Transitions in North Africa in Times of Scarcity

FINANCE, EMPLOYMENT, ENERGY & FOOD

The Mediterranean in a multipolar World up to 2030

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Transitions in North Africa in Times of Scarcity:
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The least one can say about the Western Mediterranean over the past eighteen months ago is that the region has in no way reinvented itself. Algeria and Morocco have drawn closer but the pace of change is very slow considering the unprecedented financial and political turmoil which is putting the very future of Europe in doubt and the revolts in the Arab lands which are reshaping the very nature of politics and economics across North Africa and the Middle East. The change of regime in Tunisia and Libya have changed two key actors whose policies in the region are as yet unknown. In Tunisia the outcome holds promise, in Libya the future is uncertain at best.

The single most important other factor is a certain warming in Algerian-Moroccan relations, symbolised by the agreement reached last summer between Algeria’s state oil and gas company, Sonatrach and the Morocco’s Office National de l’Electricité to sell 0.64 Bcm of gas to Morocco for ten years over and above the transit fees (7% of the throughput which Morocco takes in gas) for the 7 Bcm worth Algerian gas transiting through the Maghreb Europe gas pipeline for clients in the Iberian peninsula.

After years of Algerian reluctance to sell more gas to its neighbours and Morocco's often expressed doubts about the reliability of gas supplies from Algeria, the agreement was welcome. Indeed demand for gas is increasing by 5% every year in Morocco and proposals to build a Liquefied Natural Gas terminal in Morocco were, in economic terms, very expensive. It is not yet clear whether new contract is the sign of a mutual desire to broaden economic cooperation between the two neighbours.

Recent turmoil in Arab lands suggests that countries which are unable to increase their GDP faster and offer more jobs to their ever more rebellious youth will pay a price, politically, for their lack of capacity to improve the lot of their unemployed youth. Greater cooperation between Algeria and Morocco but also more broadly across the region could create hundreds of thousands of new jobs and attract much needed investment – energy remains one of the key areas where such cooperation could be beneficial. What is new in recent months is that
the need for re-establishing legitimacy in southern Mediterranean countries is no longer a taboo subject:

transition affects takes on different forms: the first political, towards greater democracy; the second demographic as Europe’s population ages, Russia’s declines and the Maghreb is faced with plentiful labour before the EU syndrome of aging population kicks in - Tunisia will be the first southern country to experiment it; the third relates to the steady power shift from the North Atlantic to Asia and Brazil. This transition offers ample opportunities for recasting existing policies in the Maghreb: to date no country has offered a new vision, no country has proved to be up to the challenge presented by events.

Are we talking of scarcity or mismanagement?

The 2011 seminar’s title “Transitions in North Africa in times of scarcity” speaks of ‘scarcity’ of finance, jobs, food and energy: the papers, presented in the working sessions held with the authors in Barcelona in November, suggested that whereas jobs are well and truly scarce and will be difficult to increase on the scale required whatever mix of policies is pursued, this was not true of finance, food and energy. What were needed here were bold policies to tackle the many obstacles which prevent a more rational allocation of existing natural resources; information of much higher quality and available to a much broader public which would allow a debate on the real issues confronting the region. Some participants insisted that certain interests, like those of smaller farmers were not represented in the debate and that, irrespective of how transparent or not elections might be, it was difficult to hold a serious debate and dream up solutions if key economic and social actors went without political representation. Young people, who suffered disproportionately from the lack of jobs, were, until this year, absent from political and economic decision making. Hence their irruption on the scene in Tunisia and Egypt, where they played a key role in bringing down regimes, but also elsewhere in the Arab world, but also in Europe was a factor which had to be taken into account in regional political and economic debates henceforth.

Youth unemployment and educational waste

The debate of youth employment threw up many arguments: overall, the most worrying aspect of the situation is the pessimistic reading of the future of young people, which results from the education they receive: Tunisia here is symbolic of the southern Mediterranean countries but also, to a lesser degree of what is happening in some European countries. Tunisia was doing all the right things, or so it seemed reading World Bank reports which as late as October 2010 were gushing with enthusiasm for the country’s economic performance.

The country spent 7.3% of GDP on education, a higher proportion than the US or Finland, 2% of higher education alone. About 30% of secondary school graduates go onto university although 60% of them fail exams: the trouble is their diplomas are largely worthless. Like many developing countries and its Arab peers, Tunisia teems with diploma mills that issue worthless degrees to half trained graduates.
Across the region the gap in the quality of education between Arabs and other people at a similar level of development is frightening and this explains why the region suffers from unusually high rates of youth unemployment. In such highly valued studies of education systems as *Trends in International Mathematics and Science Study*, that come out every four years, out of 48 countries tested, all 12 participating Arab countries fell below the average. Less than 1% of students aged 12-13 in ten Arab countries reached an advanced benchmark in science compared with 32% in Singapore and 10% in the US: other comparative measures are equally alarming: the listing of the world’s top 500 universities compiled annually by Shanghai Jiao Tong University does not include a single Arab one. *The World Economic Forum* ranks Egypt a modest 70th out of 133 countries in competitiveness, Libya a more dismal 128th despite its very high income per head.

Even in India and China, the majority of engineering graduates do not meet international standards although elite universities produce a huge number of first-rate engineers. No Arab country produces graduates who can compete with their Asian or European counterparts. The only southern Mediterranean country whose graduates meet world standards is Turkey. In North Africa furthermore, graduates when they are good are handicapped by a social system which favours ‘insiders’ versus ‘outsiders’. In Tunisia, outsourcing added maybe 2000 jobs in 2010, one for every 180 university students. Although Tunisian engineers work for a fifth of the cost of their European counterparts, there are not enough good engineers and not enough jobs even for the good ones. Many highly qualified university graduates seek greener pastures elsewhere.

If this diagnosis is correct – that the bulge of new Tunisian and Moroccan university graduates is a day late and a dollar short for the global world economy, we are facing a problem which has no solution in the long term. A higher growth rate could be achieved across the region if the constraints of bureaucracy and bribery were lifted but will they? If frontiers were opened across the region that would help encourage new start ups and create more jobs but is that likely to happen? The conclusions are not optimistic, but then neither are they about youth employment in Europe today, not least in Spain. The question then is how will this lost generation revolt and what will its revolt lead to?

**Food security is a complex issue**

Debates about food security are fraught with danger: the word ‘security’ covers such a multitude of sins. The papers devoted to food security explained only too well how trade liberalisation following the Uruguay Round had induced far greater volatility in food prices than ever before - as developed countries switched from a system of support for basic foodstuffs to income support to farmers, a lower level of production and hence of food stocks pushed prices up worldwide. Furthermore any large shock such as the quick rise in energy prices has a very quick multiplier effect and the result is that strategies to ensure greater food ‘security’ are attempted by different actors, notably state actors. World food production is running at two and a half times consumption but solutions are complex. Both Gulf and Maghreb countries are net food importers and have neither the land nor the water to increase production of basic staples very much. Gulf States are currently attempting to buy or rent large tracks of land in Africa, where
such land is available. Whether in the long run such strategies work remains
to be seen as buying land in Africa and displacing populations let alone
capturing water resources poses its own set of challenges. In Africa people
starve because they are too poor to buy food, not because there is stricto
sensu a scarcity of food. So the challenge is to find three way solutions Gulf
States/ North Africa/ Africa which are mutually beneficial.

The dramatic rise in prices of basic foodstuffs and staples a few years ago
hit North Africa and Egypt very badly: food subsidies had to be increased,
thus increasing budget deficit since the average person could not afford
any increase in price. The revolts in the Arab lands are the result of lack of
jobs but also of food price increases of recent years.

In the context of the Western Mediterranean a mutual dependence exists
between what imports the south usually needs (cereals, sugar, meat, oils)
and what it can export (though Spain here is a major factor being inside
the EU). The southern Mediterranean countries depend on imports from
Europe when their crops are insufficient, the European countries need mar-
kets when their production is abundant. This cross dependence needs to be
managed and calls for a bold recasting of policies but short term interests
and incentives hamper such agreements.

Building agreements of mutual dependence will not be easy but deserves
to be explored if the EU wishes to contribute to the stability of the Western
Mediterranean. Reforms are slowed by powerful lobbies of existing inter-
ests, not least in the Maghreb, lobbies which are all the more powerful as
they operate within national boundaries:

each and every North African country have launched policies in a national
context which are strikingly similar but were they to join forces, the power
of existing national lobbies would stand a better chance of being reduced.
Were frontiers open and new operators given a voice in the decision mak-
ing process, a more rational debate could be engaged. Here again, we
come up against political and economic structures which do not allow the
emergence of new economic actors – so long as these are not represented,
there can be no serious debate. In North Africa, the high level of price sub-
sidies and their weight on budget expenditure - on many products simply
does not allow for a serious debate and hence reform of existing practises.
We are, in the words of Omar Aloui, confronted with the “classic dilemma
of necessary reforms without immediate political support.” Hence the
region remains at the mercy of fast rises of commodity prices because its
political leaders live in a time warp.

**Gulf investment in North Africa: a persistent mismatch**

The question of cooperation between cash rich Gulf countries and North
Africa raises a number of interesting questions – the paper submitted here
suggested that Gulf nitrogen fertilisers and capital together with Moroccan
phosphate reserves could provide help increase productivity in African agri-
culture overall. There was however a caveat that such cooperation should
not be used on an exclusive bilateral level, Gulf countries are attempting in
Africa, endeavours which are meeting with stiff resistance. The goal should
be to raise global production levels, not gain privileged bilateral access to
food production. The latter would be illusory in times of crisis anyway. Gulf
and Maghreb countries are both net food importers but investments from the first region into the second do not have a very happy history as a very lucid analyses present by Mahieddine Raoui made amply clear.

He argued that Gulf investments in the Maghreb were a priority for neither region and tended to be concentrated in capital intensive sectors such as telecommunications, banking and real estate/ tourism, all of which required support at a senior political level. More often than not such investments were rent seeking rather than of a kind which developed local skills and promoted innovation. Both in Tunisia and Morocco examples of such behaviour over 30 years abounds (although western companies can also be rent seekers) while in Algeria the behaviour of the Egyptian telephone company Orascom was likened by two participants to highway robbery – albeit with complicity high up in the Algerian system. Other factors explain why Gulf investments have not been successful:

labour in North Africa cannot compete with Asia in terms of wages (higher in the Maghreb) nor in terms of skills compared with Eastern Europe (much lower). In other words, the Maghreb’s comparative advantage has eroded overall over the past 20 years. All of which does not rule out future interest from Gulf investors but suggests caution as to the volume and impact such investments may have.

The idea of a development bank for the Mediterranean was discussed though the idea did not attract much support although the region is the only one in the world devoid of such an institution. The lack of interest stems partly from France’s steadfast opposition to such an institution and the complete lack of any EU vision of an ambitious Mediterranean policy. The financial resources exists, the need to give much greater support to small and medium size companies is there for all to see as is the advantage an institution which was co-owned by both shores. The idea may resurface one day but the crisis Europe is going through added to the fast moving events in Arab lands has pushed the idea onto the back burner.

**Energy cooperation within the Maghreb and with Europe progresses**

Energy remains and area where cooperation across the region holds much promise and is progressing but not at a pace which is very fast. Solar energy projects are moving forward while Algeria’s very ambitious gas export targets are being revised downwards. The paper on oil and gas suggested that, irrespective of whether the change of regime in Libya might throw up new opportunities, the EU should reformulate its broader energy policy towards North Africa if its claim of wanting secure, sustainable and competitive energy remain a key tenets of its energy strategy: Two factors will force a reformulation of EU policy. EU’s domestic energy production continues to decline hence the region relies increasingly on foreign suppliers; second, bilateral disputes between certain suppliers and transit countries have led to interruption of energy supplies to the EU. One might add that despite its professed fears of growing Russian influence on its supplies, that is exactly what is happening as France, Germany and Italy play their own interests ahead of EU ones and the UK pays the prices of pushing liberalisation policies in Brussels while ending up domestically with some of the highest prices swings (for gas) of any country in Europe.
The EU continues to attempt to extend its principles and rules to its neighbours but the lack of coherence and fragmented nature of this policy dooms it to failure. Nowhere does the EU spell out how their policies might bring them closer to southern countries.

If one looks at solar energy, why should southern Mediterranean countries cooperate with northern ones if the latter do not allow a certain amount of R & D and construction of solar panels to be handled in North Africa. The impression, here again, is that North Africa has for so long been viewed as a threat (terrorism, Islam, illegal immigrants) that European policy makers are incapable of seeing that the potential that might result from a broader and more serious strategic dialogue. The EU is so focused on its own existential crisis that it cannot see the wood for the trees.

Morocco’s hopes of turning its deserts into a global renewable energy hub took a big step forward in November when the World Bank gave the green light to help pay for one of the world’s biggest concentrated solar power plants. The Ouarzazate solar complex will have a capacity of 500 megawatts, enough to power 90,000 homes – the first phase, a 160MW plant, will cost about $1bn and is to be built and operated by a private company – both the World Bank and development banks are helping to fund the project in a country which has $9bn national solar plan to build five commercial scale solar plants by 2020 with a total capacity of 2,000MW. Morocco has also been chosen as the first location for a German-led project to build a vast solar network across North Africa and the Middle East. Its private backers hope it will hook into Europe’s electricity supply.

These arguments have to be set against broader trends in energy investments. Middle East and North Africa energy capital investment is expected to total $525bn during the five year period 2011-2016, which is a downward trend. Some countries such as Morocco have managed to bring back previously shelved projects and slate new ones for development. Other countries are below potential and the fall off has been more dramatic in Tunisia, Libya and Egypt because of turmoil in those countries. The same story prevails in Algeria where investment recovery is slow because repairing broken governance within Sonatrach has proved to be a very difficult task: if production continues not to be replaced in Algeria this could lead to an export crunch unless contractual and fiscal policies create a more investor friendly environment. A little more than two third of energy capital potential continues to be located in the same five countries, namely Saudi Arabia, UAE, Iran, Qatar and Algeria. It is also worth noting that the power water sector has remained a key, steady driver of investment in the region overall.

All in all, the reflections brought about during the November sessions in Barcelona adopted a prospective methodology and offered thus a platform for analysis, information exchange, and the opportunity to share new views and concrete ideas that kept feeding the network of experts the current research project at CIDOB is building through the Western Mediterranean and beyond. It is difficult to predict what all these transitions will end up bringing to the region, but the agenda is moving and taking stock of the current state of play and exploring future scenarios is, more than ever, an effort that will pay off.