# Thriving in a Tough World: Challenges for North Africa

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We live in a globalising world economy. This is a cliché. It is also true. What does this mean for the countries of North Africa, particularly Morocco, Algeria and Tunisia? This is the question to be addressed here? To answer it I will consider four questions: first, what are the drivers of the globalising economy? Second, what is the challenge for North Africa? Third, how is North Africa responding? And, finally, what is the task ahead for these countries?

## Drivers of the Global Economy

Globalisation is, at bottom, an economic process, though one with powerful political, social and cultural consequences. It consists of the integration of economies via markets across frontiers. Three forces are driving globalisation: the worldwide move to the market and, in particular, the liberalisation of barriers to transactions across frontiers; the declining costs of transport and, still more, of communications; and the rise of east and south Asia, which contain, between them, more than half of humanity.

The *World Investment Report* from the United Nations gives an illuminating picture of the rise of global integration between 1990 and 2003. Over that brief period, world exports of goods and services rose from 18.9 per cent to 25.5 per cent of world product, exports from foreign affiliates rose from 5.3 per cent to 8.5 per cent, the gross product of foreign affiliates rose from 6.4 per cent to 10.2 per cent, the inward stock of foreign direct investment (FDI) rose from 8.6 per cent to 22.8 per cent and the sales of foreign affiliates rose from 25.1 per cent to 48.6 per cent.

In every case, then, the internationally oriented activity rose faster than world product. This then is a world of rapid integration. Most significant, perhaps, is the growing role of FDI. After a long period in which countries struggled to keep multinationals out of their economies, they are now fighting to entice them.

The move to the market is quite general. Particularly significant moments have been the completion of the Uruguay Round of trade negotiations and the creation of the World Trade Organisation, the decision of all the advanced countries to abandon exchange controls, Deng Xiao Peng's progressive reform of the Chinese economy after the death of Mao Ze Dong, the collapse of the Soviet empire between 1989 and 1991 and the economic reforms in India, under the direction of the then finance minister (and now prime minister) Manmohan Singh, after the foreign exchange crisis of June 1991. About 3bn people have entered the global market place over the past two and a half decades. This transformation is unprecedented in its speed and geographical scope.

Consider just two aspects of this rapid liberalisation. In the 1990s, only about a quarter of developing countries were without controls on capital flows, according to the International Monetary Fund (IMF). By the early years of this decade, the proportion was up to 42 per cent, despite the wave of financial crises that hit the emerging economies. Again, in 1992, the weighted average tariff in China was just over 40 per cent, according to the IMF. By 2002, just ten years later, it was down to 6.4 per cent. Over a decade, therefore, China moved from almost prohibitive levels of protection to levels comparable to those in contemporary advanced countries. In agriculture, China's levels of protection were even lower than those of the advanced countries.

As significant as changes in policy have been revolutions in technology. This is more obvious for the cost of communications than of transport. The last fundamental revolution in transport technology was aviation, which is already over a century old, though there have been many significant innovations: container shipping is one and bulk air cargo is another. Between 1980 and 2000, the cost of sea freight fell, on average, by 20 per cent and the cost of air freight by 30 per cent.

The big transformation, however, is in the cost of communications and data processing. The decline in the costs of analysing and disseminating information has, among other things, facilitated the integration of production of both goods and services across frontiers. As access to the internet explodes, this revolution will continue to deepen and widen. In 2002, only 13 per cent of the world's population were internet users, according to the IMF. But this was up from 2.5 per cent in 1997. In emerging Asia the share was 18 per cent by 2002. In the

[1] This article draws in large part on Martin Wolf, *Why Globalization Works?* (New Haven and London: Yale University Press, 2004).

US it was already at over a half of the population. How societies respond to the avalanche of information will largely determine their political and economic fate in the 21st century.
The third force – after market-oriented liberalisation and the declining costs of transport and communications – is the rise of Asia and, above all, of China and India. These two countries contain almost two fifths of humanity. Both are now on the move.
China is already the world's third largest trading entity, ahead of Japan, though behind Germany and the US. It is likely to become the largest trading power within less than a decade. China's gross domestic product per head, at purchasing power parity, is still less than a fifth of that of the US, even after two and a half decades of very rapid growth. This is lower than Japan's GDP per head, relative to that of the US, in 1950. At that time, however, Japan still had more than two decades of exceptionally rapid growth in front of it. China may therefore continue to grow very rapidly for another two to three decades. India is even further behind and has, correspondingly, a longer period of rapid growth in front of it.

## Challenge for North Africa

What then do these upheavals in the world economy mean for North Africa? They mean that a tough world has become even tougher. Yet what needs to be done is enormous. As Mustapha Nabli of the World Bank has noted, the Arab world needs 100 per cent growth in employment over the next two decades. But China managed growth of only 40 per cent between 1980 and 2000, South Korea achieved growth of 55 per cent and Malaysia attained growth of 90 per cent. To achieve this, economic growth in the Arab world needs to be at least 6 per cent a year, roughly the same as India's over the past two decades. But over the last decade, the Arab world has only achieved 3.7 per cent a year.
Again, as Mr Nabli has also noted, Arab economies are structurally weak. The ratio of private investment to public investment has hovered at around 1.8, against 5 in East Asia. Arab manufacturing sectors are roughly half the size of those in typical lower-middle-income countries. The ratio of trade to GDP in the Middle East and North Africa region has fallen from about 90 per cent in 1980 to around 65 per cent today, when most of the world economy has become more open to trade, not less. Exports, other than oil, are a third of what they could be, given the region's characteristics, while inward FDI could (or should) be five or six times higher. The Arab world is a structural laggard.
It is no surprise to discover that the countries of North Africa are also relatively poor. The richest of them, Tunisia, has a GDP per head, at PPP, about a quarter of that of France and Italy. Morocco is much poorer still, with a GDP per head about a seventh of that of France. Algeria falls between Morocco and Tunisia, but only because of its energy resources. Apart from that, it is quite undeveloped. China is already richer than Morocco and is closing fast on Tunisia. At present relative rates of growth, it will surpass Tunisia's income per head within a decade. India is poorer than Morocco, but will surpass Morocco within the next decade if relative rates of growth remain unchanged.
Between 1990 and 2002, GDP per head rose at less than 1 per cent a year in Morocco and war-torn Algeria. This dismal performance means these two countries were falling further behind the slow-growing advanced countries to their north, let alone the emerging economies of central and Eastern Europe and Asia. Tunisia's performance was much better. Its growth of GDP per head was just over 3 per cent a year, which put it ahead of Portugal, Spain, Greece, Israel, France, Italy and Turkey, not to mention Morocco and Algeria. But even Tunisia's growth was slower than those of China, Poland, India and Malaysia over that period.
The story of attractiveness to inward FDI is very similar. Tunisia has done well: the ratio of its inward stock of FDI to GDP was 66 per cent in 2003, ahead of Malaysia, Portugal and China. Morocco's was far behind, on 26 per cent, and Algeria's even further in the rear, on just under 10 per cent, close to the low levels of Italy, Greece and Turkey.
In short, Tunisia is a reasonably successful emerging economy, though not startlingly so. Algeria and Morocco have been failures by most standards.

## North Africa's Response

How then can these small economies respond to the challenges they confront? With difficulty, must be the answer. Labour-intensive manufacturing has become very difficult, because of the rise of China as a manufacturing powerhouse. Agriculture remains highly protected in the principal markets to the north. What these countries have to do, however, is take advantage of all the opportunities they possess. The most important advantage is proximity to Europe, though Central and Eastern Europe is closer still.
If they are to succeed, the investment climate in these countries must be made world class and governance also needs to be transformed. World Bank analyses of the quality of governance ranked the Middle East and North Africa ahead of South Asia in 2004, but behind Central and Eastern Europe and East Asia in most categories.
The Middle East and North African average came in the 25th percentile from the bottom on voice and accountability, the 39th on political stability and regulatory quality, the 50th on the rule of law, the 51st on government effectiveness and the 52nd on control over corruption. Performance of the wider region was mediocre in most categories, therefore, but strikingly bad on voice and political accountability. This is much as one would expect.
If one looks at the individual countries in North Africa, one finds that they all also performed poorly on voice and accountability: Algeria was in the 24th percentile and Morocco in the 33rd, while Tunisia languished in the 18th. In contrast, Tunisia was in the 52nd percentile on political stability, with Algeria in the 8th percentile and Morocco in the 40th. Tunisia was ranked as high as the 70th percentile on government effectiveness, with Algeria in the 37th and Morocco in the 56th.
Regulatory quality varied from Algeria's lowly 18th percentile ranking to Morocco's 42nd and Tunisia's 45th. Again, on the rule of law, Algeria was in the 28th percentile, Morocco in the 52nd and Tunisia in the 58th. Finally, on control over corruption, Algeria was in the 42nd percentile, Morocco in the 57th and Tunisia in the 65th. On balance, therefore, Tunisia had the most effective

government, with Algeria's the worst and Morocco in between.

Now turn to the investment climate, more narrowly defined. On time to start a business, Morocco, Tunisia and Algeria all perform well, according to the World Bank, with 11, 14 and 26 days, respectively. Time to enforce a contract also looks good, with Tunisia on just 27 days, although Morocco and Algeria lagged behind (on 240 days and 407 days, respectively). But even this was better than in India, Poland or Italy. The three countries also did quite well, relatively, on the time taken to register property and the time taken to resolve insolvencies.

**The Task Ahead**

What then is the conclusion? In the present age, small developing countries without exceptional human resources or gigantic natural resources (whose management creates huge challenges of its own) need to provide superlative policy and institutional environments. While North Africa is far from being in a dreadful state, particularly in comparison with sub-Saharan Africa, it lags well behind the best standards. It is particularly bad on voice and accountability. What is needed, instead, is a deep commitment to a competitive economy and an open-minded society. If the transformation does not happen soon, the region is most unlikely to catch up.