United Nations
Economic Commission for Africa

Ad-hoc Experts Group Meeting

Industrialization through Trade in North Africa in the Context of the Continental Free Trade Area and Mega Trade Agreements

1-2 March 2016, Rabat, Morocco

Concept Note

I- Background

Experiences from around the world, and specifically from newly industrialized countries, clearly demonstrate the importance of **industrialization** and structural transformation for developing economies. When associated with adequate measures and policies, trade can serve as a catalyst for a country's domestic industrial fabric and foster its integration within the global economy.

From a trade perspective, Africa finds itself torn between various initiatives in which it is directly, or indirectly, involved: between the launch of negotiations on the Continental Free-Trade Area (CFTA) and the ongoing negotiations on regional mega-agreements (the Trans-Pacific Partnership [TPP] between the United States and South-East Asian countries, the Trans-Atlantic Trade and Investment Partnership between the United States and the European Union and the Regional Comprehensive Economic Partnership between ASEAN, Australia, China, Japan, South Korea, India and New Zealand), the Continent is struggling to achieve the structural transformation needed to expand its influence in the global economy and optimize its use of natural resources through industrialization. In addition to EUROMED Agreements concluded between the European Union and a number of countries from the Southern shore of the Mediterranean, under the Barcelona Process, Africa has also embraced the international trend of regional agreements over the past few years. A growing number of regional economic communities have emerged (COMESA, EAC, SADC, ECOWAS, IGAD, ECCAS, CENSAD and AMU). More recently, alongside the negotiation of Economic Partnership Agreements (EPA) between the European Union and various regional economic communities in accordance with WTO rules, the African Union, in its 19th Summit held July 14-16th, 2012, committed African governments to accelerate the construction of a single African market through the establishment of a Continental Free-Trade Area (CFTA) by 2017. Despite the obstacles that lie ahead as they seek to achieve this ambitious project, its adoption and the launch of negotiations in July 2015 are a further indicator of current and upcoming changes in trade flows within Africa and between Africa and the rest of the world. It also raises the question whether North Africa is prepared enough to make the most from its participation in various free trade agreements in which countries are mobilized to gain as much as possible from their relations with the African continent. This will require selective trade policies, pro-active industrial policies and the development of regional value chains…

Selective trade policies

Market dysfunctions or weak institutions can hamper the competitiveness of exports. Hence the need to adopt trade policies that can facilitate the emergence and growth of manufacturing industries, which are capable of expanding what countries in the sub-region have to offer. These countries must rethink their trade policies, transform them into channels for industrial development and structural transformation. Selective policies would hinge on promoting manufactured goods and finding smart ways to protect nascent industries.

Such a policy should provide the leverage needed to expand the range of exports, increase added value, cut transaction and transportation costs while addressing tariff and non-tariff barriers to trade and access to the global market.

Undoubtedly, the World Trade Organization's rules may constitute a challenge for the establishment of measures needed for member States to takeoff, much like the example of Asian success stories. Although these rules limit what is possible in terms of industrial policy, they do nevertheless provide substantial margins of maneuver, especially to developing countries.

Proactive industrial policies

Trade policies must have a cohesive implementation scope and be aligned with industrial policies' proactive objectives, thus forming a national development strategy.

Industrial policies set the outlines of a favorable context for investment in the skills needed for selected sectors, in human resources, infrastructure and financial services which are necessary to draw investments, including foreign investment.

An important component of such policies is the creation of special economic zones, trade and duty free export areas to promote the participation of small and medium size companies and industries and build ties with other sectors of the economy. The building synergies between large, medium and small businesses around shared eco-systems well adapted to the needs of the global market is also required.

In the 60's and 70's, some North African countries adopted proactive, ambitious industrial policies. However, the debt crises of the 1980's challenged this industrial development model. More recently, countries such as Egypt, Morocco or Tunisia embraced a process of industrial modernization at multiple levels. They developed policy instruments including the development of medium to long-term multi-sector industrial strategies. These policies would gain from better linkages with trade policies and be part of a more cohesive sub-regional thrust. They must also be further developed towards the structural transformation of North Africa.

Development of regional value chains

The development of global value chains (GVC) through free-trade agreements with industrialized countries has shown its limitations. Best practices call for the combined integration of global value chains and growing regional specialization through the fostering of regional value chains (RVC).

The integration of the sub-region's economies in certain GVC does present certain advantages in terms of scale and upgrading of exports, however, these advantages remain quite limited given the countries' lack of competitiveness.

RVC are an opportunity to develop industrial manufacturing sectors that would otherwise be eliminated by the global market. Exports to countries with comparable development levels through regional value chains make it possible to promote nascent and/or fragile sectors, setting them on a course to become structural transformation drivers.

II- Rationale

Between 2007 and 2013, constant variability characterized the volume of overall intra North African trade. However, an upward trend has been observed since 2011, with a steady increase in trade volume over the last three years, despite the political and economic crises which have affected the region and the impact of the global crisis on its trade with the rest of the world. This performance must however be qualified by the structural weakness of the relative value of intra North African trade, which only accounts for only 5% of the overall trend across the sub-region in 2013. The sub-region remains among the least integrated in the African Continent.

An analysis of the groups of goods traded between countries across the region shows the following:

- The structure of intra-regional trade is characterized by a prevalence of low added value goods, as fuel and basic commodities account for 43% and 18 % of trade in the region. Manufactured goods only amount to 39% of total trade (all categories included).
- Over time, there has been a growing trend of trade in low added value goods, particularly fuel, whose share has consistently increased over the past few years, going from less than 30% of trade in 2010 to more than 43% in 2013.
- In light of the events in North Africa since 2011, trade in manufactured goods has dropped by 24%, whereas trade in basic commodities, including fuel, has grown.

Moreover, close to two-thirds of trade within North Africa is done by Algeria (36%) and Egypt (30%). Tunisia ranks third with 17% of trade. The Soudan and Mauritania's offer amount to less than 1%.

The overall image drawn from this analysis is that Maghreb trade is also hampered by structural weakness which is preventing it from playing its role as a catalyst of economic growth. Despite the growth registered since 2009, trade between AMU countries did not exceed 3.7% of their foreign trade in 2013. This rate is extremely low, especially when compared to progress made by other African regional economic communities.

The prevalence of fuel in the Maghreb trade continues to increase. Alone, fuel accounts for roughly 60% of intra AMU trade. This share has been growing steadily as it was at 41% in 2009. Commodities, excluding fuel, account for 12%, whereas manufactured goods only account for 28% of intra-Maghreb trade.

One must note that, over time, trade trends for manufactured and higher added-value goods have been negative, as they have dropped from more than 44% of total intra-regional trade in 2009 to 28% in 2013.

Trends in sub-regional foreign trade analyzed above bring back to the fore the need the address the questions of expanding the range of exported goods by North African countries and their industrial development. This challenge also raises questions on the actual benefits drawn from free-trade agreements with developed countries – including the European Union and the United States, given the degree of asymmetry between these economies and North African economies.

A review/assessment of commercial trade policies implemented (Association agreement with the EU and other free-trade agreements) seems necessary in order to better benefit from trade openness. In all North African countries, free-trade agreements and other trade policy instruments should serve as levers for industrialization and increased economic diversification. Their efficiency become more apparent in the case of countries or economic areas with close economic development levels, or against countries over which North Africa holds proven comparative advantages. Hence, the strategic significance of the AMU single-market project and the Continental Free Trade agreement.

Against this backdrop, the Office plans to organize an Experts Group Meeting on **"*Industrialization through Trade in North Africa in the Context of the Continental Free Trade Area and Mega Trade Agreements*"** as part of its 2016 program of activities.

The meeting will draw on the conclusions of work carried out by the ECA and other partner institutions such as those presented in the draft report entitled: ***Industrialization through trade in North Africa in the context of the Continental Free Trade Area and Mega trade agreements.*** Based on the potential of trade to develop industrialization, the report examines ways in which trade can contribute to expediting industrialization and structural development in the sub-region. It analyzes the challenges that member countries have to face and the opportunities open to them, within ever changing regional and global economies.

III- Meeting objectives

The overall objective of the meeting is to advocate that promoting trade between North African countries is the most suitable for structural change, on the basis of a theoretical and an empirical understanding of recent trends in processes and industrialization attempts within the sub-region.

Experts will discuss the main conclusions and recommendations of the working document with a view to improving and endorsing it. The outcomes of the meeting and the preliminary study will be consolidated in a publication aimed at key stakeholders: national administrations, Secretariat General of the Arab Maghreb Union, the Maghreb Union of Employers and external partners working on regional integration, industrialization and foreign trade.

IV- Participants

Participants will include national and international experts from a number of areas including industry, international transportation-transit, foreign trade, regional integration ICT, private sector and civil society.

V- Date and venue of the meeting

The meeting is to be held in Rabat (Morocco) on March 1-2, 2016.

VI- Working languages

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

VII- Documentation

Meeting documents will include the draft agenda prepared by the Office and participants' contributions.

VIII- Contact

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