

The New Challenges to North African Countries' Growth Models Amidst Global Transformations

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December 4th, 2024

Outline

I- Global trend

II- North Africa's position and Impact

What Should North Africa handle it ?

Mega Trends

1. The Rise of Nationalism and the Return of Industrial Policy

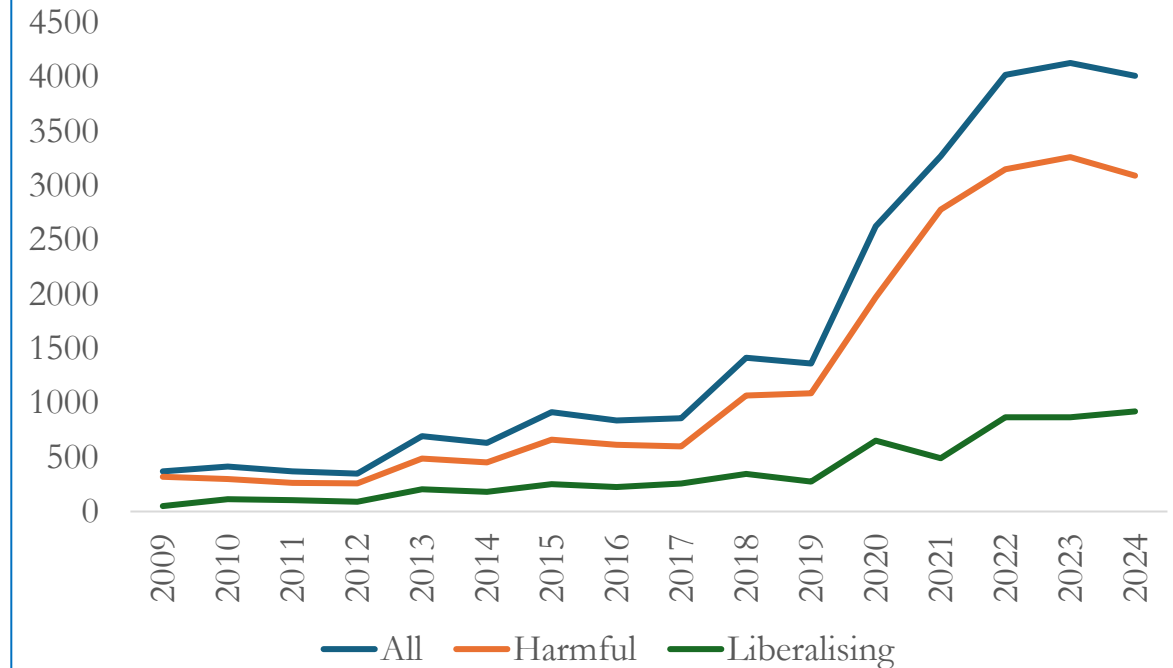
Major disruptions over recent years:

Global financial crisis, backlash against globalization (e.g., Brexit and social movements), geopolitical challenges, COVID-19-driven supply chain disruptions, etc.



- **Economic nationalism** is on the rise, driven by increasing **state interventionism**, with **protectionism and industrial policy** being the primary tools.

New policy interventions per year (2009-2024)



Source: Global Trade Alert

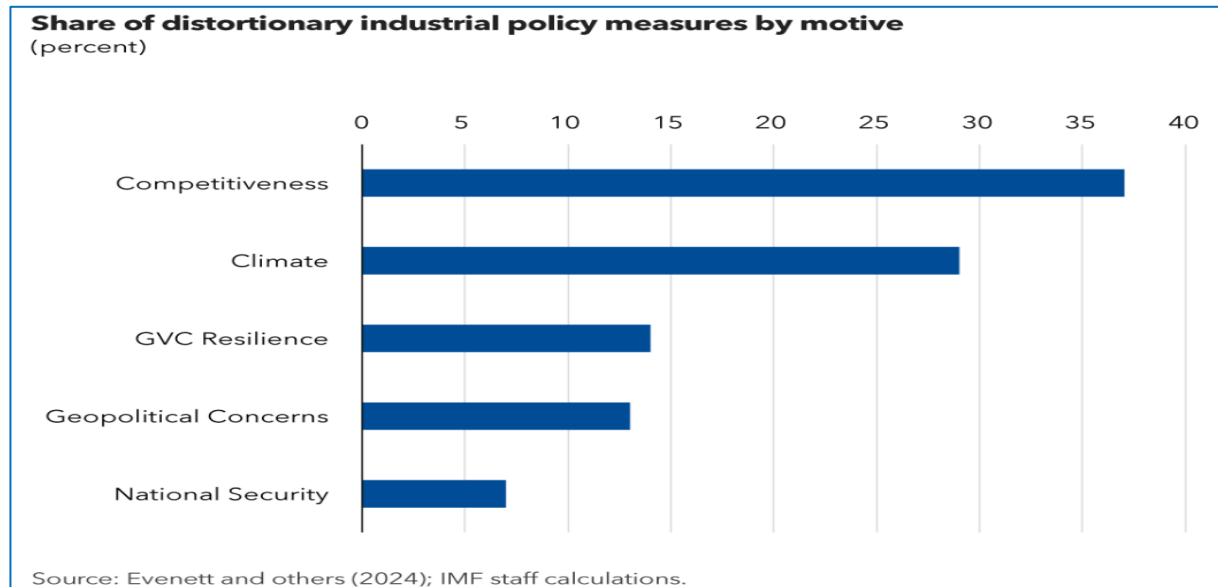
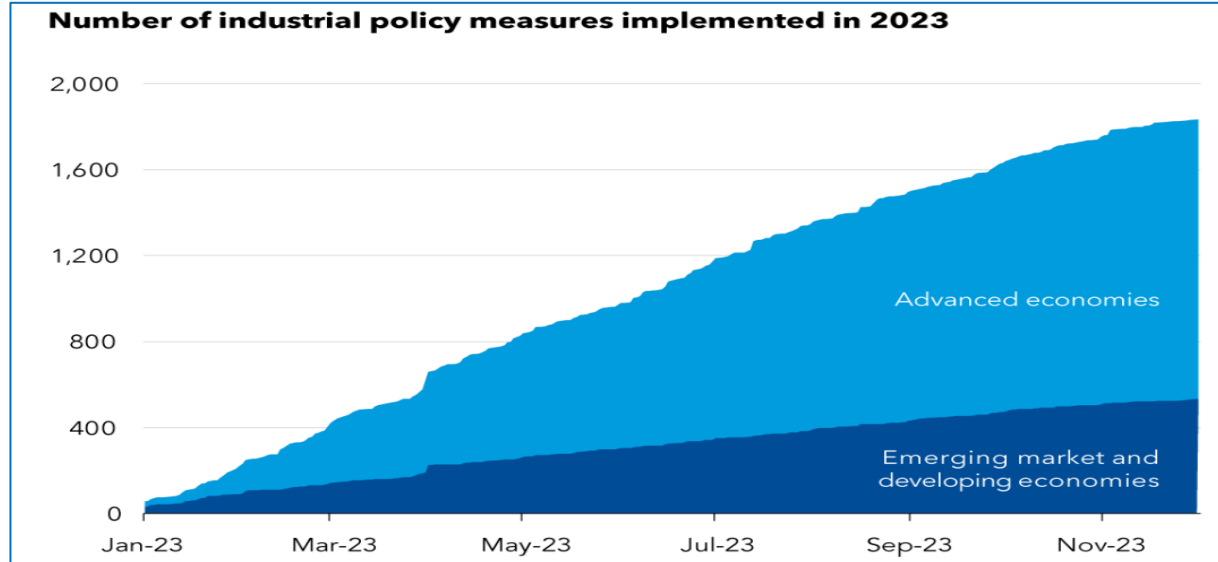
1. The Rise of Nationalism and the Return of Industrial Policy

A New Wave of industrial policy:

- **Dominated by advanced economies:** the U.S., the EU and China account for almost 50% of all new measures in 2023.
- **Broader set of objectives:** climate action, GVC resilience and national security, going beyond simple economic competitiveness.



Rising protectionism and domestic prioritization are questioning globalization, reshaping trade dynamics, and challenging economies dependent on export-led growth models



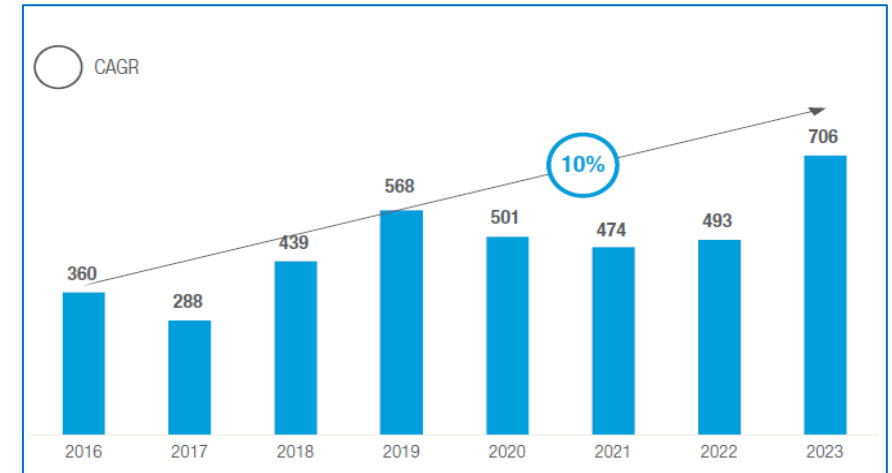
Source: Evenett and others (2024); IMF staff calculations.

Source : IMF

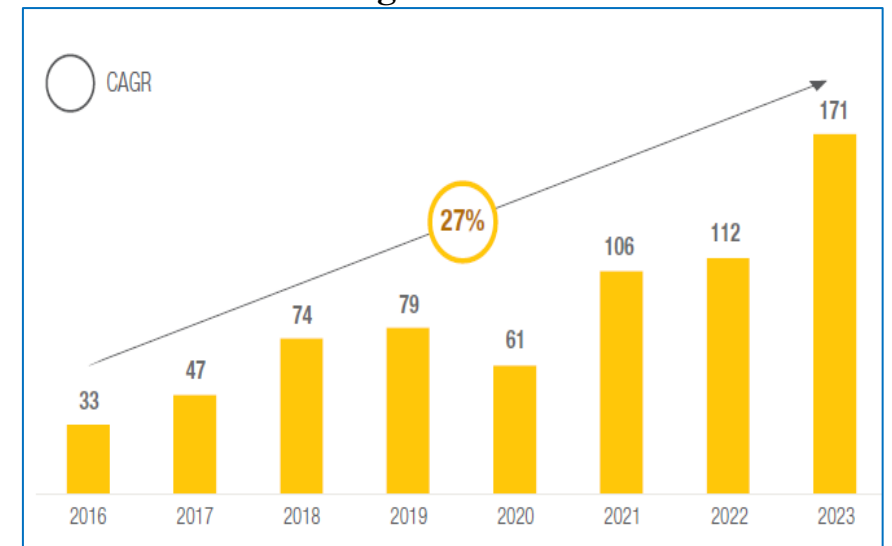
2. The Green Transition and the Global Push for Sustainability

- The urgency of climate challenges has made the green transition a **global imperative**.
- **Investments in environmental technologies** are surging.
- Most countries worldwide are implementing **measures and strategies** to accelerate the greening of their economies.
- Examples include the **European Green Deal** (targeting climate neutrality by 2050), **carbon pricing and regulation** (CBAM and ETS) in Europe, and the **Inflation Reduction Act (IRA)** in the U.S.

Number of cross-border greenfield projects in environmental technologies (excluding Services activities)



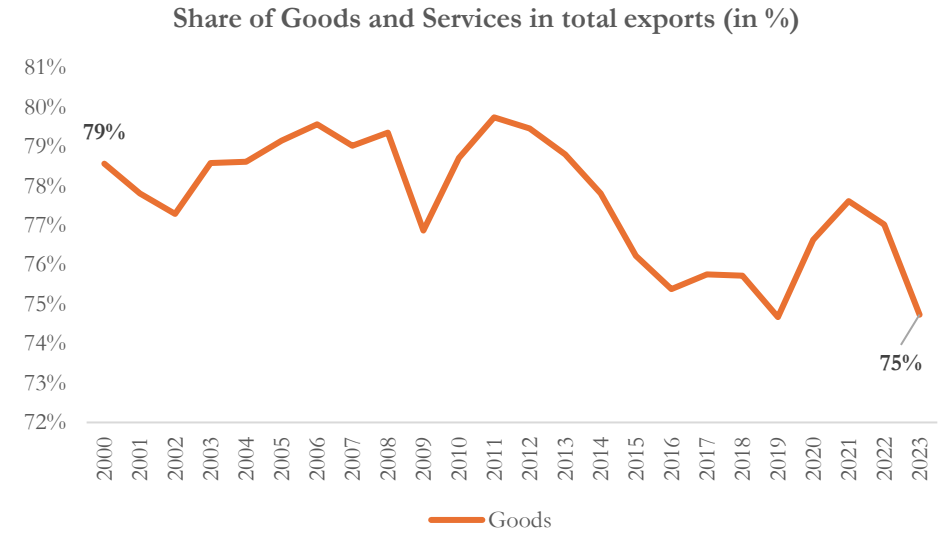
Number of cross-border greenfield projects in manufacturing of batteries and EVs



Source: UNCTAD & fDi Markets

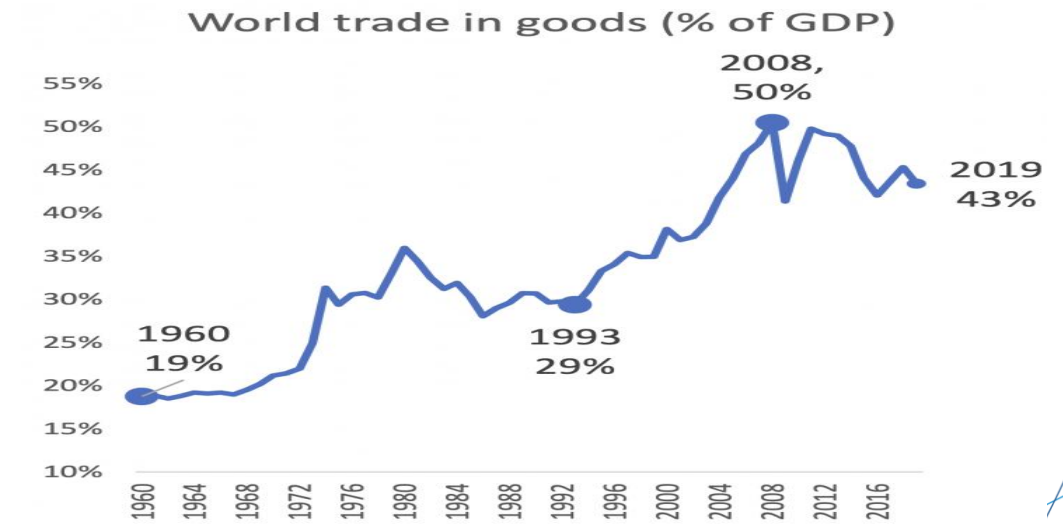
3. The Changing Role of Manufacturing

- Manufacturing-led development has historically been the foundation for job creation and economic growth.



- Developing countries are not taking the same path, - **premature deindustrialization**- (Rodrik 2016).

Sectoral distribution of cross-border greenfield projects (%)



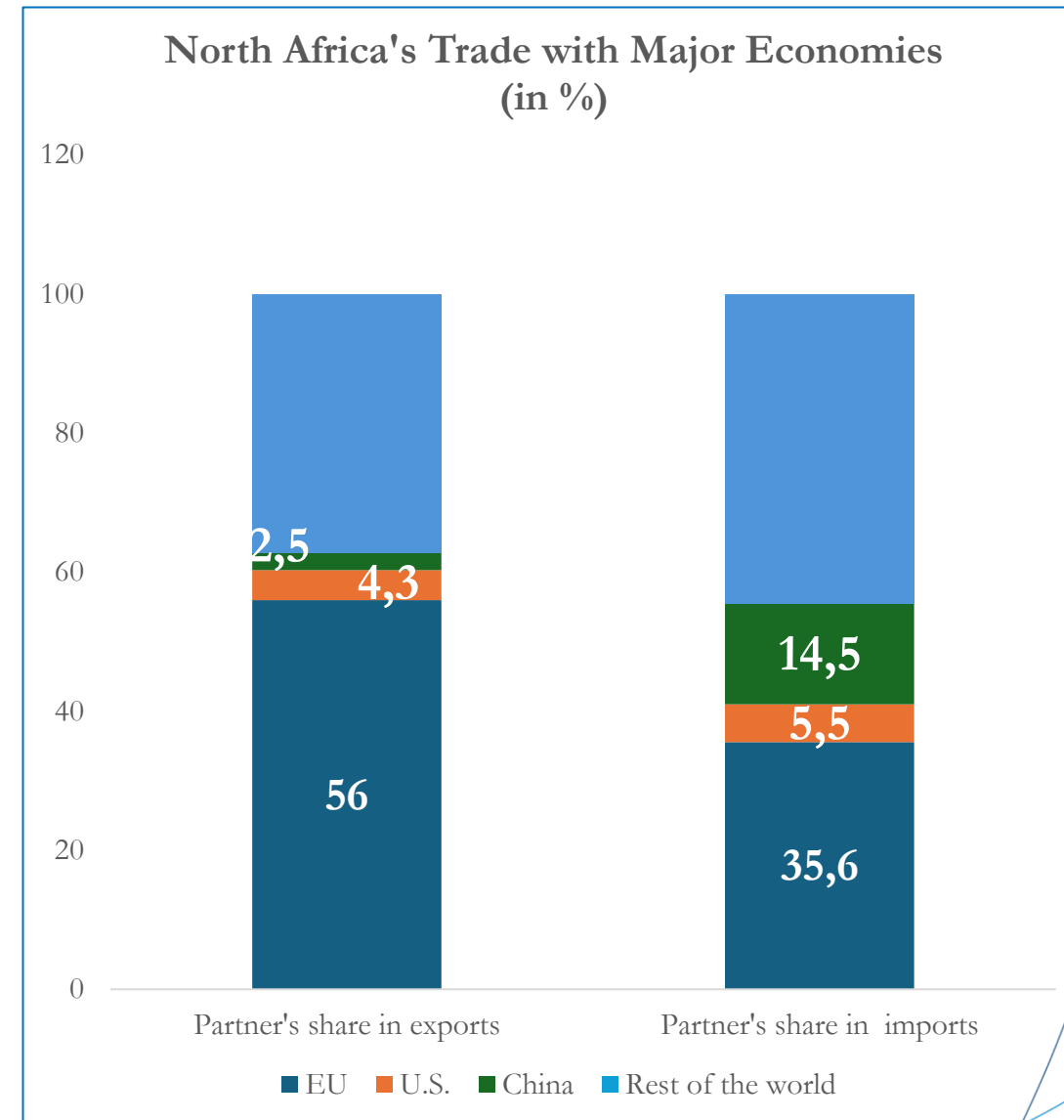
Implications for North Africa: Navigating Global Transformations and Adapting Growth Models

1. Challenge for NA : Small Economies, not integrated among themselves, centred around EU

- North African countries are highly exposed to the effects of rising protectionism and **reliance on major economies, particularly the EU.**

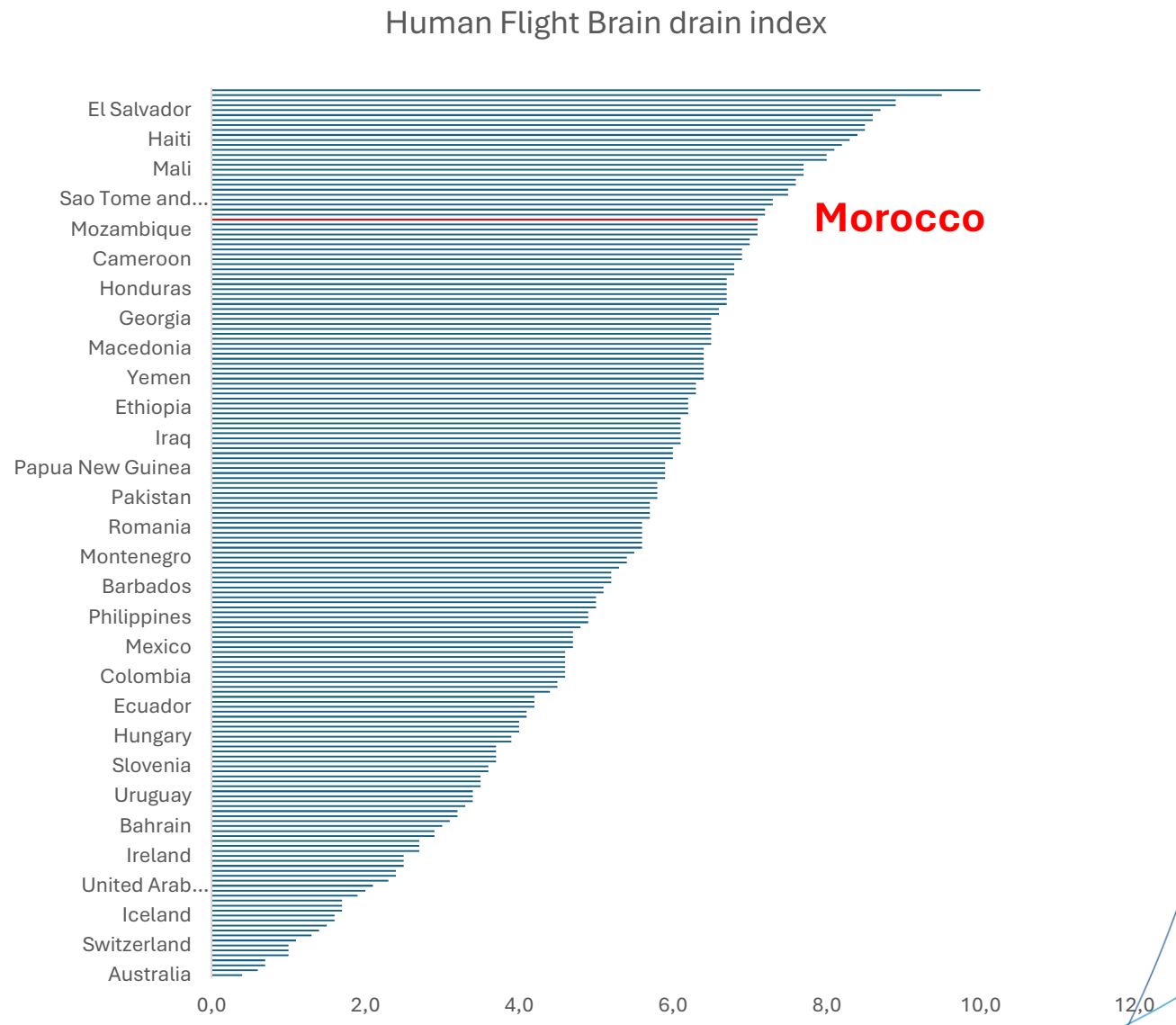
Key challenges

- **Supply Chain Shifts:** Reorientation of supply chains and reorganization of global value chains.
- **Market Access Barriers:** Imposition of new standards and requirements for market entry.
- **Unfair Competition:** Competition with heavily subsidized industries, undermining local sectors.
- **Disrupted Growth Models:** Challenges from reshoring trends and declining export demand.



Source: UNCTAD

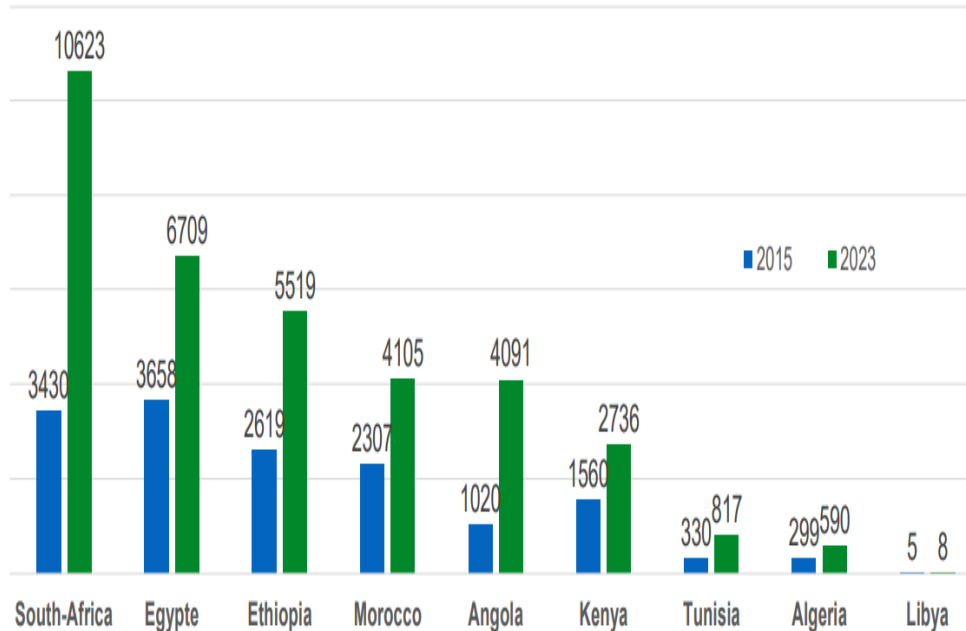
1. Challenge for NA : Europe domestic issues shed light on the risks for north african countries



Source: UNCTAD

2. North Africa's Role in the Global Energy Transition

Installed renewable energy capacity in some African countries (MW)



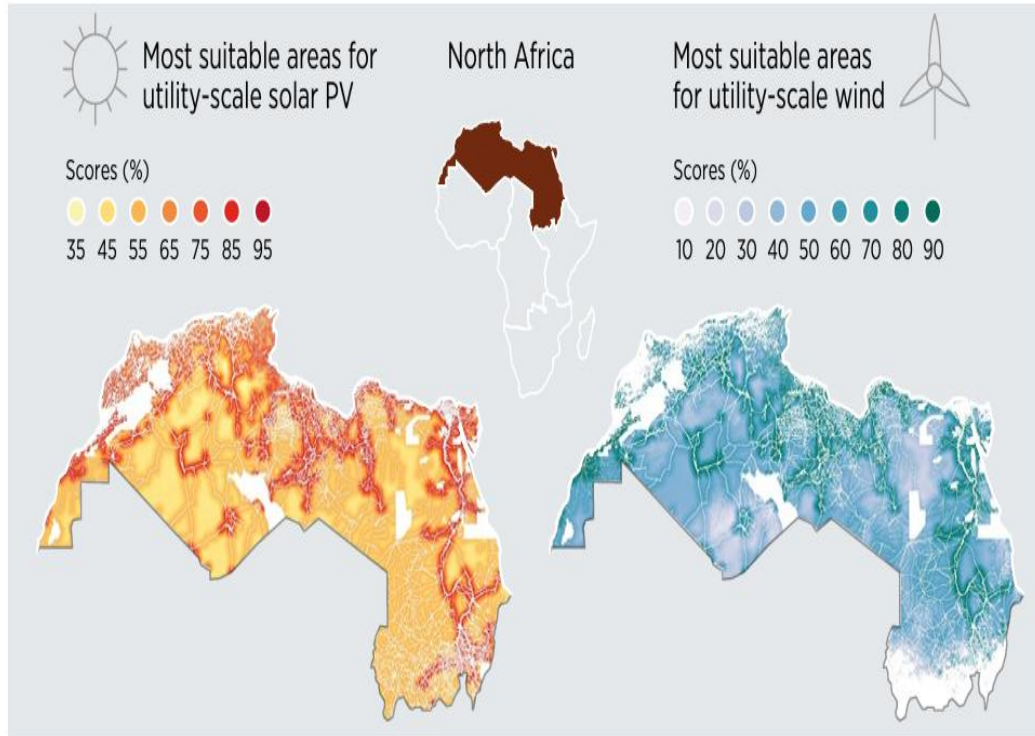
North African countries vary in their progress and readiness for energy transition, with some making notable strides in accelerating their efforts.

Country	ETI Score	System Performance (SP)	Transition Readiness (TR)
Morocco	60,5	54,9	46,5
Algeria	65,1	50,9	29,7
Tunisia	57,1	51,3	42,6
Libya			
Egypt	64,3	53	36
Kenya	63,8	53,6	38,4
South Africa	58	52,4	44
Ethiopia	59,5	51,7	39,9

- **Egypt and Algeria** have higher ETI scores but face challenges in energy transition, including fossil fuel dependence, regulatory gaps, and the need for greater investment in renewables.
- **Morocco** stands out as a regional leader, with strong performance and readiness driven by ongoing renewable energy investments.

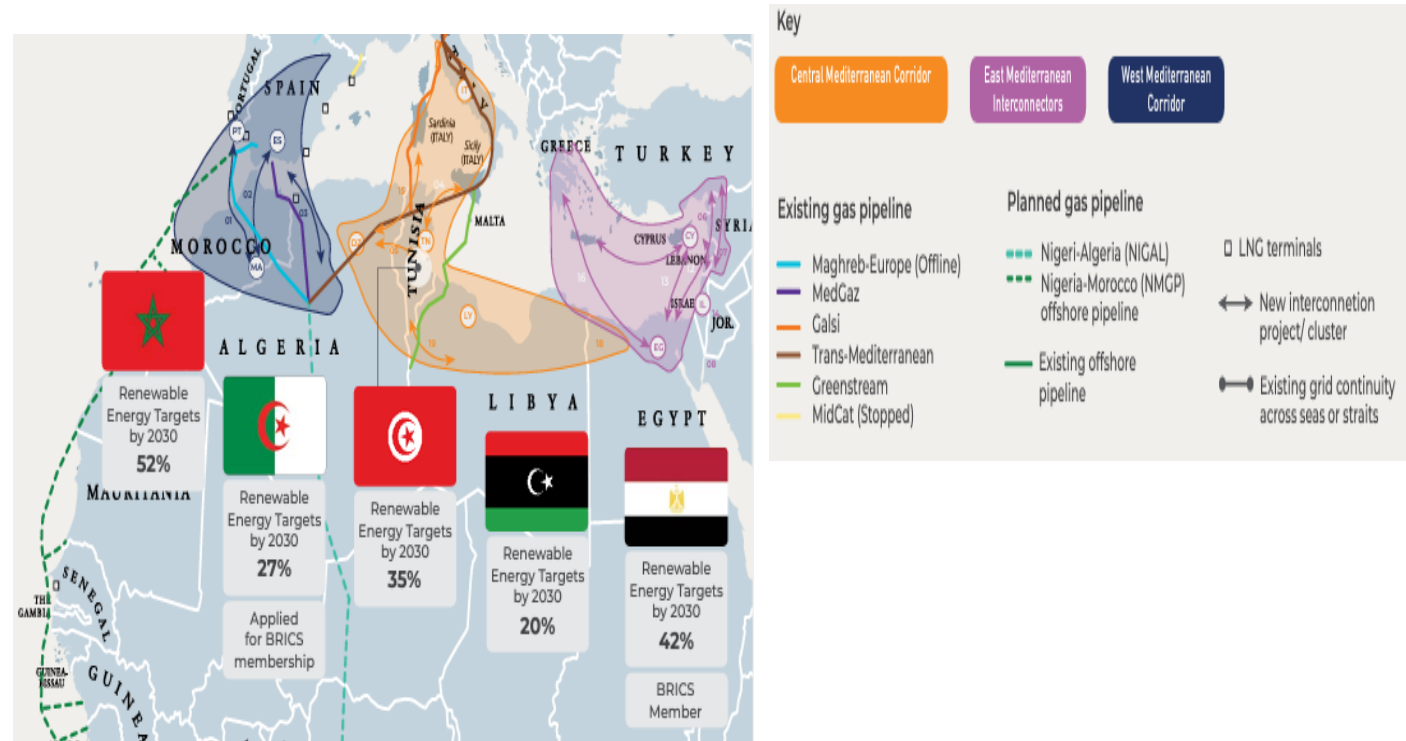
2. North Africa's Role in the Global Energy Transition

Most suitable Areas in North Africa for Utility-Scale Photovoltaic and Wind



Source: IRENA

Energy Connections in the Mediterranean



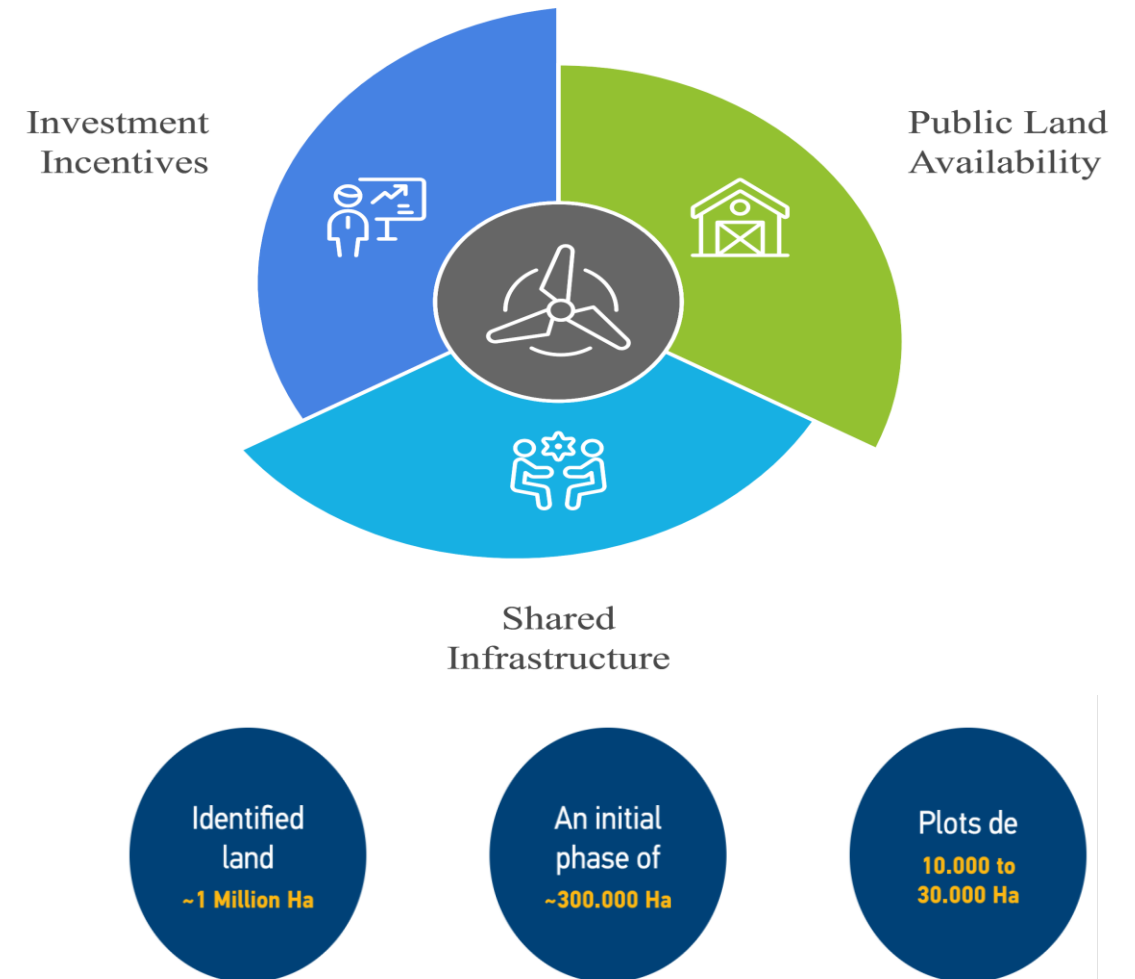
Source: PCNS, RES4Africa, 2024

North Africa's abundant renewable energy potential, particularly in solar and wind power, positions the region as a key partner for advanced economies aiming for decarbonization and energy transition.

2. North Africa's Role in the Global Energy Transition

- Some North African countries are advancing **green hydrogen strategies** to capitalize on renewable energy potential.
- **Morocco's Green Hydrogen Strategy: Morocco offers** a comprehensive framework for green hydrogen, including access to over 1 million hectares for renewable projects, streamlined governance, and **international partnerships** with countries like Germany to expand renewable energy and hydrogen production, aiming to supply European markets.
- **Egypt** is developing a **national green hydrogen strategy** in partnership with the **European Bank for Reconstruction and Development**, with a \$40 billion investment plan aimed at positioning the country as a major player in the green energy sector.

Morocco's Green Hydrogen Strategy



Source: MASEN

2. Challenge : Is Europe willing to sustain partnership with NA in the Long run ?

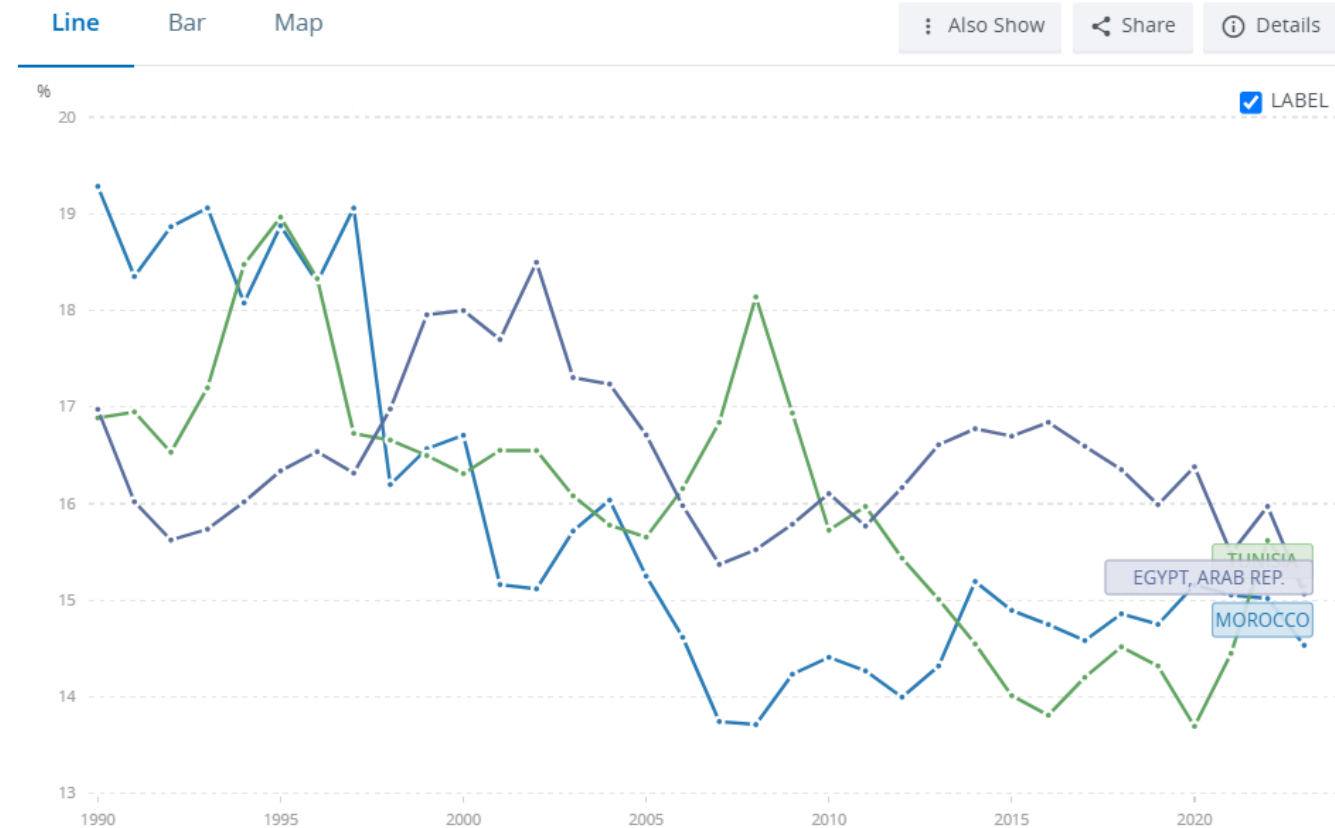
- North Africa can only be a temporary solution for Europe's transition.
- Europe is putting the North African countries in competition with each other to offer the best conditions.
- For now, only announcements and MOU, no concrete investments.

3. The challenges : the trend of deindustrialisation is well on track!

Manufacturing, value added (% of GDP) - Morocco, Tunisia, Egypt, Arab Rep.

World Bank national accounts data, and OECD National Accounts data files.

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- Global trend : Difficult to fight back.
- Technology is now very labour-saving.
- Barriers to goods trade on the rise, which challenging the classic model.

What Should North Africa do ?

1. On Nationalism : partners diversification, especially with the interest of China for the region

Diversifying economic partnerships is essential for North African countries to strengthen resilience and growth.

Regional integration opportunities : the AfCFTA

Opportunities for regional value chains, industrialization, economic resilience, economies of scale, and increased FDI attraction through access to a large unified market.

- **Russia:** for a free trade zone with North African countries is under development.
- **China:** Growing interest from Chinese investors, particularly in strategic sectors like EV batteries.

Going where they're welcome

1

China, outbound greenfield foreign direct investment, top ten destinations, 2023, \$bn

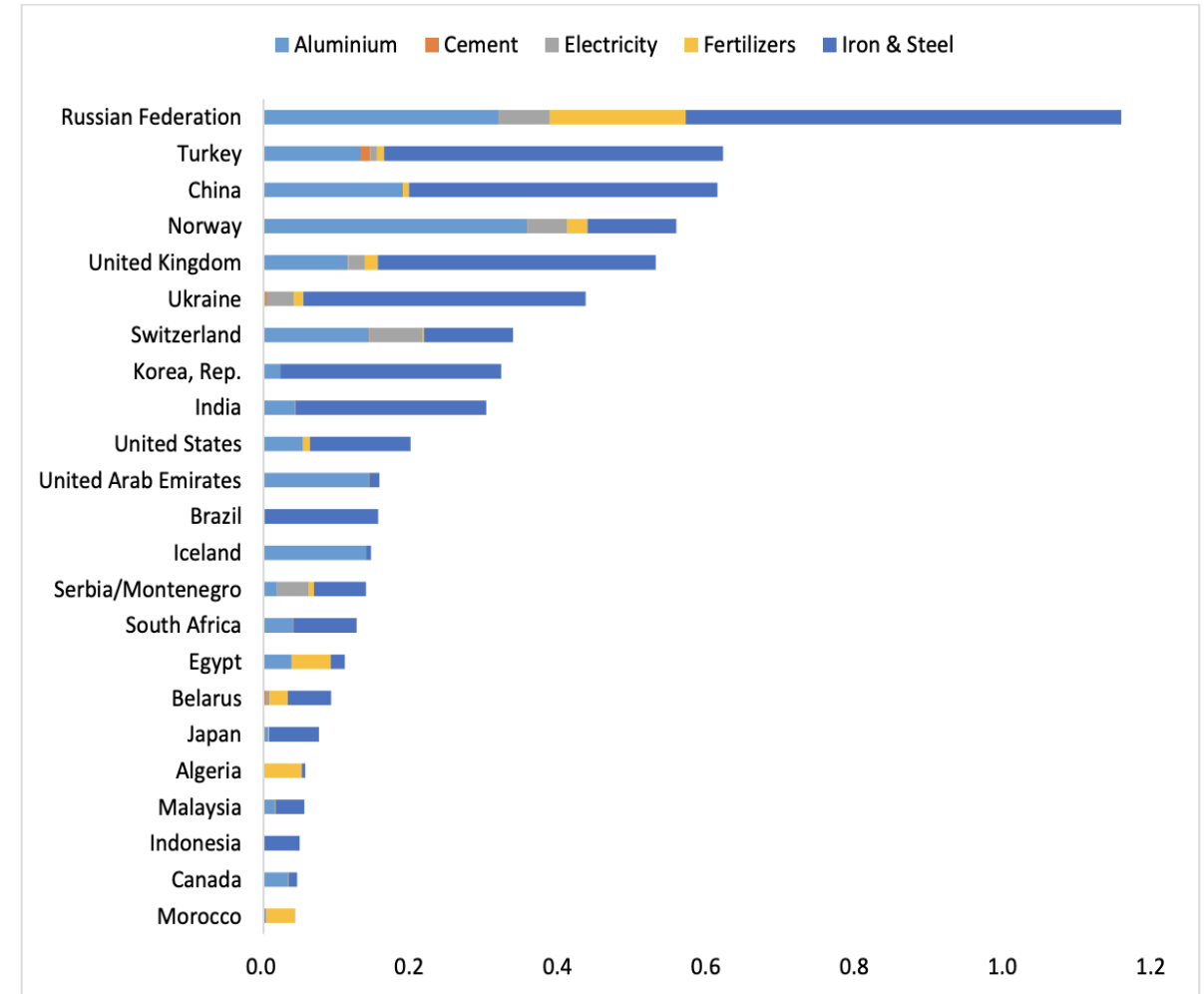


Source: fDi Markets

2. On green transition : the strategy should be centred on the greening of the domestic fabric rather than a way for Europe to green.

- The global trend towards greening economies presents both **challenges and opportunities** for **North African countries**.
- A key challenge is **adapting to new regulations, such as the CBAM in Europe**, which impacts market access and competitiveness.
- Given Europe's significant role as a trade partner, North African countries must **adjust their offer** through industrial policies and other measures to remain competitive.
- This measure is especially crucial for **sectors like fertilizers and chemicals** for countries like Morocco, Algeria, and Egypt due to their carbon-intensive production processes.

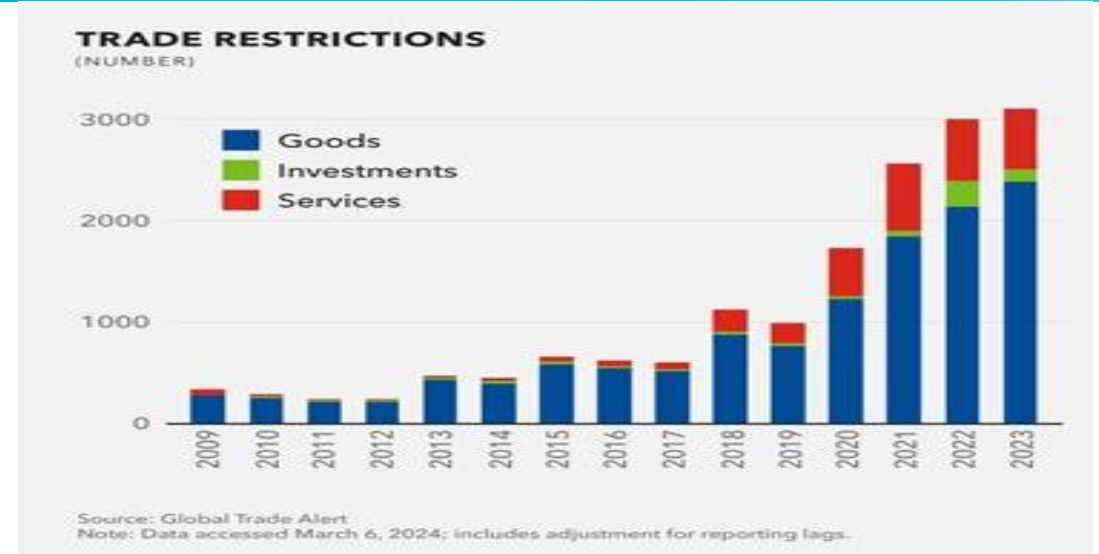
Exports to the European Union in CBAM sectors in 2019; 23 most-exposed countries in terms of aggregated value of exports (billion \$)



Source : PCNS (2022), based on WITS data

3. On Deindustrialisation : Services mean to structural transformation!

- Future trade benefits for developing economies are expected to arise from services trade, especially intermediate services, rather than goods trade (Baldwin 2023).
- **Digitalization** is lowering barriers to services trade, with services inputs increasingly replacing manufacturing inputs in export value-added (Baldwin and Ito 2022).



Sectoral distribution of cross-border greenfield projects (%)

