

One year after the Arab Spring. Supporting trade and investment with North Africa

Debate, Bruegel, 23 March 2012

In her speech at Bruegel, Ms Inger Andersen, the recently appointed Vice President for the MENA region at the World Bank, discussed the overall situation in the MENA region one year after the Arab Spring. The uprising was not only a request for dignity, but also a request for jobs, employment, and inclusive and sustainable growth.

Youth and women participation in the labour market are two of the most striking features of the region. In particular, female participation is just above 30%, a rate that is particularly low, especially compared to the 70% figure in Asia.

Without growth, economic recovery leading to job creation will not take place. The 2% growth rate sustained by the region between 2000 and 2010 was not sufficient to deliver the number of jobs required by the demographic trends of the region.

While the short-run is dominated by uncertainty, the medium term scenario is where perspectives lie. Both the length and the extent of FDI, as well as remittances, tourism, or even Suez Canal receipts have decreased since the beginning of the riots. The recovery of trade and foreign investments, however, can be just part of the solution.

There is a huge potential for trade opportunities. Leaving oil exports aside, the whole export of the MENA region boils down to an amount that is similar to Swiss exports. The outlook deteriorates even more if one considers intraregional trade, which is too low, and FDI inflows that are concentrated in real estate and mining, neither of which offers numerous employment opportunities.

A weak business environment and a poor regulatory framework impede development. A World Bank report already highlighted the importance of improving the weak degree of liberalisation and competition in the region.

Moreover, the Deauville process, introduced in September 2011 during the French presidency of the G8, asked the World Bank to prepare a report on trade and FDI for the MENA region. This study pointed out that the FDI and trade landscape is evolving, while new production chains are emerging. Moreover, according to the report, removing market access barriers, introducing better rules, increasing competitiveness and diversification of the production activities, facilitating access to trade and financial services, as well as seeking more inclusion, equity and growth sustainability remain of primary importance.

The large potential trade can be reinforced by strengthening existing trade agreements, extending them to fields going beyond agriculture. The lack of business sophistication and business environment indicates the presence of an unfinished agenda.

The EU, among others, could provide help to the countries of the region through technical assistance. It is nevertheless critical to manage expectations on the other side of the Mediterranean Sea, where there is a sense of scepticism against the private sector.

After World War II, the EU was successful in its move towards integration with Eastern Europe and the Balkans. Five main factors contributed to this success.

1. The presence of a committed, credible and capable governance of the transition process
2. Macroeconomic stability
3. Having an understanding of the broad economic picture
4. Allowing markets to allocate resources
5. Disposing of a high level of savings and investments

Not all the factors are present in the MENA region. Above all, the overall vision is missing, while macroeconomic stability is unlikely to be achieved in the short term due to the cycles of elections undergoing in the region.

Integration with the rest of the world and Europe in particular will be key. Youth in MENA is looking for opportunities. Either these will emerge or people will vote with their feet. Everyone who can help should do it for avoiding riots in the region.

After the political awakening of the MENA region, the economic awakening should also follow. Trade, a complete domestic agenda of reforms, including fostering the regulatory environment for creating jobs and creating equal opportunities, should be the starting points.

After the presentation, the debate focused on what should be the key pillars of an integrated EU Mediterranean policy. The three main suggestions that were made are labour issues, agricultural products, and the energy sector. Market opening on the EU side (towards labour and agricultural products) should be accompanied by economic and social reforms in the MENA region.