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New Post-Conflict Trends: A New Resilience Challenge

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INTRODUCTION

After the shock of the pandemic, the global economy is facing a new resilience challenge. The world economy has been heavily affected by the slowdown, or even the stoppage for some time, of consumption, with its direct consequences on the loss of part of the production capacity and employment. Despite the efforts made, reflected in the adoption of the stimulus package and substantial budgets, to preserve some consumption, production and employment, the fact remains that the world economy has not yet recovered its pre-Covid19 productivity level.

The outbreak of the Russian-Ukrainian conflict against the backdrop of the crisis has exacerbated the pressure on an already fragile situation. This conflict, which concerns two of the world's largest exporters of important raw materials, is a shock that can disrupt production systems and accentuate the difficulties observed in supply chains.

The analysis of this shock by observing the short-term volatility of the prices of the two primary commodities, namely oil and wheat, is limiting. Volatility is a translation of operators' expectations concerning the evolution of the various markets, which are usually strongly correlated to the oil price. Given the fact that commodities differ from one another in terms of product characteristics (seasonality for wheat), regulation of world production (oil) and dependence on distribution channels for gas and certain other commodities require heavy and energy-intensive investments (steel, iron, tinplate, etc.).

Resilience in the face of this new raw material supply shock cannot be managed or ensured solely by government budget interventions. Resilience will undoubtedly require a readjustment of production chains, a reduction in foreign dependence, and a search for alternative solutions to consumption, production capacities, or processes.

The deceleration in growth combined with rising unemployment and rising inflation makes it highly likely to enter a phase of stagflation. Rising prices and falling activity point to a stagflationary situation that could persist and stifle any hope of recovery.

The emergence of significant trends will impact the medium-term outlook. The succession of shocks and the loss of resilience of the world's economies require a readjustment of production systems. The allocation of significant financial resources could accelerate the changeover to this new organization.

The ability of countries to find alternatives and introduce changes in consumption, production, or distribution patterns depends on the willingness to adapt to these new conditions and the resources to be deployed; this would result in significant changes in prioritization.

The quest for economic resilience and sovereignty is a challenge for all countries. These new challenges should not overshadow the importance of social inclusion, digitalization, and the ecological transition.

Trend 1: The Warming of Stagflation

Trend 2: The New World Order: A New Globalization

Trend 3: The Security and Protectionism

Trend 4: The Inclusive Resilience

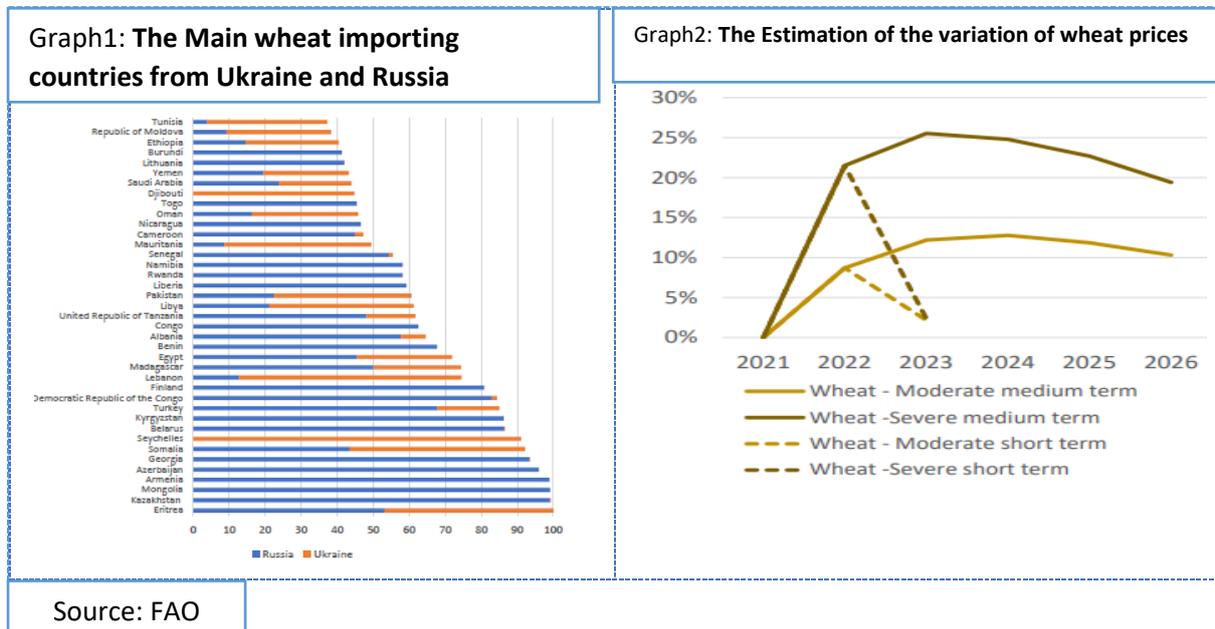
TREND 1: THE WARMING OF STAGFLATION

A global stagflationary recession is now highly likely. The major risk lies in the reaction of global markets to the fallout of the crisis.

The Russian-Ukrainian conflict threatens to stimulate further the global inflationary pressures accumulated since the pandemic. A price increase mainly affects commodities due to the disruption of exports of both countries. It is directly affected by the stoppage of activity due to the invasion on the one hand and the impact of sanctions against Russia on the other. This impact is due to the weight of the two countries in the market of raw materials such as energy and wheat.

In terms of food products, Russia and Ukraine are the world's largest and fifth-largest wheat exporters, respectively. Both countries are also among the top five grain exporters in the world. Wheat prices have been rising since the early days of the conflict in response to reducing export supply. An FAO note presents two scenarios for the evolution of wheat prices in the short and medium-term; the price would increase by 8.7% in the moderate scenario and 21.5% in the pessimistic scenario.

Soaring prices could impact several countries. Indeed, more than 30 economies depend on exports from Russia and Ukraine, which account for nearly 30% of their wheat import needs.



As far as energy is concerned, Russia keeps climbing the rankings by occupying the first place of oil exporters in the world against the second place in 2019, with exports amounting to 8.4 million barrels per day, which exceeds 10% of global oil exports. In addition, Russia is also the world's largest exporter of natural gas, far from the rest of the world, with exports reaching 260 billion cubic meters in 2019, more than a quarter of global natural gas exports.

The crisis in Ukraine has brought not only a sharp rise in energy and wheat prices but also a surge in the prices of metals such as steel, aluminum, and nickel.

Although the price forecasts for products related to the productive apparatus of both countries are mixed, and the outlook is subject to extraordinary uncertainty, the economic consequences are already severe. This is especially important because the price increase could lead to the prospect of overheating stagflation.

Additional inflationary pressures are likely to cause a slowdown in growth and increase tensions in the labor market. This is in addition to the impact on food security in some low-income countries, which have not yet overcome the direct effect of the Covid-19 crisis. These inflationary pressures would produce an inflationary effect that would vary depending on the raw materials.

For oil, whose global production is regulated and strongly influenced by political decisions, the increase in production in other countries could limit the rise in prices. In the same vein, the launch of significant production programs for renewable energies and hybrid or electric means of transport or production would mitigate the impact in the medium term.

Regarding cereals whose production is seasonal, the expected reaction of the various countries is to increase their production either for self-sufficiency or for export. Russia may also revise its production downward in anticipation of an export embargo or, on the contrary, maintain its production to dumper the market. Ukraine could lose a significant part of its production due to a lack of preparation for the new season.

The great challenge for the world industry is to fill the lack of raw materials necessary for the industry, mainly steel, nickel, and aluminium. Industrial production will depend mainly on the availability of materials and not only on competitiveness, which will increase prices with a consequent underproduction of several products dependent on these materials. Countries and companies able to secure their supplies, either nationally or internationally, will be able to improve their market share. This quest to secure the supply of raw materials would contribute to shaping new world order.

The persistence of rising international prices in a context of weak growth augurs a phase of stagflation. This phenomenon is perceptible in several advanced and emerging economies.

This phenomenon of overheating is different from that observed following the implementation of the major post-COVID19 recovery plans, where the growth achieved exceeded potential growth. (In the United States, the Biden plan increased the labor cost, raised production costs, and consequently led to a resumption of inflation).

The increase in commodity prices would trigger several plans to foster resilience in economies to shore up national sovereignty, allow inflation to be contained, return to moderate levels (but still high compared to pre-conflict levels), and enable economies and businesses to return to growth.

Although both the Covid19 crisis and the Russia-Ukraine conflict are so different, the resilience to be observed has specific common characteristics:

- 1- Adapt rather than resist;
- 2- Act on the initial imbalance and start corrective actions;

- 3- Spreading budgets over time is as important as their amount;
- 4- Monitor the behaviour of agents who can be unpredictable after crises;
- 5- Monitor the multiplier effects of government plans, particularly on fiscal and monetary imbalances; and
- 6- Do not neglect the self-adjusting effect of the economy, especially those with innovative and reactive capacities.

Countries, such as Tunisia, without additional resources to implement ambitious resilience programs and under fiscal pressure, reaching the limit of austerity, would find it difficult to return to healthy growth. Better national coordination and the development of regional programs are ways out.

For gas, Tunisia could benefit from the increase in Algerian exports through the national territory and the increase in the production of liquefied gas in the coming years.

Tunisia should focus on preparing for the new cereal season by encouraging farmers to double the purchase prices for next year and establishing a credit line of 100 MD for cereal crops. These efforts should be accompanied by technical assistance, mainly for small farmers and the provision of good seeds.

In the absence of direct government support to companies to secure their supplies, Tunisian companies should explore new modes of organization, grouping in the form of central purchasing, etc. To consolidate their positions and mitigate the impact of the crisis. At the same time, it is essential to adopt measures to improve the business climate further and reduce distortions and obstacles, notably decreasing costs related to logistics (port...), simplifying administrative procedures, speeding up customs procedures, and improving access to finance, etc.

The Tunisian economy is in sluggish growth combined with an unemployment rate that persists at high levels with an upward trend in prices. This situation is characteristic of stagflation.

Trend 2: THE NEW WORLD ORDER: A new globalization

The new world order characterized by the strengthening of regional integration could lead to the revision of trade agreements and alliances.

The repercussions of globalization and the emergence of new trends further reduce global economic integration in favor of strengthening regional integration and politically convergent blocs.

The decline of globalization and the emergence of new world governance would depend not only on the political positioning of countries concerning the war but also on the capacity of the various regimes to absorb its consequences. The first characteristic of this new world order is the cohabitation of two worlds (the Russian and Western worlds) in global economic relations. Two quasi-distinct worlds, each with commercial, financial, and informational transactions (reference currency, barter, freedom of trade, freedom of investment, logistical complementarity, duplication of the Internet). The role of other emerging countries such as India and the new European policy would also be decisive in terms of global perspectives. With its position in the raw materials markets, industrial production capacity, and connectivity with the Silk Road, China will play a decisive role in this cohabitation.

The second characteristic is the rise of populist and nationalist currents in several countries. This would limit the capacity of these countries to undertake reforms in time and with the required content to ensure a way out of the crisis and better resilience.

The third characteristic reviews the role and attributions of the international institutions in charge of regulating global exchanges in terms of communication (Internet telecommunications...), banking, or financial transactions or trade. This crisis could also be an opportunity to accelerate deregulation and the massive use of new alternatives, such as the blockchain with its various possible forms of application.

The Tunisian economy depends on its external environment either for supply or exports due to a weakly integrated ecosystem. Faced with this new world order, Tunisia should rethink its relations with its first trading partner, the European Union. It is also necessary to review relations with its close neighbors, particularly Algeria and Libya, according to a more pragmatic approach, both economically and politically.

The challenge for Tunisia is the reengineering of trade agreements in force with Europe, Algeria, China, the United States, and Turkey to strengthen regional integration.

The Tunisian Central Bank could consider including the Rubel and the Yuan in its basket of currencies, thus allowing Tunisian operators, mainly in the tourism sector, to accept payments in these two currencies. These funds will allow the payment of our purchases of raw materials from these two countries and facilitate the attraction of tourists from these two countries whose destinations abroad are increasingly limited.

Trend 3: THE SECURITY AND PROTECTIONISM

The growing uncertainty of the global situation is likely to lead to increased protectionism.

The major powers compete for economic supremacy, resorting to restrictive import and export measures and moving away from global free trade. Over the past year, new borders have been erected.

Graph: Heat map of international protectionism



Source: Global Trade Alert, World Bank, Trajectory 2020

Note: A study of trade policies implemented by more than 60 countries to understand how protectionism affects different countries, several key indicators were examined, including their dependence on imports, the number of liberal versus restrictive policies and the impact of their protectionist policies. Exp: (78 per cent of GDP), which means it is highly exposed to the protection risks of other countries.

The rise of protectionism is one of the significant trends in the world economy at a time of general economic fragility, first caused by a wave of uncertainty following the pandemic and currently by a wave of insecurity following the conflict in Ukraine.

This trend is justified by security reasons or under the pressure of the populist wave. After two shocks that have shown the risks of dependence on imported products or materials and even with a return to normality on an indefinite horizon, public decision-makers will take into consideration the lessons of these two crises with these three characteristics:

- Firstly, to ensure food and energy independence, accompanied by declared protectionism and a reallocation of scarce resources, particularly water, especially for essential products.
- Secondly, protectionism for security reasons could protect non-competitive national production to substitute imported products and gain independence.
- Third, the choice of relocation sites will also depend on physical security aspects.

A protectionist policy will lead to an increase in prices that will be detrimental to consumers. It is necessary to review the trade agreements and think about a diversification strategy of partners. Such diversification may seem costly. But in today's world, the costs of diversification are dwarfed by the potential - and likely - costs of disruption and uncertainty. In the presence of significant and partially uncorrelated risks, diversification is the best strategy. This is not just true for imports. Countries should also diversify their market for exports. Although it is difficult to diversify away from economies as large as the United States or China, countries can move in this direction. (Michael Spence, Nobel Prize in Economics).

For Tunisia, agricultural exports could be impacted by waves of protectionism among trading partners; quotas and market access could be subject to negotiation or pressure.

On the other hand, Tunisia could benefit from the opportunities offered by relocating industrial units located in countries close to conflict zones.

Trend 4: THE INCLUSIVE RESILIENCE

In the face of a succession of shocks, it is important to lay the foundations for an inclusive approach based on the participation of all stakeholders, especially civil society.

Inclusive resilience would gain ground in the coming years as a way to organize thinking and responses to major natural, health, social, political, and economic crises.

Countries will have to be agile to change course quickly, strategy and positioning when necessary to respond to crises and mitigate their social and economic consequences.

The most appropriate way to ensure this reactivity is the involvement and empowerment of all actors. States can no longer provide this role alone due to a lack of financial and operational means or fear of assuming political responsibility. More and more, they will have recourse to the entities of the third sector with its different components (civil society, social and solidarity enterprises) to support them or even delegate this role of inclusion to them.

Pandemic and war have deepened the cleavage between the population and the State, and the call for the organization of civil society to guarantee the primacy of the citizen vis-à-vis politics, and this through a conception of the dynamics between economic interests and political institutions that the State often fails to guarantee.

The post-conflict context will be an opportune time to strengthen the social contract between a state and its citizens. Inclusion strategies will increasingly involve the third sector. This sector will create a dynamic of citizen engagement with the vital causes of the nation and the sustainability of its institutional and economic fabric to safeguard it from collapse in the face of social and political crises and waves of populism.

In Tunisia, the activation of multi-party social dialogue and the establishment of the Higher Council for Social Development are assets for better inclusive resilience.

Thus, Tunisia could claim a better future by enjoying a dynamic civil society.

The objectives of sustainable development, environment, and ecology will be controversial. Although the orientation towards renewable energies will enshrine them, the primacy of increasing agricultural production and ensuring food security may be at the expense.

The governance of water resources and the use of arable land will undoubtedly be reviewed to ensure better optimization and maximum use. Tunisia is among the first countries concerned with optimizing these resources and using these agricultural lands unexploited for administrative and legal considerations.