



Expert Group Meeting

Unlocking the Potential of Regional Value Chains in North Africa: Focus on the Pharmaceutical and Digital Finance Sectors

Marrakech (Hybrid)

24-25 November 2021 (Hybrid)

Concept Note

I- Context

1. Global Value Chains (GVCs) represent a significant share of world trade as around 70% of international trade today involves global value chains, according to the OECD. These exchanges concern services, raw materials, parts and components that cross borders - often many times. Once incorporated into finished products, they are dispatched to consumers around the world. Estimating the import content of exports is also an indicator of the considerable development of GVCs in the current global economy.

2. During the past two decades, we have witnessed an unprecedented drop in transport costs, a reduction in customs barriers and an extensive integration of the world's economies. These developments, accompanied by the rapidly developing information technologies, have favoured the fragmentation of production processes among countries on different levels of development. The vertical fragmentation of production steps is at the core of this development. It requires an absolute mastery of the global networks for the circulation of goods and services for the control of costs and time limits. The weight assumed by large multinationals in the global economy, and in particular those operating in the sector of New Communication Technologies, has contributed to this development (Del Prete, Giovannetti and Marvasi, 2016).

3. Developing countries have benefited from this positive development in GVCs, integrating processes for the production of goods and making the most of some of their comparative advantages. The latter would have remained unexploited without this segmentation of production. GVCs have enabled the latter to specialize in a segment of the production chain and thus generate their own value-added without having to develop integrated industries that provide the intermediate goods necessary for producers of finished goods (Grossman and Rossi-Hanberg, 2006).

4. The development of Regional Value Chains (RVCs) is an instrument for promoting regional integration, which is based, among other things, on improving economic relations. Production networks can be, through the production chain, shared between several economies. RVCs can be created to boost regional integration and contribute to the structural transformation of the regional grouping. As such, the development of integrated and coherent sectorial policies at the regional level would make it possible to stimulate economic actors to benefit from the segmentation of production chains to meet the specific needs of their population. The RVCs are also a mechanism for promoting the local productive fabric through the creation of economic opportunities wider than those offered by national markets.

By exploiting the differentiated factor endowments between member countries, the companies operating in these chains enhance their competitiveness and act as a stimulator for the interconnection of the economies of the region.

II- Justification

5. The North Africa area essentially meets the profile of a natural economic zone. Likewise, it has most of the structuring factors of a dynamic integrated market, with a population estimated in 2018 at around 235 million inhabitants, an average nominal GDP of around \$ 2,800 per capita, the continuity of physical space and a significant level of transport infrastructure. However, empirical data shows that trade between North African countries remains far below its potential. In other words, the existence of most of these determinants (income per capita, continuity of physical space and proximity, development of infrastructures, linguistic and cultural affinities) was not a sufficient condition for situating interstate commerce. at its optimal level.

6. Intra-regional trade represents only 5% of the total trade flows in 2019 of the concerned countries. This rate, far below the continental average (16%), denotes the still marginal nature of intra-North Africa trade. Several explanatory factors contribute to this situation, with effects interacting with each other. Among these factors is the fragmentation of North African economies. The indicator developed by UNCTAD on the productive integration of intra-regional trade bears witness to this, attributing to the North Africa economies the lowest scores on the continent.

7. In addition, it is recognized that the structural transformation of North African countries requires a modification of their economic structure, essentially producing basic products, not or very little processed, to an industry-driven economy focused on products of greater added value. The development of the production and the marketing of manufactured articles are therefore fundamental conditions for the economic take-off desired by the Maghreb countries.

8. Since 2013, ECA Office for the sub-region, supporting the efforts of member countries, builds an advocacy based on studies and research in favour of the promotion of RVCs as an appropriate instrument for regional integration and structural transformation of member countries. Five activities have been organized by the Office since 2014: holding of an experts' round- table, carrying out of a technical study on RVCs, organization of an experts' meeting followed by a symposium on the theme and preparation of a sectorial mapping of the RVCs potential in ten sectors.

9. The results of the various studies led to the development (i) of a plan for the implementation and monitoring of actions to be taken by the various stakeholders, in particular the countries, (ii) policy orientations on development of RVCs, in order to accelerate the diversification and sophistication of North African economies as well as (iii) important technical documents and frameworks to improve institutional capacity building in the field of RVCs.

10. In fact, through its mission of supporting "the facilitation of economic cooperation, integration and development at the sub-regional level", the North Africa Office of the ECA aims at helping its member countries and their cooperation institutions in their efforts to build capacity for "evidence-based formulation of plans and policies ..." for the sub-region's structural transformation and economic integration.

11. Also, the 2021 Office activity program foresees, among other things, the preparation of a study on the "Unlocking the potential for promoting Regional Value Chains in North Africa, with a particular focus on the pharmaceutical and digital finance services sectors".

12. In addition to the non-exploitation of natural advantages of integration in the North African region, in particular in the sectors of agrifood industry, fishery and fishing, energy and chemicals (natural gas, crude oil, mineral products, phosphates, etc.), mechanical industry and electrical components, the Covid-19 pandemic crisis has revealed that with its capacity for resilience, the pharmaceutical and financial services sectors and digital finance are among the new sectorial trends that could emerge in the post-Covid period, with in addition a real potential for integration in North Africa capable of bringing into play existing economic complementarities. These emerging sectors present a potential for revealed comparative advantages which could be a real accelerator of economic integration (complementarity of trade, specialization, technological content, sophistication of exports, levels of complexity, etc.), and above all of upscaling in global value chains and / or regional value chains construction.

13. The Covid-19 crisis has indeed revealed the efficiency of mobile payments as well as the opportunity to use artificial intelligence solutions, which can be an accelerator for digital transformation. As such, financial and digital finance services offer real potential for recovery in the region. It is in this context that the convergence of the development degrees of payment systems and technical platforms in the region should give new impetus to new instruments of technological finance (Fintech) and central bank digital currency (CBDC). This digital transition, which is also appropriate to boost financial integration in the region, is dependent on the removal of constraints related to the payment systems infrastructure, in particular in terms of the interoperability of mobile payment services. The establishment of a regulatory and technical framework to promote the promotion of digital payments will be a catalyst for the technological innovations development and digital transformation in the financial field.

14. This expected development is inseparable from ICT for the required development of digital finance, cloud computing and web-based products and services, through: (i) reducing the digital gap through better access to information and knowledge, the democratization of access equipment, generalization of high-speed access and implementation of very high-speed broadband, (ii) strengthening of digital culture by the generalization of the use of ICT, and (iii) upgrading the segments of the digital and offshoring sectors.

15. Moreover, even though the region is already well positioned in the medication and pharmacy sector, it clearly has, in this context, an opportunity to seize to developing this sector in the post-Covid crisis period by implementing strategies that respond to the region's structural difficulties through strengthening health expenses and investments in the health sector and industrial innovation.

16. In addition, the pathways open for the construction of a regional RVC are all the more opportune as the Medical products market in the region's countries remains supplied by local production, mainly made up of generic drugs, while the development of originator drug production, which are more complex, remain dependent on new capacities in the R&D segment.

III- Objectives of the Study

17. The general objective of the study and the study meeting is to help accelerating the regional integration process, in its dimension 'development of intra-North Africa trade' and to contribute to the structural transformation of the sub-region's economies through the promotion of intra-regional trade. The specific objective will be to propose, on the basis of a study, a RVC mapping in the pharmaceutical industry and digital finance and an analysis of their development potential. This will include formulating, based on a diagnosis of the main obstacles, a common action framework for the promotion of these two RCV's in North Africa.

18. The outcomes of the study will be consolidated into a publication intended for the main stakeholders: national administrations, private sector representatives, the General Secretariat of the AMU, Maghreb Union of Employers, external partners working on the themes of regional integration and trade.

IV- Participation

19. The meeting will be held with the participation of national and international experts in customs, international transport - transit, foreign trade, regional integration, ICT, private sector, and civil society.

V- Date and Place of Meeting

20. The meeting will be held in a hybrid form on 24 and 25 November 2021.

VI- Languages of Work

21. The meeting will be held in French, Arabic and English.

VII- Documentation

22. The documentation of the meeting includes the work documents developed by the Office and the participants' communications.

VIII- Contacts

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