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HOW NORTH AFRICA IS FACING UP TO THE CRISIS?

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Nissan's decision not to proceed with its share of a joint project with Renault to build a car plant in Tangiers has gone unnoticed in most of the European media. European countries have enough coping with their own daily diet of bad news to peer over the Straight of Gibraltar and look at how southern rim Mediterranean countries are responding to the current turmoil. To date however, the situation south of the mare nostrum is less dire than in Europe, notably Spain. The Tangiers automotive project – to build 400,000 cars a year by 2013 is the largest off-shoring project of its kind in North Africa. Morocco has positioned itself as a medium cost off-shoring destination but, as Tunisia is vulnerable to the difficult investment climate. The government did react quickly to the growing world crisis: last month, it set up a Cellule de Crise which brings together senior officials, leading economic operators and Consultants McKinsey. The role of the latter is to track the reaction of foreign governments to events as they unfold and advise on the appropriate response in given sectors.

The three major North African economies have, so far, escaped relatively unscathed from the crisis. Abundant rainfall across the region ensures that farming output, hence rural employment, will rise this year – in Morocco alone GDP growth is forecast to increase by 6.8%, roughly half of which will be accounted for by agriculture. The Kingdom's balance of trade deficit reached a historical record of Euros16bn in 2008 because of the large rise in oil prices but should decline in 2009. Textiles and leather is the one sector which is seriously affected.

As a hydrocarbon producing country, Algeria boasted foreign currency reserves of $138bn as of last December and no foreign debt to speak of. Its budget for 2009 is predicated on an oil price of $39 a barrel. The government has taken measures is to reduce imports which have increased three fold to $49bn in the past six years. Importers are enjoying the sharp fall in the prices of commodities and certain inputs for industry and GDP growth should be around 4%. A lower price of oil over a longer period could encourage the government to draft a policy which gives support to those entrepreneurs who are engaged in manufacturing rather than those who are making a fortune importing a wide range of goods. Lower oil and gas revenues would help curtail corruption which has spread rapidly in recent years.

Tunisian exports of manufactured goods declined by 1% last year – exports of textiles and automotive components have been hard hit by the collapse in European demand, declining by an estimated 25% since last autumn. Tourist receipts increased by 8.3% to $2.3bn last year but their sharp decline in the last quarter of 2008 does not augur well. However GDP could grow by 2.8%. Groupe Chimique, the state owned phosphate producer has halted production at three phosphate plants. In Morocco, the Office Chérifien des Phosphates, one of the word's largest exporters of phosphates has pursued a policy of building up stocks rather than releasing more rock onto world markets and thus further depressing prices.

Housing bubbles only appear to affect two towns in the region, Tangiers and Marrakech, where the price of high quality houses and flats has declined sharply since last autumn. But the impact of the collapse in demand is limited as luxury housing accounts for an average of 10% of the activity of major Moroccan real estate companies. None of these countries can be considered to have emerged in the sense that Asian ones have, none has chalked up the success of the latter in export markets. North African banks have avoided falling prey to the toxic assets syndrome because their role in financing the economy is more modest than in Europe and the US – banks extend credit more easily to well connected people. In all three countries state regulation of credit is tight.

Balance of payments might even improve in the short term as a result of the decline in the price of commodities and certain inputs but the situation could deteriorate if the value of remittances from North African workers in Europe and receipts from tourism decline. The Moroccan authorities are particularly worried the fate of the 700,000 Moroccan emigrants working in Spain: they are being made redundant at twice the rate of Spanish nationals. Three factors make North Africa extremely sensitive to any bad news from across the sea: 65% and 85% of its foreign trade is conducted with Europe, most of its emigrant workers reside there and virtually all foreign tourists originate from there. Governments will be even more cautious than usual when it comes to enacting economic reforms.

Persistently high unemployment characterises all three economies and will continue to feed popular resentment over allegations of corruption and nepotism among elites. Protests over unemployment and rising food prices can be contained. But the stark fact remains: southern and eastern rim Mediterranean countries must create 22m jobs by 2030 to keep unemployment at current levels. This is a feat which even Asia could not match in its halcyon days. Pessimists believe North African countries face a stiff challenge in the medium term as lack of regional integration means there is little regional infrastructure. The first phase of the Tangiers Med intercontinental port is being launched just as international freight volumes and prices have collapsed. National carriers are minnows by international standards.

Foreign direct investment has increased in recent years - by 40% in Tunisia to $2.7bn in 2008, but Algeria only attracted four successful bidders for the 16 international tenders to explore for oil and gas it state oil company Sonatrach put out to tender last autumn. Some Spanish companies have pulled out of real estate ventures in Morocco because of the difficulties they face in their home market. Renault says it will proceed with its investment in Tangiers but in the present turmoil, the future is uncertain.

The consequences of the current turmoil are not only negative. A certain number of European companies are already considering moving part of their activity south and are proceeding with discretion to avoid any populist backlash back home. Against this, it would be naïve to discount the risk, for North Africa, of Eastern European economies launching, in the near future a massive bid to attract foreign investment, some of which had recently switched to the Maghreb: automotive components, electronics and avionics etc. Some Eastern European countries continue to boast more modern infrastructure, better qualified technicians and a more comfortable legal environment than the Maghreb.

The "Cost of No Maghreb" could weigh even more heavily on North Africa's future than it has in the past. An estimated $150bn of native capital lies offshore, tens of thousands of qualified North Africans move abroad to work because tight family networks and nepotism fail to offer many well educated young people sufficient hope. The risk that North African economies will be tossed around in rough seas while their leaders voice goes unheard in word councils is real. Euro Mediterranean solidarity could be a moot concept in such times.

Were the US dollar to collapse and the rate of inflation in the US rise, what would the oil and gas earned surpluses, often labelled in US Dollars and placed in US Treasury bonds, be worth? Would they not be better invested in improving the stock of human and capital investment in the Maghreb? Why not start by bringing the banking sector into the post crisis world? North African leaders should think strategically: they might even elicit from their northern rim Mediterranean partners greater interest than hitherto. For their part, European Union leaders in Spain, France, Italy and Benelux countries should turn to the thousands of young well educated bi-nationals entrepreneurs who are busy launching new companies in Europe, in the Maghreb and elsewhere and bring them into the decision making process – such a bold move would help build a greater degree of mutual trust across the shores of the Western Mediterranean than all the high flow rhetoric on cultural dialogue the region has been inundated with of late.