exports consist of energy raw materials constitutes an element of weakness, also in the light of the current recession in the Euro zone.

Egypt

The Egyptian economy is currently recovering after the downturn following the winter 2011 revolution and subsequent fall of the Mubarak regime.

2011/12 saw a slight growth in GDP (+2.0%), but still a long way off the rates recorded in the recent past (7% on average from 2006 to 2008).

The recession in the EU area does not help recovery and weakens the import ratio. Despite this, the tourism sector has recovered almost half the tourists lost in 2011 due to the revolution and according to the latest estimates, in 2012 the overall tourist presence will be around 12 million.

At political level, the presidential elections in June were won by Mohammed Morsi with the support of the Muslim Brotherhood which has the task of drawing up the new Constitution. New parliamentary elections will be held after approval of the new Constitution. The situation remains complicated and the recent decision of Morsi to increase his own powers has led to fresh clashes between supporters and opponents of the Egyptian president. Uncertainty concerning the political future of the country therefore remains high and damages prospects for recovery.

For the current fiscal year (2012/2013) a 3% growth in GDP is predicted, while the debt-to-GDP ratio will continue to increase (and will exceed 70%). The current macroeconomic prospects appear very weak, due both to the recession in Europe, a market with which Egypt has close links, and the situation of the international reserves (see Table 3b). The growth of the budget deficit needs to be curbed, especially as regards subsidies (in particular energy costs). Rapid reforms to achieve greater equity and economic liberalism are therefore necessary. In this context, the continuing political uncertainty does nothing to help the situation.

Tunisia

The Islamic party Ennahda, which won the elections 12 months ago, has the task of drawing up the new Constitution, the draft of which led to widespread protests last summer due to its conservatism.

The revolution resulted, in 2011, in a 1.8% reduction in GDP, a weakening of the current-account balance, due to the collapse of the tourism sector (-33%) and foreign investments (-26%), and a deterioration in the balance of payments with consequent significant reduction in international reserves (see Table 3b), making the economy vulnerable to external shocks.

To overcome the recession, in 2012 the government decided to increase spending on investments by 23%. At the end of October only half of these funds had been spent.

Nevertheless Tunisia appears to be managing the period of change more rapidly than the other countries; this is reflected also in the economic growth (+2.7% GDP in 2012), which has already returned to levels not too far from those recorded before the Jasmine Revolution. For 2013 a further increase (+3.3%) is forecast; this will be helped by the tourism sector, which in 2012 had already returned to the levels of 2010, and the privatisation programme which, in its first stage, will involve the companies El Fouledh (iron and steel), Stip (tyre industry) and Sncpa (cellulose and paper).

The political future of the country remains an unknown quantity, however. No date has yet been fixed for the new general elections (presidential and parliamentary) but, since the country will have to wait for completion of the work of the Constituent Assembly, they will certainly not be held before June 2013.

In the current situation, there appears to be much uncertainty concerning the result of the elections, as disagreements are emerging increasingly frequently between the majority parties, while the opposition forces seem to have reached an agreement to form a coalition.

In any case, whatever the result of the elections, it will be necessary to pursue a policy of fiscal expansion, in order to create jobs and help development of the poorest regions, which, in the current context, remain the country's main unresolved problems.

TABLE 3 - *Foreign Reserves in Months of Imports*

Table 3a: Oil Exporters

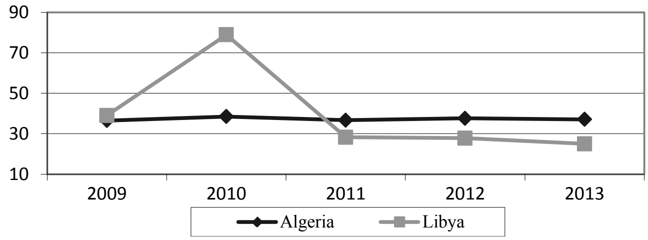
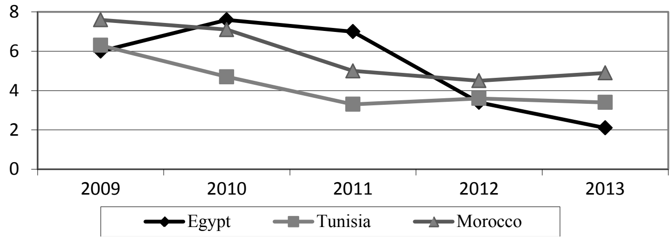


Table 3b: Oil Importers



Source: SACE.

MOROCCO

Compared to the other countries in the area, Morocco has been barely affected by the Arab Spring.

This is due, rather than to the popularity of the king Mohammed VI, to the lack of interest of the population in active politics, a fact which also emerged from the last parliamentary elections in November 2011 which recorded a 45% turnout and highlighted a fragmentary political situation, with the moderate Islamic party PJD holding the relative majority (107 seats out of 395).

Economic growth in 2012 is lower than previous years (the latest estimates are around 2.9%): the main cause is the decline in agricultural production in 2012 (-10% compared to 2011).

The strong dependence on the agricultural sector remains a problem to be solved for the country's economy, as it does not allow economic growth to be stabilised.

For this reason, the "Maroc vert" plan has been launched, which aims to modernise the country's agriculture and make it more technologically advanced, thus making the country's economy less vulnerable to the climate changes that affect agricultural production and, indirectly, improving the social condition of the majority of the population who work in this sector.

With this in mind, the development programme launched by the king in 2005 (INDH, *Initiative Nationale pour le Développement Humain*) has been extended for a further five years, allocating a budget of 17 billion Dh (approximately 1.5 billion €). This programme aims to reduce economic and social inequality via initiatives involving, on the one hand, support for production activities and, on the other, improvement of access to basic services (such as education and health) for all the population.

The many investments in the public sector have resulted in a growth in the national debt which has increased well beyond 50% of GDP. For 2013/2014, stabilisation around 58% is forecast.

Over the last year, the balance of trade has worsened, also due to the recession in the Euro area and a substantial growth in the cost of imports for the energy sector. In this regard, to reduce energy dependence, the Ministry of Energy has launched projects for the development of wind and solar technologies.

Libya

The Libyan General National Congress, elected in July, replaced the National Transitional Council. The government is headed by Ali Zidan, a lawyer and diplomat belonging to the International Federation of Human Rights.

The programme of transition involves the drawing up of a new constitution by the current government, which will be submitted to a referendum before the new parliamentary elections currently scheduled for the end of 2013.

In 2011 GDP was halved due to the total stoppage of the oil industry. Inflation rose above 15%, due to supply restrictions, also connected with the UN sanctions. By the end of 2012 the GDP should return to levels not far below those of 2010, the last year before the revolution.

In 2012 the oil industry resumed operation, resulting in an ample balance of payments surplus. For 2013 resumption of operations at full capacity is forecast, and it is therefore estimated that GDP will grow by a further 10-15% compared to 2012.

If the deadlines established by the National Transitional Council are observed, with consequent political stabilisation, it will be possible to implement the necessary process of development of the non-oil sectors. For this to occur, a policy of greater liberalisation must be introduced, with more openings for foreign private capital, to allow the construction of infrastructures for development of the country. Before the civil war, significant investments in telecommunications were planned, and development of these networks remains a priority for the new government.

APPENDIX

Ease of Doing Business Rankings

ALGERIA	DB 2013	DB 2012
Ease of Doing Business Rank	152°	148°
Starting a Business	*156°*	*153°*
Dealing with Construction Permits	*138°*	*118°*
Registering Property	*172°*	*167°*
Getting Credit	✓ *129°*	*150°*
Protecting Investors	*82°*	*79°*
Paying Taxes	*170°*	*164°*
Trading Across Borders	*129°*	*127°*
Enforcing Contracts	*126°*	*122°*
Getting Electricity	*165°*	*164°*
Resolving Insolvency (ex Closing a Business)	*62°*	*59°*

✓ Improved access to credit information by eliminating the minimum threshold for loans to be included in the database.

EGYPT	DB 2013	DB 2012
Ease of Doing Business Rank	109°	110°
Starting a Business	*26°*	*21°*
Dealing with Construction Permits	*165°*	*154°*
Registering Property	*95°*	*93°*
Getting Credit	*83°*	*78°*
Protecting Investors	*82°*	*79°*
Paying Taxes	*145°*	*145°*
Trading Across Borders	*70°*	*64°*
Enforcing Contracts	*152°*	*147°*
Getting Electricity	*99°*	*101°*
Resolving Insolvency (ex Closing a Business)	*139°*	*137°*

MOROCCO	DB 2013	DB 2012
Ease of Doing Business Rank	97°	94°
Starting a Business	✓ *56°*	*93°*
Dealing with Construction Permits	*79°*	*75°*
Registering Property	× *163°*	*144°*
Getting Credit	*104°*	*98°*
Protecting Investors	*100°*	*97°*
Paying Taxes	*110°*	*112°*
Trading Across Borders	*47°*	*43°*
Enforcing Contracts	*88°*	*89°*
Getting Electricity	*92°*	*107°*
Resolving Insolvency (ex Closing a Business)	*86°*	*67°*

✓ Starting a business is easier after the elimination of the minimum capital requirement for limited liability companies.

× Registering property is now more costly after the increasing property registration fees.

TUNISIA	DB 2013	DB 2012
Ease of Doing Business Rank	50°	46°
Starting a Business	*66°*	*56°*
Dealing with Construction Permits	*93°*	*86°*
Registering Property	*70°*	*65°*
Getting Credit	*104°*	*98°*
Protecting Investors	*49°*	*46°*
Paying Taxes	*62°*	*64°*
Trading Across Borders	*30°*	*32°*
Enforcing Contracts	*78°*	*76°*
Getting Electricity	*51°*	*45°*
Resolving Insolvency (ex Closing a Business)	*39°*	*38°*

Source: World Bank.