Noteson Trade,FDI andRemittances in theeconomies ofNorthern Africa

Colloque

«Méditerranée et développement partagé: les nouveaux enjeux»

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Med5in perspective

- Med5: Algeria, Egypt, Libya, Morocco, Tunisia
- 2.4% of world Population (170 million)
- 0.9% of world GDP
- 1.0% of global Trade
- 0.9% of global FDI
- 5.6% of total Remittances to developing countries

Delaysand institutionalweaknesses (1)

- **Historically, economic growth in the region has lagged behind that of other emerging areas, as a result of chronic delays in the transition towards modern market economies**
- **During the last decade, Med5's share of global GDP has not moved from 0.9%, while that of Emerging and Developing economies has gone up from 18 to 26%**
- **The public sector still plays a predominant role in all economies. For decades, these countries have relied on food and fuel price subsidies as a form of social protection. Recent hikes in global commodity prices and regional political developments are challenging the sustainability of such subsidy systems**
- **A solution would be to find better ways to protect the poor and/or improve subsidy targeting**

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Delaysand institutionalweaknesses (2)

- **Unemployment rates are among the highest in the world, especially for the young. Demographic pressures are likely to intensify in the next few years. Migration outflows are consistent in all countries**
- **The informal economy is large and pervasive. In Morocco it is estimated at 44% of officially measured GDP; in most other oil importers is close to one third**
- **Institutional quality is poor. Weak institutions and governance mean that access to public services is unavailable, except to a privileged, well connected few individuals and firms. This fosters corruption, inequality of access to opportunities and finance, further eroding trust in public institutions**
- **More recently, growth has been particularly subdued, reflecting the effects of social unrest, economic disruptions, political uncertainty and weak external demand**

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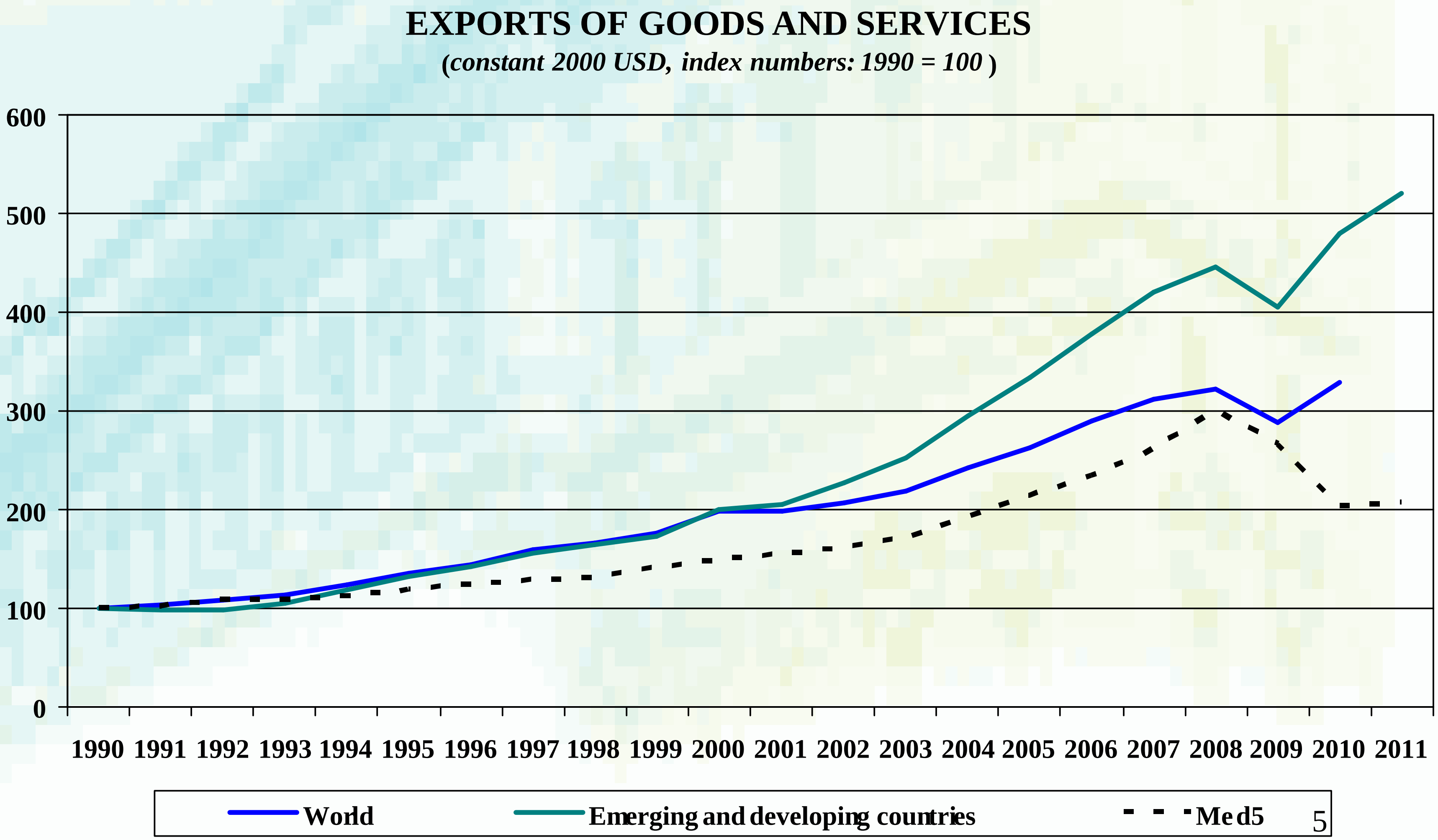
The rapid process of trade integration of many emerging and developing economies observed in the last two decades has interested the Med5 area to a limited extent



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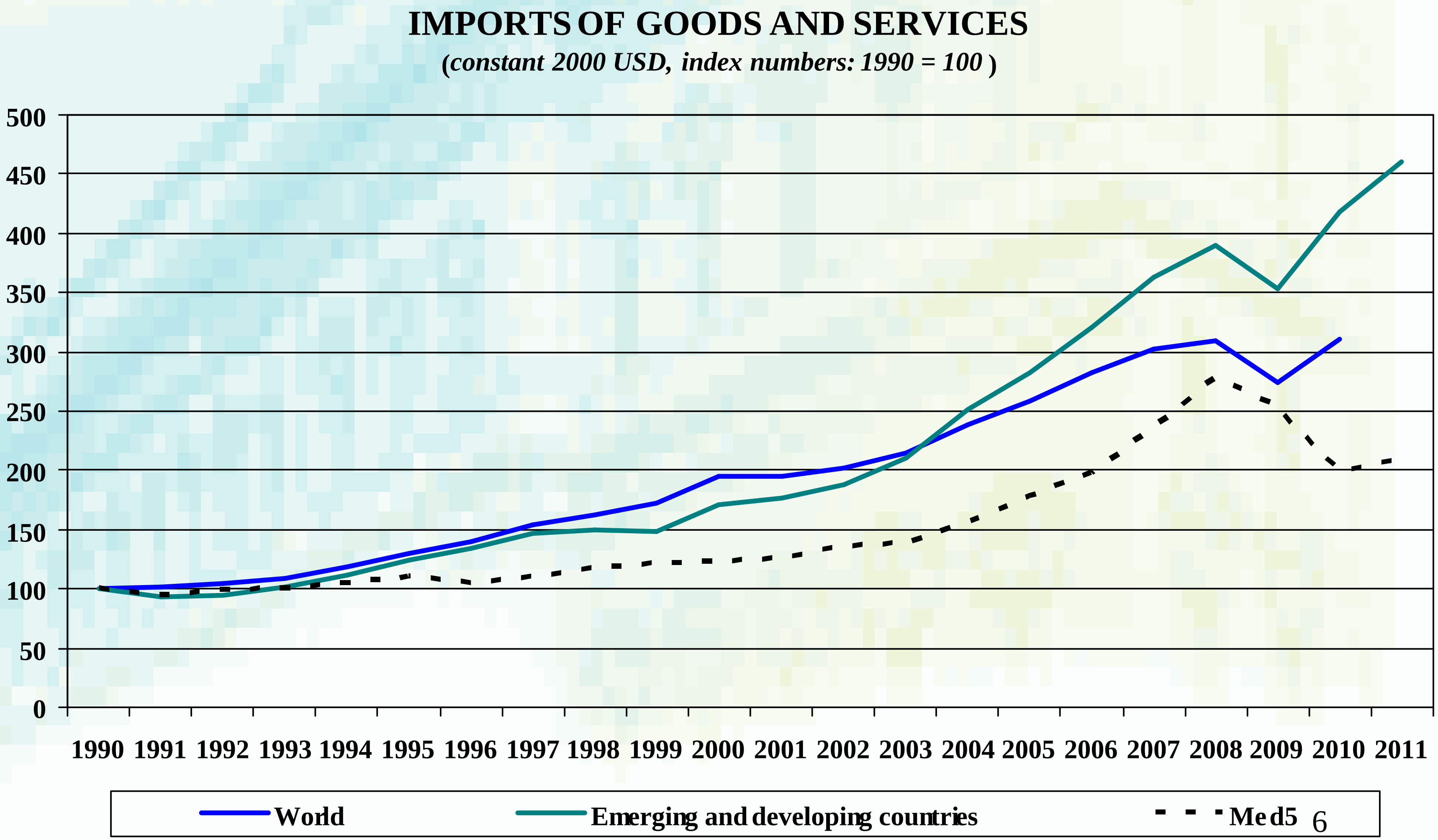

TheEU asa tradepartner forMed5 countries

- **The European Union is a primary trade partner for Med5, absorbing 57% of their exports and contributing to 46% of their imports.**
- **Such primacy, however, has been weakening over time. Indeed, at the beginning of the decade (average 2000-02) exports to EU countries represented 70% of total, while imports from EU were at 54% of total.**
- **Med5 Market shares of main European partners (as proxied by the ratio of imports from a given EU country over total imports):**
  - **France: 11.3%**
  - **Italy: 10.1%**
  - **Germany: 6.9%**
  - **Spain: 5.5%**
  - **Italy is a particularly relevant trade partner for Libya and Tunisia.**

Med5 as trade partners for EU economies

- Total trade (exports + imports) between the EU and Med5 has averaged € 125 billion during the last three years (2009-2011).
- Four fifths of total EU trade with Med5 countries take place with the five largest European countries:
- Italy is the main commercial partner (€ 33 billion)
- France: (€ 28 billion)
- Spain: (€ 19 billion)
- Germany: (€ 14 billion)
- UK: (€ 6 billion)
- In particular, among European countries Italy is the first importer, while it is second after France for exports

Regional Direct Investment Positions

(Stocks as of end-2010, in USD millions – Source: IMF CDIS)

	Investment from:						
Investment in:	European Union	North America	Economies of Persian Gulf	Other Near and Middle East Economies	Central and South Asia	East Asia	Total
European Union	7.806.855	2.107.703	3.274	31.632	35.325	222.251	11.085.931
North Africa	**71.749**	**18.350**	**2.538**	**19**	**735**	**768**	**99.234**
Sub-Saharan Africa	178.047	25.582	1.052	62	15.957	14.414	266.033
North America	1.966.306	707.988	99	10.375	7.594	302.498	3.377.530
North Atlantic and Caribbean	474.159	602.597	667	232	14.877	469.082	1.776.094
South America	392.758	192.305		46	476	35.837	686.368
Central and South Asia	296.317	205.249	1.187	4.238	72.492	156.312	795.182
East Asia	425.495	300.632		293	9.514	495.847	1.289.572
Oceania and Polar Regions	159.375	163.351		21	6.988	55.378	457.011
Total Investment	**13.290.926**	**4.629.364**	**21.868**	**72.174**	**205.285**	**1.774.395**	**22.057.005**

- **According to the latest IMF Coordinated Direct Investment Survey (CDIS), EU direct investments positions in North Africa totaled € 71.7 billion as of end-2010, 1.3% of total EU investments abroad, but 72.3% of total foreign investments in the region**
- **Other important investors in the region are the US and the Economies of the Persian Gulf**

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EU enterprises inMed5

(# of enterprises, as of end-2009)

	EU27		Italy		Germany		Spain		France	
	# enterprises	% of Extra-EU	# enterprises	% of Extra-EU	# enterprises	% of Extra-EU	# enterprises	% of Extra-EU	# enterprises	% of Extra-EU
Algeria	271	0,4	77	0,9	13	0,1	9	0,4	112	0,8
Egypt	334	0,4	63	0,8	38	0,3	4	0,2	91	0,7
Libya	67	0,1	25	0,3	4	0,0	4	0,2	10	0,1
Morocco	629	0,8	59	0,7	31	0,3	39	1,5	385	2,8
Tunisia	568	0,8	212	2,6	23	0,2	10	0,4	247	1,8
NA5	1.869	2,5	436	5,3	109	1,0	66	2,6	845	6,1

- **As of end-2009 there were 1,869 European enterprises in Med5 countries, 2.5% of total EU-27 enterprises located in extra-EU regions**
- **France is the leading country, Italy is second**

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People employed inEU enterprises inMed5

(# of workers, as of end-2009)

	EU27		Italy		Germany		Spain		France	
	# employed	% of Extra-EU	# employed	% of Extra-EU	# employed	% of Extra-EU	# employed	% of Extra-EU	# employed	% of Extra-EU
Algeria	36.334	0,3	8.734	1,1	2.675	0,1	1.516	0,2	15.724	0,7
Egypt	88.466	0,7	20.633	2,6	12.366	0,5	231	0,0	26.018	1,1
Libya	8.464	0,1	1.711	0,2	1.146	0,1	172	0,0	4.805	0,2
Morocco	105.509	0,9	3.524	0,4	13.218	0,6	10.588	1,7	62.908	2,6
Tunisia	70.958	0,6	10.475	1,3	19.209	0,8	1.573	0,2	33.364	1,4
Med5	309.731	2,5	45.077	5,6	48.614	2,1	14.080	2,2	142.819	6,0

- As of end-2009 almost 310,000 people were employed in European enterprises located in Med5 countries, 2.5% of total workers in extra-EU regions
- France is the leading country, both in absolute and relative terms
- Italy is second in relative terms, but third after Germany in absolute terms

Remittancesflows toMed5 Countries

(Med5 = Algeria, Egypt, Libya, Morocco, Tunisia)

- **In 2010, estimated inflows totalled USD 18.2 billion (of which, four fifths go to Egypt and Morocco)**
- **Med5 receive 5.6% of total flows to developing countries, 4% of global flows**
- **Substantial underestimation of inflows, for widespread use of unofficial channels**
- **Data reliability: change of definitions and lack of harmonisation**
- **Consistently with migration patterns, the role of Europe as a sender area is predominant for flows to Maghreb, less important but still significant for Egypt**
- **Flows' size is significant also in relative terms**

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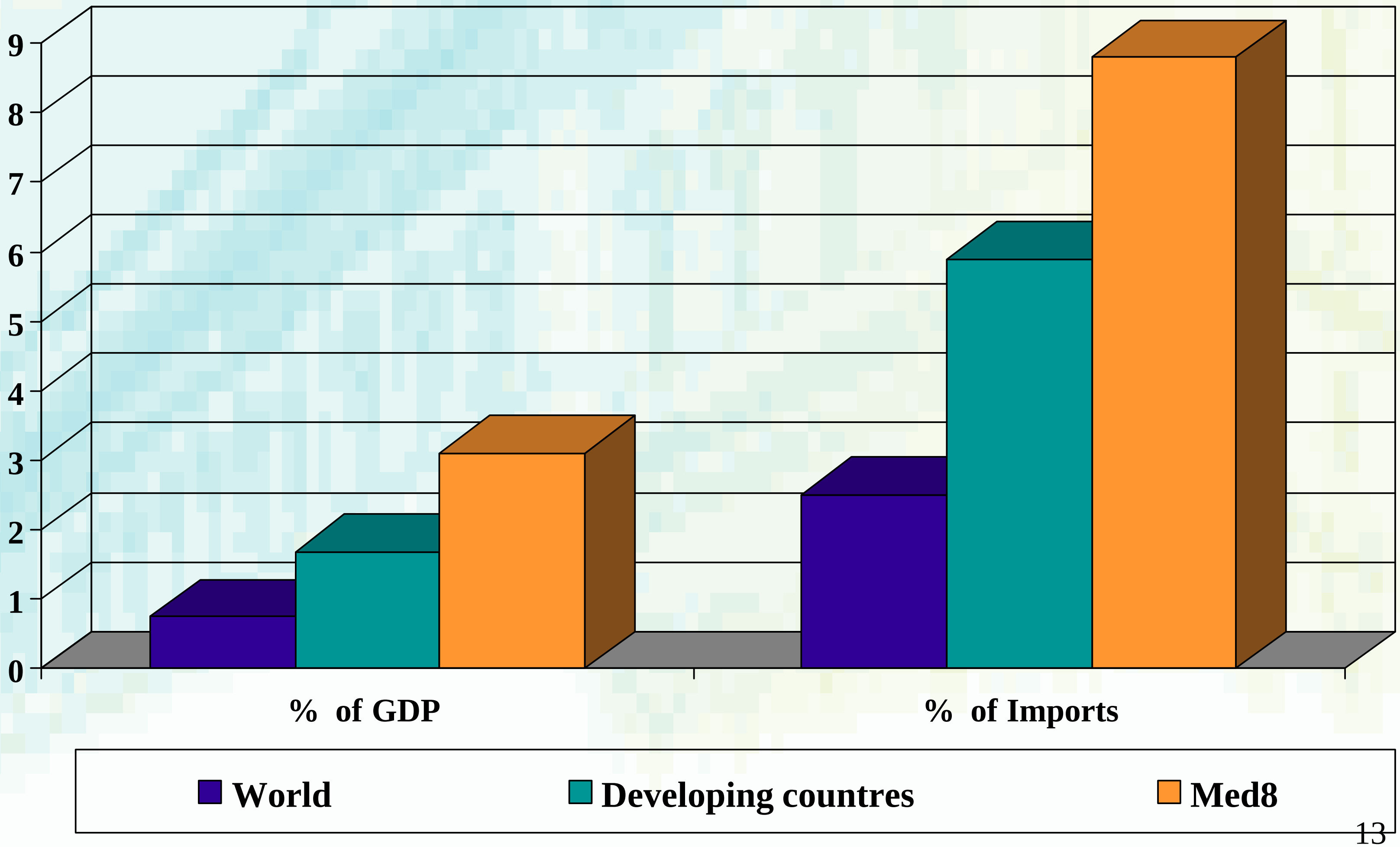
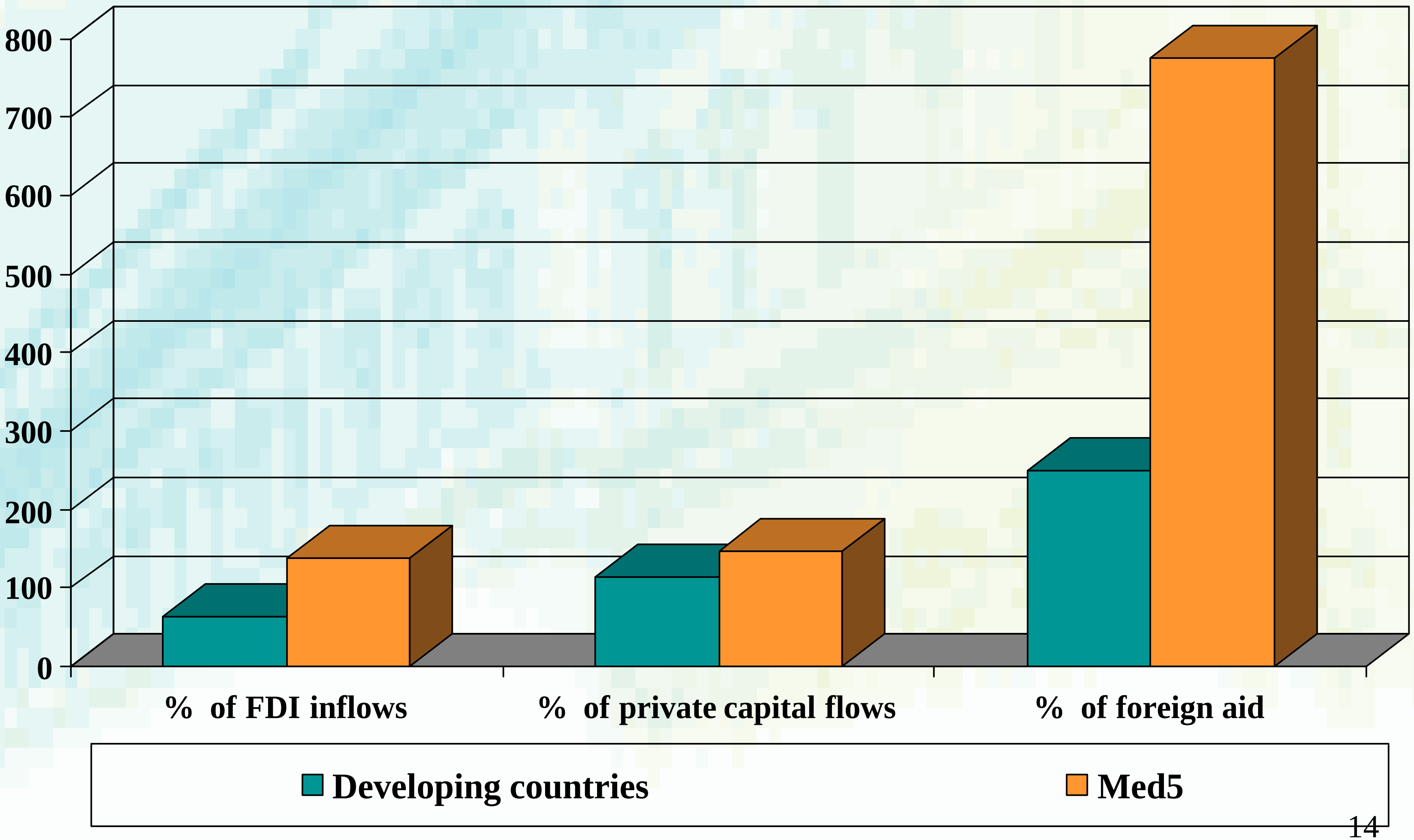
RemittancesReceived (1)

(2010)



RemittancesReceived (2)

(2010)



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Impacton economicdevelopment: positive

- Additionalresources forconsumption and investment
- Improvehuman capital
- Financeimports ofinvestment goods
- Counterbalancebrain drain-drivenoutput losses
- Stabilityof flowsallows theirleveraging

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Impacton economicdevelopment: negative

- Disincentivelabour forceparticipation
- “Dependency” effects
- Inflationarypressures
- Increaseinequality
- “Dutchdisease ” effects

Policyimplications: twomain directions

- Facilitatecross -bordertransfers
- Enhanceexpected developmentalimpact

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Facilitatecross -bordertransfers

- Reducetransaction costs
- Increaseaccess tobanking andfinancial services
- Removeforeign -exchangerestrictions
- ImproveAML andCTF regulations
- Facilitatelabour mobility

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Enhanceexpected developmentalimpact

- Set up an appropriate framework for economic development in recipient countries
- Provide incentives to private investment
- Promote co-operation between remittance services providers and local financial entities
- Improve efficiency of banking and financial markets in recipient economies
- Develop appropriate financial instruments (e.g. for leveraging remittance inflows)
- Encourage the return of expatriates