ITALY'S MARKET SHARE IN THE ECONOMY OF NORTH AFRICA

Amedeo Amato*, Sarah Shababi**

After the political unrest and economic instability brought by the Arab Spring of 2011, it appears that the countries of North Africa, with the exception of Libya, are finally set on a path of economic recovery.

GDP growth levels are increasing, bringing forecasted levels of GDP growth in 2016 for Tunisia, Algeria and Morocco on a par with pre-2011 levels.

Table 1 - *Percentage Changes of GDP in North Africa*

	2010	2011	2012	2013
Algeria	3,60%	2,80%	3,30%	2,70%
Egypt	5,15%	1,76%	2,22%	2,10%
Libya	5,00%	-62,08%	104,49%	-9,37%
Morocco	3,64%	4,99%	2,69%	4,41%
Tunisia	3,61%	-0,23%	4,09%	0,44%
North Africa	4,25%	-6,13%	8,41%	1,39%

Source: Our processing of World Bank (2014), GDP constant 2005 (USD).

The growth rates estimated in North Africa for 2014 and expected for 2015 and 2016 are respectively, 2,9%, 3,6% and 3,8%.

Italian exports to North Africa increased by 8,3% from 2012 to 2013. The results for 2014 are still based on half-year values

* Editor.
** University of Genoa.

but appear to be stagnant compared to the 6 month results for the previous period as can be seen in Table 2.

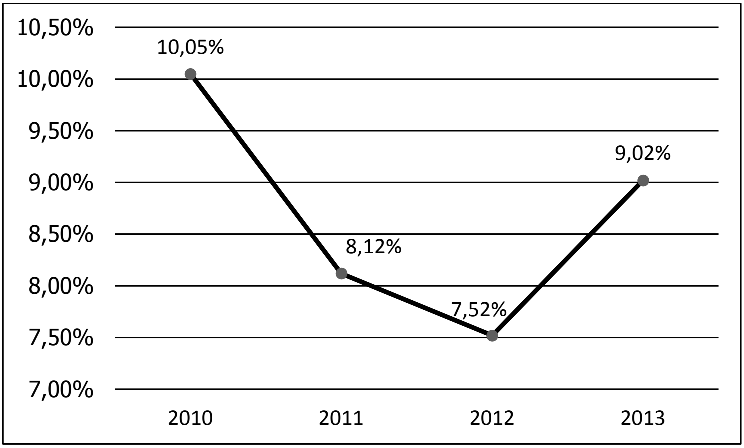
TABLE 2 - *Italian Exports to North Africa (millions €)*

	2011	2012	2013	2013 Jan - Jun	2014 Jan - Jun
Morocco	1,477	1,367	1,531	768	735
Algeria	3,013	3,767	4,271	2,046	2,022
Tunisia	3,048	3,170	3,221	1,603	1,761
Libya	610	2,404	2,867	1,385	1,281
Egypt	2,594	2,863	2,811	1,459	1,336
North Africa	10,742	13,571	14,701	7,261	7,135

Source: Ice (2014).

Despite a general decrease in total imports in North Africa and a decline in Italian exports to North Africa in the first semester of 2014 compared to the equivalent period in 2013, Italy's market share in North Africa increased between 2012 and 2013 by 1,5%, from 7,52% in 2012 to 9,02% in 2013.

FIGURE 1 - *Italy's Share of World Exports in North Africa (2010 – 2013)*



Source: our processing of Ice-Istat data (2014).

Algeria

The presidential elections held in April, confirmed Bouteflika's position in office until 2019. Algeria has benefited from relative political stability compared to neighbouring countries. However, the recent events and the presence of Algerian jihadists from the Islamic State is increasing tensions.

The political stability throughout the Arab Spring has allowed the Algerian economy to remain largely unaffected by political events, in 2013 GDP recorded a growth of 3,3%.

According to the industrial production index produced by the national statistical office, the ONS (Office national de la statistique), the steel, metal, mechanical, electronic and electrical industries grew by 12.5%; chemicals, rubber and plastics grew by 7.5%; and wood, cork and paper grew by 7.3%.

Major infrastructure projects carried out as part of the five-year 2010-14 public investment programme (Programme d'investissements publics) led to an increase in construction and public works of 8.2% in 2012 (up from 5.2% in 2011), providing 9.6% of GDP.

A new investment programme has been approved for the years 2015-19 for a total amount of USD 262 billion in an effort to bring greater diversification to the economy.

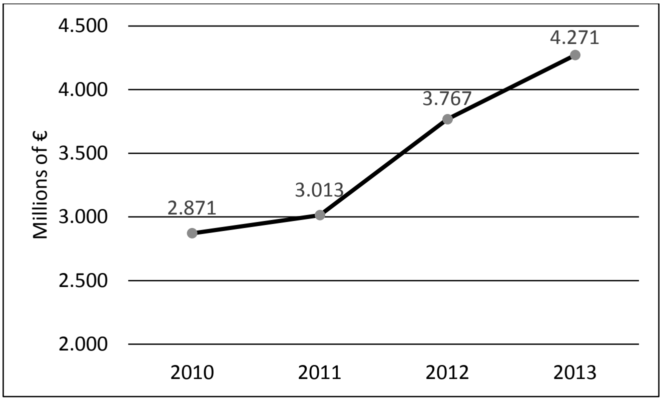
Services, meanwhile, provided 41% of GDP in 2012, with market services growing by 4.2% to provide 23% of GDP and government services growing by 6.4% to provide 18% of GDP. Algeria's external position remained solid in 2013, despite signs of weakening.

The current account surplus shrank from 5.9% to 1.2% of GDP as domestic oil-and-gas consumption grew, reducing exports and increasing imports.

The European Union is Algeria's largest trading partner and absorbs half of Algerian international trade (54.1%).

Imports from Italy increased by 13.3% between 2012 and 2013, mainly for construction materials, in particular cement, reinforcing bar and wood, which increased by 7% from the first semester of 2013 to the equivalent period in 2014.

Figure 2 - *Italian Exports to Algeria*



Source: our processing of ICE (2014) data.

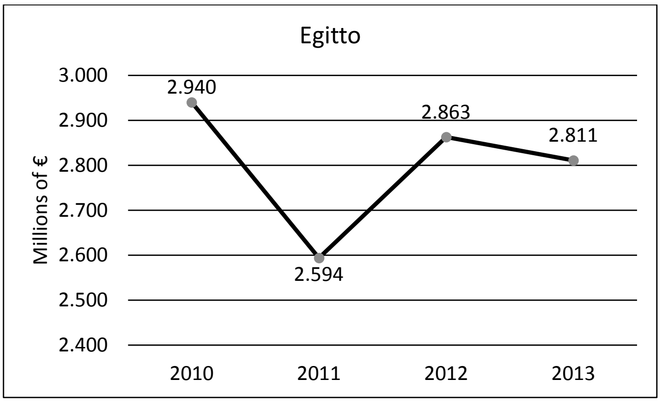
Egypt

Egypt still maintains a weak economic outlook for 2014, with levels of growth still fragile under a cloud of political unrest and insecurity.

The country has benefited from a massive capital injection from the Gulf, amounting to approximately 16 billion dollars received so far, which has encouraged some international credit rating agencies to improve their outlook on the economy.

However, analysis of the sectorial development of Egypt's economy shows a decline in manufacturing and services, suggesting a reversal in the sectorial development of the economy.

Figure 3 - *Italian Exports to Egypt*



Source: our processing of ICE (2014) data.

Morocco

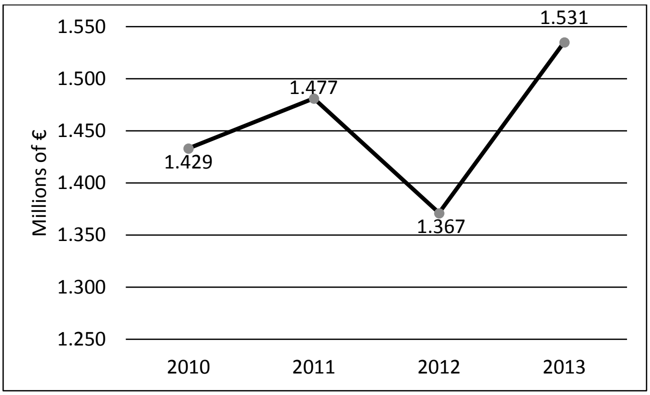
Despite the slowdown in world growth, Morocco has continued to outperform the other North African economies with a GDP growth of 4,4% in 2013. According to the African Development Bank (2014), this has been achieved thanks to a stable social and political context accompanied by a favourable macroeconomic environment, in particular a cautious monetary policy, which has kept inflation under control.

These reforms have been accompanied by investment in targeted sectors, in particular the automotive and aeronautics sectors, in order to accelerate diversification of the economy and to create employment, as the country still experiences high levels of youth unemployment (19.1% in 2013). A National Pact for Industrial Emergence (PNEI) was approved for the years 2009 to 2015, the aims of which are to establish a framework for launching industries and to increase their competitiveness. However, in order to limit the fiscal deficit to 3% of GDP by 2016, public spending is likely to decline in the future.

The reforms and investment undertaken have paid off as Morocco has climbed from position 95 to position 87 in the Doing Business report, improving on several fronts, including firms' ability and willingness to start a business, register property and pay taxes.

Morocco has also attracted significant foreign investment following the institution of incentive packages for the benefit of foreign firms, such as tax incentives, land grants, simplified administrative procedures and financing instruments in one-stop regional investment centres. Italy's exports to the country increased in 2013, Italy is the third commercial partner of Morocco, although it still remains distant from the main commercial partners, France and Spain.

Figure 4 - *Italian Exports to Morocco*



Source: our processing of ICE (2014) data.

Tunisia

The parliamentary victory under the new constitution of the secularist party is a positive sign for the Tunisian economy. The Islamist party Ennahda has accepted defeat and the international observatories have been pleased with the conduct of the elections.

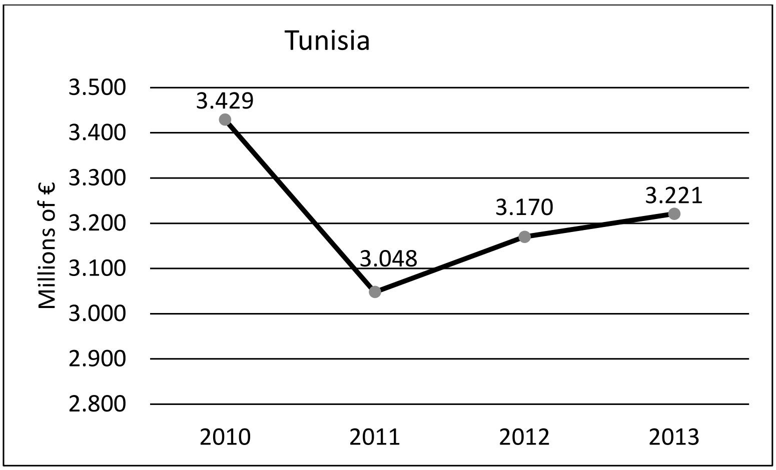
Tunisia's economy is well developed with 59,4% of GDP arising from the services sector and a further 31,3% from industry. The services sector, in particular telecommunications, finance and transport experienced above average growth in 2013, whilst the manufacturing sector experienced lower overall average rates.

The depreciation of the Tunisian dinar against the Euro gave a boost to exporting industries (+4,3% in 2013), notably in the textile, engineering and electrical sectors. However, this may have also contributed to the decrease that Tunisia recorded in foreign direct investment compared to 2012 (-29,8%).

The EU remains Tunisia's main trading partner, absorbing 71.3% of exports and providing 55.5% of imports. After France, Italy is Tunisia's second main trading partner and in 2012 provided a higher level of foreign direct investment than French companies did in the same period. Estimates suggest that in 2012 there were 750 Italian companies present in Tunisia.

Italian exports to Tunisia also increased in 2013 but have not yet reached the levels they had prior to the Arab Spring.

Figure 5 - *Italian Exports to Tunisia*



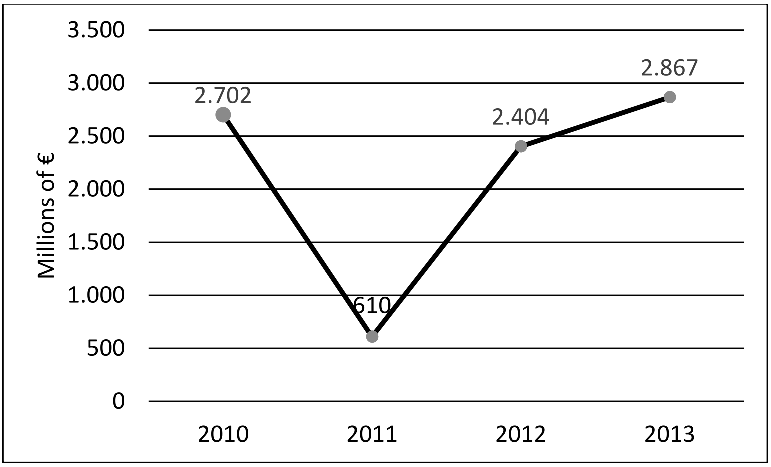
Source: our processing of ICE (2014) data.

Libya

Following a record recovery in 2012, continuing protests and mounting tensions within the country in 2013 have impacted negatively on the economy. This has put the government under budgetary pressure as the main source of tax revenues is from the sale of hydrocarbons.

Italy is one of Libya's main trading partners, it exports oil derivatives, electrical equipment and machinery and processed and preserved foods. Italian investment in Libya has focused on infrastructural and transport reconstruction and development.
As can be seen in the graph, despite the worsening of political and economic conditions in 2013, Italian exports to Libya increased in the period by 19,2%, rising above the levels reached in 2010, mainly as a result of the increase in the exports of cars and machinery.

Figure 6 - *Italian Exports to Libya*

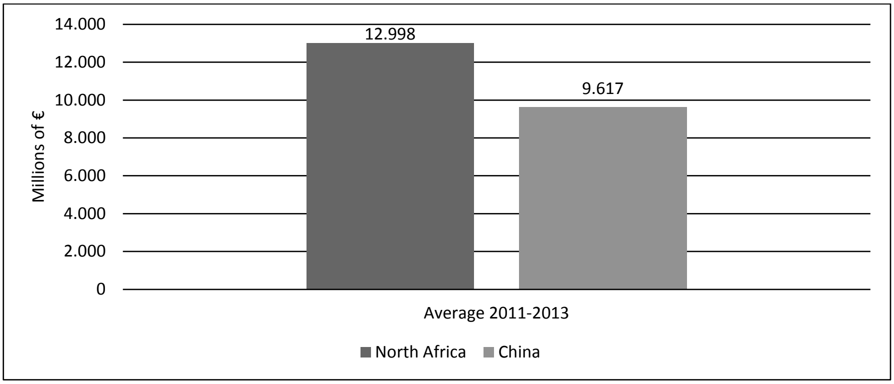


Source: our processing of ICE (2014) data.

The increasing level of exports from Italy to one of the countries worst affected by political instability in recent years shows that North Africa despite its social unrest, political uncertainty and economic volatility, still holds a lot of potential for the Italian market.

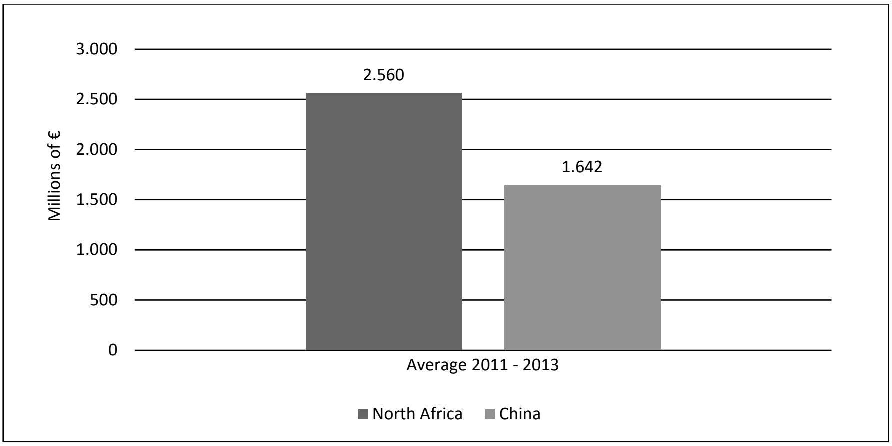
Comparing the average level of foreign direct investment and exports from Italy to North Africa over the last 3 years with the equivalent measure for China, these are 56% and 35% higher towards the region than in China.

Figure 7 - *Italian Exports to North Africa and China (Average 2011-2013)*



Source: our processing of ICE (2014) data.

Figure 8 - *Italian Exports to North Africa and China (Average 2011-2013)*



Source: our processing of ICE (2014) data.

The geographical proximity of North Africa to Italy is a condition which favours both market development in the area and investment. As well as the advantages of developing an outbound market for Italy, there is an additional and not less important social benefit to Italy from the development of this area.

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