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5 March 2021

Online at <https://mpra.ub.uni-muenchen.de/110486/>
MPRA Paper No. 110486, posted 17 Nov 2021 05:55 UTC

Assessment of The Macroeconomic Situation in North African Countries and Their Role in The System of World Economic Relations

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Abstract

In this article, based on the analysis of the macroeconomic situation of the North African countries, their role in the system of world economic relations is determined. It is proved that despite a certain similarity of the economic model of development of the countries of North Africa, based on the use of raw materials, the impact of external shocks causes different reactions and consequences that are incomparable in scale. It has been determined that the political and economic instability of the North African countries is reflected, among other things, in the ratings of socio-economic development published by international organizations and leading expert and analytical centers. It was revealed that the progress that was achieved by the countries of the region in previous years is largely leveled by factors of a political and religious nature, as well as a strong dependence on world markets for raw materials, which in modern conditions adds certain difficulties to these countries in the world economy.

Keywords: North African countries, economic development, unemployment rate, export and import of goods, global competitiveness index, globalization index, doing business index, economic freedom index, global innovation index.

The urgency of this problem is justified by the fact that the countries of the North African region are significant trade and investment partners for Russia. Russia's interaction with them at the present stage is largely due to strong historical ties, when the USSR provided significant financial and technical support to Algeria, Egypt, Morocco and Tunisia in order to

overcome the consequences of colonial dependence and stimulate economic growth. At the same time, the possibilities for more fruitful trade and economic cooperation are limited by macroeconomic imbalances, as well as by the unresolved political, ethnic and religious conflicts, the terrorist threat and social tensions in the region.

Despite a certain similarity in the economic model of development of the North African countries based on the use of raw materials, the impact of external shocks causes different reactions and consequences that are incomparable in scale. The main economic reason for recurring crises with a certain frequency is the instability of prices on world commodity markets for raw materials and foodstuffs. For example, the reforms of recent years aimed at modernizing the economy and the public administration system, combined with the downward trend in oil prices, have helped improve macroeconomic stability in hydrocarbon importing countries, which include, for example, Tunisia. At the same time, low oil prices led to a reduction in the incomes of oil-exporting countries, primarily Algeria.

In general, the macroeconomic dynamics of recent years testifies to the uneven economic development of the countries of the North African region (Fig. 1).

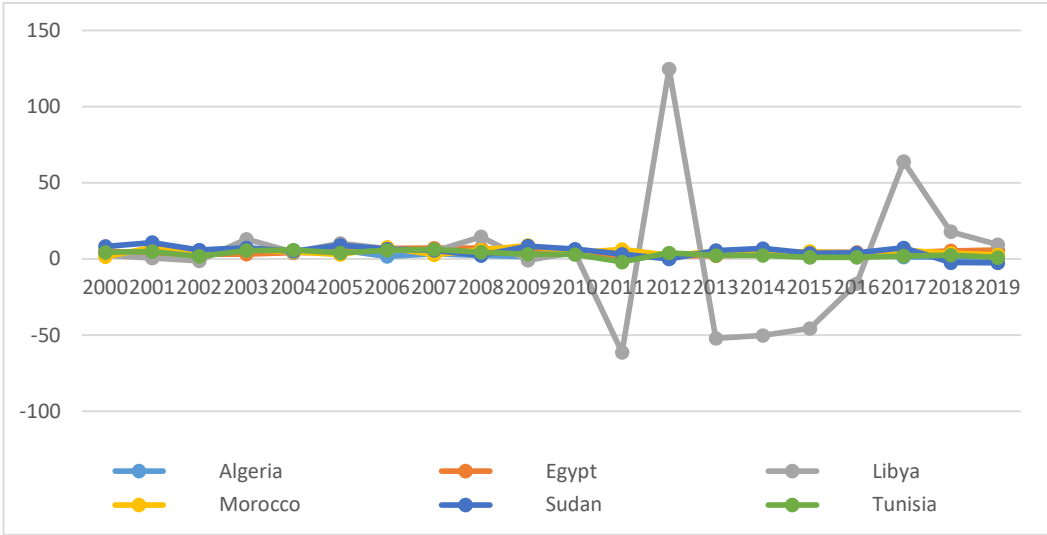


Fig. 1: Annual GDP growth,%¹

It should be noted that after 2010, almost all countries in the region were characterized by a drop in GDP growth rates, which was associated with tragic political events, such as the events of the "Arab Spring" for Tunisia and Egypt, the civil war in Libya in 2011, the separation of South Sudan from Sudan in 2011. Libya suffered to a greater extent, which actually disintegrated into several territories not controlled by the central government. S. Volkov and A. Tkachenko note that the decline in the rates of economic growth in Algeria and Libya, which to a greater extent demonstrate its decline, was influenced, among other things, by "the exhaustion of opportunities for the further development of the oil and gas industry, as well as the influence of the "Dutch disease" that struck both of these countries" [2]. Libya's strong dependence on oil exports, reflected in income volatility, can be demonstrated in Figures 2 and 3.

¹ Built by the authors based on data World Development Indicators. <http://databank.worldbank.org/>.

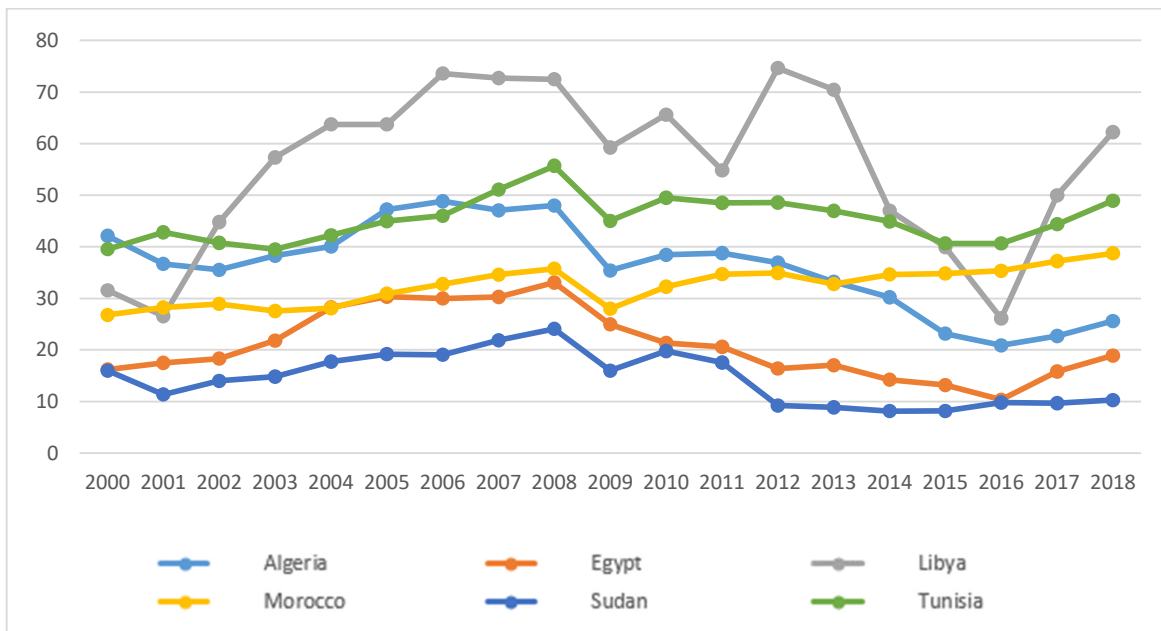


Fig. 2: Exports of goods and services, % of GDP²

The structure of GDP has also changed dramatically over the past decades in most of the countries in the region. Algeria, Egypt and Tunisia are showing a pronounced de-industrialization of their economies. Libya is dominated by industry (67.1%) with a negligible share of agriculture (0.9%) and a relatively low share of the service sector compared to other countries in the region. In Morocco, the ratio of sectors of the economy has not fundamentally changed, since 1985, there was no pronounced de-industrialization, while the share of the service sector slightly increased compared to 1985, with a slight decrease in the share of agriculture. In Sudan (since 2010), the role of industry and the service sector has significantly increased, but at the same time the share of the agricultural sector has decreased.

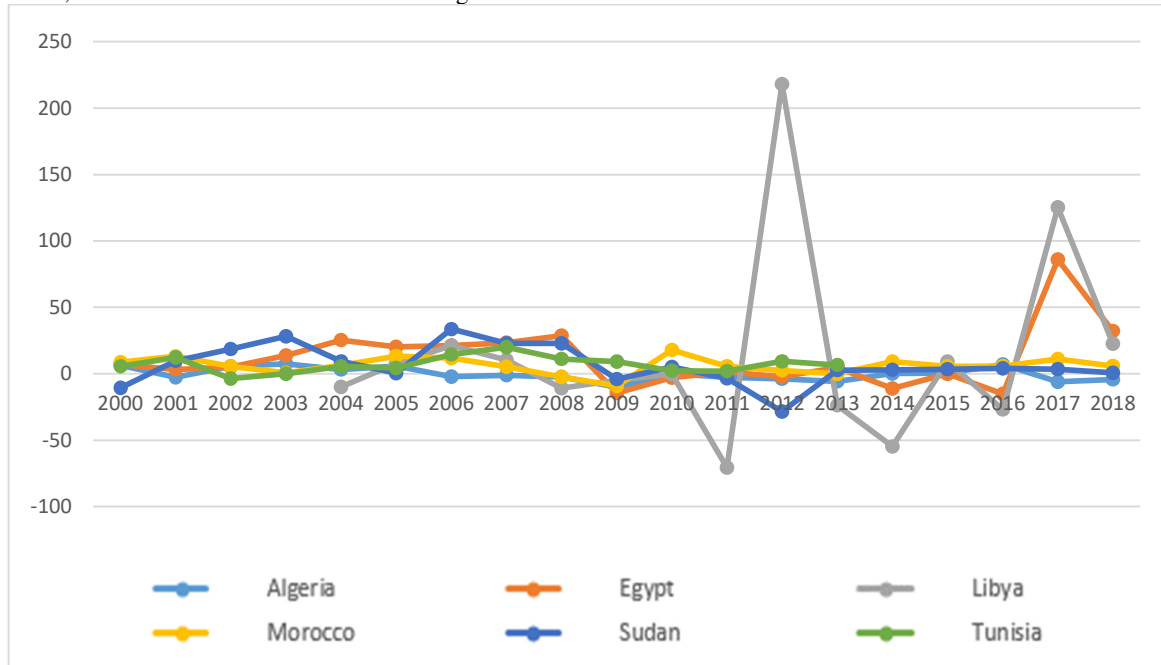


Fig. 3 : Exports of goods and services (annual growth)³

² Built by the authors based on data World Development Indicators. <http://databank.worldbank.org/>.

³ Built by the authors based on data World Development Indicators. <http://databank.worldbank.org/>.

The complexity of the macroeconomic development of the countries of the region is also evidenced by indicators of consumer price inflation and unemployment, which also reflect a strong dependence on external shocks. Egypt's inflation rate rose sharply when it pulled out of its peg to the US dollar. The inflation rate in Sudan is traditionally at a fairly high level. At the same time, Morocco, along with Tunisia, demonstrate one of the lowest rates of consumer price inflation in the world, even in the context of food inflation.

The unemployment rate is quite high compared to the global unemployment rate (the highest unemployment rate in Libya - in some years exceeded 19%; the lowest - in Morocco (in the last ten years it does not exceed 9%). Youth unemployment remains a big problem, which together with the radicalization of society creates social tension in society and the basis for the formation of migration flows towards the European continent. Unemployment provokes an increase in the number of the poor. Overall, poverty remains a serious threat to the economic development of most countries in the North African region.

In general, the political and economic instability of the North African countries is reflected, among other things, in the ratings of socio-economic development published by international organizations and leading expert and analytical centers. Certain conclusions can be drawn based on the analysis of the results of the Global Competitiveness Index, the KOF Index of Globalization, the Fragile State Index, the Doing Business Index, the Index of Economic Freedom, Freedom), as well as the global innovation index (The Global Innovation Index).

Analysis of the Global Competitiveness Index values shows an improvement in positions for Algeria and Egypt in 2019 compared to 2012-2013, when the Global Competitiveness Report was first published. At the same time, Morocco and Tunisia somewhat worsened their positions in the ranking over the same period, while Libya and Sudan are still not represented in this ranking. However, Morocco is the most "successful" of all North African countries in the Global Competitiveness Index, ranking 75th against 87th for Tunisia, 89th for Algeria and 93rd for Egypt. Morocco managed to achieve outstanding results for the countries of North Africa due to rather high values of the sub-index "macroeconomic stability" (43rd place), "institutions" (45th place), "financial system" (49th place). At the same time, Algeria and Egypt, for example, have higher values in the market size sub-index, 36th and 23rd, respectively, approaching the level of developed countries in these indicators. Egypt also has a very good position in the "innovation potential" sub-index (61st place), which puts it among the leaders of the African region as a whole. [3]

Thus, we can state the heterogeneity of the positions of North African countries in the Global Competitiveness Index: from Algeria, Egypt, Morocco and Tunisia striving for the development of infrastructure, ICT and human potential to outsiders in the field of innovative and economic development in the face of Sudan and Libya.

To the greatest extent, the desire to integrate into the system of world economic relations and increase the level of interaction with other countries is demonstrated by the KOF Index of Globalization, which has been calculated since 1970 and includes three dimensions: political, economic and social. In general, all countries of the region in the period from 1970 to 2017. significantly improved their position, although the dynamics of the values of the globalization index was quite volatile.

Morocco can be considered the most "involved" in the processes of globalization. The Globalization Index for Morocco has grown steadily with little volatility since 1970 and reached 70.41 by 2017. The most successful was the involvement of Morocco in the processes of political globalization, and the least successful - in the processes of social globalization.

The impact of globalization on the Egyptian economy is also very large. The globalization index for Egypt throughout the entire period of its calculation was higher than the global value (except for the period from 1970 to 1974). In 2017, it reached a maximum value of 66.13 (in comparison: worldwide (59.36). The best indicators were shown by political globalization, and the worst - by social globalization. In Egypt, compared with other countries of the region, there are also quite high indicators of economic globalization. , although since 2009 the indicators of economic globalization are significantly lower than global values. [4]

In Tunisia, a similar situation is emerging, with global indicators exceeding worldwide indicators. The maximum value of the globalization index was observed in 2008, when it reached 67.52 against 56.85 in the world. The most successful is political globalization, the least successful one is social globalization. Also, economic globalization has rather high values (higher than worldwide), which distinguishes Tunisia from other countries (in a fairly long period since 1973).

Algeria as a whole can also be considered a fairly successful country in terms of its involvement in the processes of globalization, although less noticeable in comparison with the three countries discussed above. For Algeria, the maximum value of the globalization index was reached in 2009 (54.63, which is slightly less than the global value), then a decline began and, according to 2017, the value of the index for Algeria was 52.17. [4] Algeria also has very high values (significantly higher than worldwide) in the context of political globalization and the worst values in the social dimension of globalization.

Libya can be noted as the country with the most volatile dynamics of the globalization index values. Growth period from 1970 to 1978 followed by an almost 20-year decline, and then rapid growth until 2009, when the maximum score of 58 points

was reached against 61.8 in the world, and a subsequent series of falls and growth. Libya also has fairly high indicators of political globalization, although they are not significantly higher than global indicators, but the worst situation is with social globalization.

Sudan has significantly lower globalization index scores compared to global scores. In 2006, the maximum value of the globalization index was reached 38.35 against 54.69 in the world. Political globalization is more successful, its indicators in the period from 1986 to 2004 exceeded the global indicators. The worst indicators are associated with the development of social globalization.

Thus, the involvement of the North African countries in the processes of political globalization is the most successful, and the least progress has been achieved as a result of integration into the processes of social globalization.

The Fragile State Index, which characterizes the ability of the authorities to control the integrity of the territory, as well as the demographic, political and economic situation in the country, demonstrates generally negative dynamics for all countries in the region, with the exception of Sudan, which managed to rise from the last place in the world up to 8th place. However, this is still the worst indicator among all countries in North Africa. Libya, in turn, shows the worst dynamics among other more successful countries. This is due to the general deterioration of the situation after the overthrow of Gaddafi, while in 2011 Libya was one of the most prosperous countries in the region (111th place), and in 2019 Libya takes only 28th place. For Egypt, Algeria and Tunisia, the situation also worsened after 2011, but not as dramatic as for Libya, they managed (except Egypt) in recent years to return to their 2011-year positions and even improve their indicators due to the stabilization of the political situation. [5]

The Doing Business Index, which reflects the ease of doing business for small and medium-sized enterprises, gives an idea of not only the conditions for their creation and operation, but also of the limitations of their participation in international trade. In the period from 2006 to 2020 only Egypt (165th place in 2006 and 114th place in 2020) and Morocco (117th place in 2006 and 53rd place in 2020) managed to significantly improve their positions. The 2020 data indicate that Morocco has one of the most successful taxation systems (24th place) not only in North Africa, but also worldwide (considering that 190 countries participate in the ranking), as well as almost ideal conditions for obtaining a permit for construction (16th place). [6]

Algeria has consistently lost its positions in the ranking (from 123rd place in 2006 to 157th place in 2020). Tunisia between 2009 and 2016 managed to improve its position, but then the country returned to the indicators of 2006. At the same time, Tunisia has one of the most favorable conditions for setting up an enterprise (19th place in the world). A similar situation took place in Sudan, which has one of the lowest index values in the global rankings. Data on Libya can be analyzed only since 2014. Libya has the lowest index values in the global ranking, consistently ranking from 185 to 188 places.

At the same time, in the countries of the region there are quite serious restrictions on the implementation of export-import operations. Even the most successful country in the Doing Business rating, Morocco, is experiencing quite serious difficulties in the field of "international trade", occupying only 58th place.

The Index of Economic Freedom, through which Heritage Foundation analysts define economic freedom as "the absence of government intervention or obstruction in the production, distribution and consumption of goods and services, except for the protection and support of freedom needed by citizens per se," reflects a decrease in guarantees of various forms of freedom for citizens and entrepreneurship in 2020 compared to 1995 in Algeria (46.9 and 55.7, respectively) and Tunisia (55.8 and 63.4, respectively), while the indicators in Egypt (54.0 and 45.7, respectively) and Morocco (63.3 and 62.8, respectively) with insignificant volatility in the middle of the period. For Libya and Sudan, assessment is difficult due to the difficulty of collecting data in the face of political instability. [7]

Thus, the progress, that has been made by the countries of the region, has been largely leveled by political and religious factors, as well as a strong dependence on world markets for raw materials. At the same time, a new turn towards a fundamentally model of economic development of the North African country is to more actively use the global conjuncture and seek better conditions for participation in MRI.

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