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In Cooperation with UNIDO

Expert Group Meeting

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**Developing regional value chains to accelerate the diversification and
sophistication of North African economies**

Aide memoire

1. Background

The emergence of North African countries is going through a major transformation of their economy and raises the question of the process to guide these structural changes. While some economies in the North African sub-region are more diverse than others, the performance of most countries in the region remains generally too heavily dependent on commodity prices or weather conditions. North African economies are poorly diversified and are generally specialized in sectors or in some dynamic products with low added value. Moreover, the issue of unemployment in North Africa implies the need to create several million jobs in the coming years. However, only a significant increase in growth can help meet this challenge. This type of increase (called ‘explosive growth’) is only documented in cases of industries and services development that comes with structural transformation, hence the need for a structural transformation of the North African economies. One of the levers that guided the structural transformation of many developing countries is their growing participation in global trade through the export of products increasingly diverse and sophisticated.

The North African countries have started to diversify their structures in the 60s and 70s through import substitution strategies (Morocco, Tunisia) or heavy industrialization strategies (Algeria, Egypt). This effort has somewhat continued in the 80s and 90s. Economic structures of most countries have changed between the mid- 80s and 2007¹, with a larger share of industry and services. This evolution has been confirmed by an increase in diversification indices, especially in Egypt, Tunisia and to a lesser extent Morocco. However, it has not changed notoriously the share of these countries on the global market for manufactured goods, remaining to a marginal level, with an increase of a little more than 1% between 1975 and 2008, where East Asia increased from 1.7 to 20%. This paradox between the level of diversification achieved and the international integration is however only apparent. Indeed,

¹ ECA-NA, Study on North Africa structure (2007).

we must first note the weak pace of diversification relative to the rest of the world and, on the other hand, emphasize that this diversification has focused on low- dynamic products in world trade and with a low level of integration into global value chains (GVCs), and had also to deal with an increasing competition of newcomers on the traditional markets of the sub-region (China, India, Turkey in particular).

The integration of developing countries in world trade happens increasingly through their participation in global value chains (GVCs). However access to GVCs involves many prerequisites, including logistics, institutional and legal environment, which require significant investment both in human and finance, and active public policies in this area. Moreover, even when integrated into the GVCs, many developing countries remain confined in the low value added parts of the GVCs, due to technical constraints, but also because of their non-participation in decision-making and strategic dimensions of products distributions through GVCs. The example of the textile industry in some North African countries is a very good illustration. One way to overcome this double constraint for countries in North Africa is to develop cooperatively Regional Value Chains (RVCs) that will create new dynamic comparative advantages and better overcome the inherent constraints of GVCs, and accelerate the strategic diversification and sophistication of their economies.

Indeed, until the 2000s, the North African countries have not implemented appropriate strategies to organize and plan a diversification that has usually remained the result of the efforts of the private sector focused on labor-intensive activities. Indeed, few countries have accompanied these diversification efforts through active public policies, especially in the field of finance, research, access to external markets, or the integration of global value chains. Furthermore, the competitive advantage of the North African countries in terms of cost and labor has gradually eroded with social changes and the strengthening of the middle class resulting in an increase in the cost of labor. This competitive advantage has also weakened due to the liberalization of international trade with the advent of the WTO and the gradual displacement of the center of gravity of the global economy from Europe to East Asia.

2. Rational : New strategies for integration into global value chains

In the 2000s, the North African countries, aware of the importance of industrialization for the development of their societies, registered to an industrial modernization process at different levels. Some countries in the region have developed policy instruments which include the development of multisectoral industrial strategies in the medium and long term, as well as the establishment of Special Economic Zones. The different national strategies aimed to place the countries of the region in the process of global industrial production and take advantage of the international value chains.

However, this national based approach is constrained by the size of the economies of the region and their weak capacity to integrate the most profitable segments of GVCs. It also ignores the territorial dimension of development and barely exploits the potential of an integrated approach to development in the North African region.

Indeed, the low level of trade integration in North Africa, coupled with the relatively significant infrastructure development, suggests significant potential for development of RVCs.

Therefore, it is necessary to better prioritize different aspects of RVCs in North Africa in order to establish a concrete strategy for the development of RVCs in the region and also between North Africa and its immediate neighbor, West Africa. Many lessons could be learned from other regional experiences on the continent or elsewhere in the world.

An expert round table was organized by the ECA office of North Africa in Rabat, Morocco on March 4th, 2014, to facilitate the sharing of perspectives and experiences around the issue of developing RVCs in North Africa in order to help accelerate the diversification and sophistication of production processes, and to improve integration in GVCs. A clear diagnostic of the region was established and showed that:

- (i) Industrialization is central to fostering effective structural transformation in North Africa;

(ii) the countries of the sub region are only marginally active in world trade, they are hampered by growing structural deficits, in large part as a result of limited diversification of their production systems, and they face many challenges requiring stronger and more sustainable and inclusive growth;

(iii) the participation of countries in world trade increasingly takes place within global value chains and access to these chains involves many prerequisites, particularly in terms of logistics and the institutional and legal environment, which requires significant human, financial and public policy investments;

(iv) regional trade makes up only 4.8 per cent of overall North African trade and the share of manufactured goods in trade flows is falling;

(v) the development of regional value chains can be an important lever for addressing challenges through:

- accelerating the sophistication and diversification of economies;
- promoting the development of new dynamic comparative advantages and
- facilitating participation in higher added-value segments of global value chains.

Following the presentations and discussions, a number of recommendations and guidelines were made by the experts from Member States, allowing proper framing of the terms of reference for the study. The most important recommendations were:

- To identify the growth sectors in RVCs by “mapping” the strengths and comparative advantages of each country in the sub region and identifying the levers and challenges to be overcome in order to set in motion truly effective regional cooperation;
- To adopt a systematic approach that will establish priorities between the various value chains; to identify the various actors and their linkages and interactions; to analyze the technological capabilities and economic performance; and to formulate a strategy for the upgrading of selected value chains, while considering the regulatory and institutional dimensions;
- To develop partnerships between ECA and other international and regional organizations in order to improve the availability of statistical information and to increase the real impact of efforts to create and manage knowledge and formulate programmes and projects.

It is based on this background and in the context of its approved 2014-2015 biennial work programme, that the ECA Office of North Africa is planning a detailed research on the subject of “Developing regional value chains to accelerate the diversification and sophistication of North African economies”, the findings of which would be presented to an experts group meeting on the subject during 2014. A research of such importance and magnitude requires accurate data and information from the member States who are expected to implement and follow-up the study outcome. The result of this exercise will feed into a regional workshop to be held during the second half of 2014.

3. Objectives

The overall objective of the EGM is to validate the report of the study on “Developing regional value chains to accelerate the diversification and sophistication of North African economies“ by North African countries.

More specifically, the meeting will be devoted to:

- A discussion on the study reports, which will include supplementary information by countries and regional institutions to clarify or deepen certain aspects including sharing of best practices;
- A comment and validation of the results of the report at national and regional level by the participants, and in particular to prioritize the potential RVCs highlighted in the results of the study.

4. Expected outcomes

The expected outcomes are:

- A development of a concrete blueprint for follow-up actions to be taken by various stakeholders, which include the countries, to implement the policy guidelines on developing regional value chains to accelerate the diversification and sophistication of North African

economies as well as important technical documents and frameworks to enhance their institutional capacity building in the area of RVC;

- The validation of the draft report for the study which will be presented to the EGM;
- The validation for the draft report of the EGM with specific recommendations; and
- The development of the framework for monitoring and evaluation.

5. Participation

The EGM organized by ECA-NA office, in cooperation with UNIDO, will be attended by participants from all North African countries, UMA, and other relevant intergovernmental organizations. Participants will also include representatives from civil society and the private sector, as well as institutional partners such as the AfDB, IRU and WTO.

Participants from member States will involve a combination of Senior Officials and experts from ministries in charge of industrialization, trade, foreign affairs and international cooperation, planning and economic development, finance and infrastructure, and other relevant sectoral ministries.

6. Format of EGM

The EGM is scheduled for two days. The first day will be devoted to presentations and discussions on the report and the finding results of the study. The presentations will include sharing of experiences and best practices from other regions outside Africa. The second day will consist of breakout sessions to discuss on the project of the framework to enhance institutional capacity for countries in the area of RCVs and monitoring and evaluation.

7. Dates and venues

The EGM will be held from 19 to 20 November 2014 in Rabat, Morocco.

8. Working languages

The meeting will be held in French and English.

9. Documentation

The documentation of the meeting will include the working paper drafted by ECA Office for North Africa and the communications of participants.

10. Contacts

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