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ECONOMIC AND SOCIAL CONDITIONS IN NORTH AFRICA

PART II

PRELIMINARY ANALYSIS OF ECONOMIC STRUCTURAL TRENDS 2000 -2004

This report was presented at the 20th Meeting of the Intergovernmental Committee of Experts (ICE) of the ECA Sub-regional Office for North Africa. It has been revised to reflect comments and statistical information provided by meeting participants.

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INTRODUCTION

1. The countries of North Africa have all implemented programs for rehabilitating their financial equilibrium and mastering inflation. This stabilization process has been followed by institutional and regulatory reforms aimed at sustaining choices which are long established or recent, depending on the country, all converging towards the options of deregulating and privatising the economy.

2. In spite of the stabilization programs and the adoption of structural reforms, these economies continue to show levels of growth which are too low to ensure any real improvement in the social field, and in particular in the slackening of the job market, which is under pressure from a continually growing demand.

3. Productivity and competitivity are indispensable for overcoming of these challenges. They depend on sound performance in all domains and by all the economic and social partners. In particular, the choice of an economic policy favouring the real potentials of each country, focusing on the advantages to be gained from each sector of the economy, is an essential ingredient.

4. In this context, diversification of the economies is considered an important goal, for it aims at exploiting the possibilities of the economic sectors. However, in the interests of optimisation, more attention should be paid to the sectors which have the greatest profitability in terms of value added. The reference here is to total profitability, whether direct, generated by the sector in question, or induced, resulting from the effects of the sector's activity on the rest of the economy. This analysis in terms of value added is necessary despite the importance of job creation by the sectors, which represents another criterion for establishing a hierarchy among the sectors, which is complementary to the value added criterion.

5. The goal of this report is to carry out a retrospective analysis in order to evaluate structural changes in the North African economies over the last five years, 2000-2004. This analysis is based on the annual reports produced by the Subregional Office since 1997, and it seeks to identify the major trends in the economies, which are difficult to perceive from short term annual analyses.

6. Has economic growth been more rapid over the last five years compared with the preceding five? The answer to this question will be provided through the analysis of trends in the participation of the various sectors and in the utilisations of the GDP, once contingencies have been isolated.

7. The evolution of GDP structures by sector and by utilisation thus represents a major aspect of the methodological approach adopted here, which will first be described and later explained and justified.

8. The diversification of the economies of the subregion, studied by means of an analysis of trends in the participation of the sectors, is a criterion for the evaluation of changes in economic structures. In addition, the influence of certain sectors on the rest of the economy also needs to be examined. It is in fact very important to determine whether, beyond the shares of each sector, the favoured sectors stimulate growth in other sectors of the economy to a greater or lesser degree.

9. The first chapter will make a comparison of growth averages over the two periods 1995-1999 and 2000-2004. This comparison will be developed through an analysis of structural changes in the utilisation of the GDP, in particular investment and foreign trade. The assessment of structural changes in foreign trade in terms of broad product groups will make possible an evaluation of the diversification of exports.

10. The second chapter will deal with structural changes in the GDP by sector. This will be accompanied by a preliminary intersectoral analysis of the most profitable sectors of the economy. It should be noted that such an analysis is necessary, but that because of lack of information this report contains only a first draft aimed at demonstrating its value.

11. The third chapter presents a reflection on some factors influencing economic structural changes, based on examples drawn from experiences in Algeria, Morocco and Tunisia. Recommendations concerning the methodology and means for carrying it out properly are provided in Chapter IV.

Internal and external contexts in North Africa

12. The general context of the subregion may be approached via the global context and its implications, the specific context of the regions surrounding North Africa, such as the Arab world, Africa and the Mediterranean zone, and the contexts specific to each of the countries of the subregion.

The International Environment

13. During the five year period 2000-2004, the dollar fell steadily from 2002 onwards, while the prices of raw materials showed an upward trend. This can be explained as the result of several contingencies, notably the simultaneous growth of the North American and Chinese economies, together with those of India, Brazil and Indonesia, the effectiveness of regulatory and coordination mechanisms set up by the producing countries, and the transfer of a part of the world's production to the emerging countries, where it is carried out less efficiently.

14. The rise in prices of raw materials had an effect on economic growth, in particular because of the rise in imported inflation and the fall in company profit rates and household spending. The oil-producing countries of the subregion nevertheless profited from this contingency, in particular from the rise in hydrocarbon prices.

15. Under pressure from increased demand along with a tense situation on the supply side, the price of hydrocarbons has shown a rising trend since 2002.

Table 1
Evolution of the average price of oil 2000-2004, Brent price, US$/b

2000	2001	2002	2003	2004p
28.5	24.5	25.0	28.8	39.3

Source: EIU (2004) Country forecast, Nov. 2004

16. It should also be noted that the period under study was marked by such major events as the entry of China into the WTO, the Doha Round, and the failure of the ministerial conference of Cancun and its relaunch in July 2004, with the aim of achieving a set of international framework agreements. The Monterey conference on the financing of development was another decisive event of the period.

The Regional Environment

17. The enlargement of the EU to the east has important consequences for the Mediterranean countries. The new members of the EU should benefit from an influx of FDI which will allow them to modernise their productive apparatus and improve the non-price component of their competitivity, so that they can become serious competitors for the countries of the subregion. Those subregion countries which have textile industries have also seen the end of the Agreement on Textiles and Clothing (ATC) on January 1, 2005, which has left them open to competition from other producing countries, notably those of the east.

18. Disturbances arising from the war in Iraq, the Israeli-Palestinian conflict, the war in Sudan and the geopolitical uncertainty caused by terrorism have had a negative influence on the tourist sector of the Arab region, especially the countries of North Africa.

19. As for Africa, it has seen the adoption of NEPAD[1] (New Partnership for Africa's Development), now recognised by the international community. Reinforcing the Millennium Declaration and the Millennium development goals, NEPAD represents recognition of the need to support the acceleration of development in Africa. In the same framework we can place the Commission for Africa, founded at the initiative of the British Prime Minister[2]. Development in Africa during the period 2000-2004 nevertheless remained hampered by the continuing armed conflicts.

20. The countries of North Africa have seen their political context affected by the stagnation of the Maghreb Arab Union (UMA) which has not been fully functioning. This stagnation raises questions about potential regional growth which might result from the increased exchanges which would follow the successful construction of the UMA.

21. The subregion's delayed integration is evident when set against a world environment which is undergoing globalisation and, in particular, against the regions which are neighbours of North Africa (EU, COMESA, NAFTA, ECOWAS, etc).

22. The persistent drought during the first years of the five-year period has had an effect on the growth of some countries of the region, but 2003 and 2004 saw generally favourable climatic conditions.

1 *http://www.nepad.org See also the Report on the Attainment of the MDGs and the Implementation of NEPAD in the Countries of North Africa: Progress and Perspectives, document presented at the 20th meeting of the ICE-NA*

2 *http://www.commissionforafrica.org*

The National Environments

23. During the period 2000-2004. all the countries of the subregion showed an accounting surplus, or a sustainable deficit, whether of public finances (with deficits lower than 5 percent of GDP) or external finances (modest balance of payments deficits). Their economies also applied counter inflation policies, and had inflation rates below 7 percent, with an average of 3 percent to 4 percent. To however note the performance of Morocco which could control the rise of the prices around 1.6 percent during the five-year period 2000-2004. Among the decisive events of this period were the following:

- Algeria saw some improvement in its security situation, but suffered two natural catastrophes, the floods of November 2001, which caused severe problems in Algiers, and the earthquake at Boumerdes near Algiers in 2003, which left more than 2000 dead.

- Morocco suffered the earthquake of Al Hoceima, which left hundreds dead and thousands homeless.

- In Sudan, the war between North and South dragged on until negotiations began. Following this, the region of Darfur was severely affected by the conflict which broke out at the beginning of 2003. Although oil exploitation has transformed the economy of Sudan since 1998, the country has suffered a great deal because of these conflicts.

I. ECONOMIC GROWTH AND GDP USES

I.1 Economic growth: A very slight improvement

24. Globally, over the period 2000-2004, the average growth rate was almost 4 percent, while the demographic growth rate was 1.9 percent, which gives an increase of 2.1 percent in per capita output in the subregion.

25. Economic activities had been less flourishing in the period 1995-1999, when the sub-regional average rate of growth was only 3.8 percent and the growth rates of the countries varied between 1.52 percent and 5.52 percent. For the period 2000-2004, the lower limit is higher, and the average around 4 percent. Behind these figures we find a relative decline in performance for two of the seven countries, Egypt and Tunisia, stagnation for Mauritania, and an increase for the other four countries, with strong growth for Morocco, which almost saw doubling his rate which passed from 2.04 percent to 3.8 percent between the two periods under study.

Table 2.
Economic growth in North Africa
for the periods 1995-1999 and 2000-2004

Period	1995-1999	2000-2004
Algeria	3.42	4.26
Egypt	5.12	3.22
Libya	1.52	2.28
Morocco	2.04	4.26
Mauritania	4.4	4.18
Sudan	4.92	6.1
Tunisia	5.52	4.54
North Africa subregion	3.85	4.12

Source: National data and EIU estimates, calculations by the Subregional Office (see data base in the appendix)

26. Egypt has seen a sharp drop in its growth rate, which might be explained in terms of the monetary difficulties it has recently been experiencing. Algeria shows an improvement of 0.9 percent compared to the 1995-1999 period. This performance can be attributed to higher oil prices. The fall observed in Tunisia can be mainly traced to the severe drought of 2002, which brought the growth rate down to 1.7 percent, its lowest level for a decade.

27. If we take account of the fact that the accelerated growth of Morocco can be explained by better climatic conditions during the last five years, then it can be concluded from the above that the subregion did not show structurally stronger growth in 2002-2004 than in 1995-1999.

28. However, it is important to note that these growth rates remain at a level far below what is required for an effective reduction of poverty, and indicate the need for greater rigour in the implementation and evaluation of reforms.

I.2 Uses of the GDP[3]

29. Domestic consumption represented an average of 63 percent of GDP during the period 2000-2004, while global public consumption was about 16 percent. The investment rate was almost 22 percent.

I.2.a An almost unchanged consumption

30. A change in the distribution of utilisations of the GDP can be observed compared to 1996. The share devoted to household spending decreased compared to its level in 1996, which was estimated at 66 percent. It was possible to maintain public administration consumption at almost the same level as 1996 (15.9 percent). This led to an improvement in the domestic savings rate in relation to the GDP, which has increased by at least 3 points since 1996.

31. The compression of domestic demand thus observed is one of the main goals of the stabilisation programmes which preceded the structural reforms undertaken by all the countries of North Africa. Public administrations' consumption could not be reduced because in most of the countries it is difficult to compress. On the other hand, the policies for limiting household spending succeeded in achieving their goals. This reduction of 3 percent in household spending has led to a small increase (less than 1 percent) in average living standards, measured by the value at constant prices of per capita consumption. This contraction of demand also affected public investment.

I.2.b Investment rate: A slight rise, but will it last?

32. Over the period 2000-2004, the region achieved domestic saving of more than 21 percent of GDP on average. This saving was reinforced by net foreign revenues of about 1 percent of the global GDP. The national investment rates vary between 18 percent (Egypt, Libya) and 29 percent (Mauritania). The structure of the investment rate by country is quite different from that observed in 1996 (see graphs below) for the following reasons.

33. Morocco, Mauritania, Libya and Sudan are all seeing increases in their investment rates. The reasons for these increases vary. In Libya, the increase is due to a partial lifting of the embargo, which allowed some FDI to come in. As for Mauritania, its public investments are rising sharply, because of the foreign aid it has been granted. Sudan is experiencing a considerable upsurge in investment accompanying the installation of new infrastructures needed for petroleum production and for the creation of an adequate environment in the petroleum producing zones of the country.

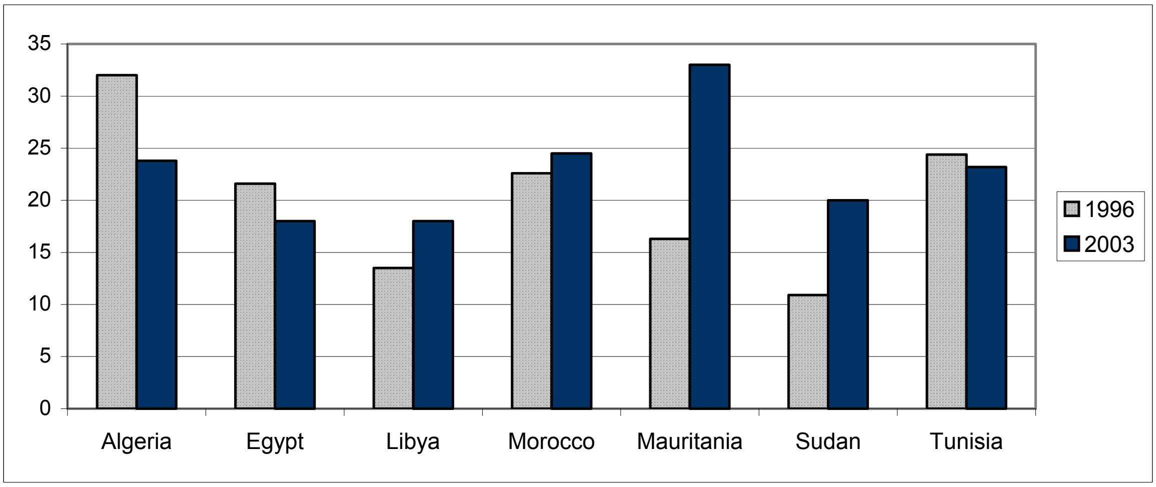
34. Morocco registered a rise in investment rates between the two periods, due to an improvement in public investment (including public institutions and enterprises), following the active policy adopted by the government. However, the overall level of investment remains below forecasts in this country, because the private sector has not followed the trend initiated by the public sector. Tunisia has seen a stabilisation of its

[3] *Source: Calculations made by the Subregional Office using national data*

investment rate between the two periods; nevertheless it is still the highest in the region after that of Mauritania.

35. Decreases in the investment rate are seen in Algeria following the fall in public investment, but above all because of the strong growth of GDP which was not accompanied by a similar rise in investment (in value). In Egypt, the decrease is assumed to be the result of the difficulties mentioned above, encountered by the country's exchange market.

Graph 1
Rates of investment in 1996 and 2003 (percentages)



Source: Subregional Office Report on Economic and Social Conditions 2000, national data and EIU

Table 3
Average investment rates in 1995-1999 and 2000-2004 (percentages)

Period	**95-99**	**00-04**
Algeria	25.2	23.5
Egypt	20	18.7
Libya	11.8	13.5
Morocco	21.4	23.5
Mauritania	18.2	28.9
Sudan	17	18.8
Tunisia	24.8	24.5
North Africa subregion	19.77	21.63

Source: National data and information drawn from the 2004 UNCTAD Investment Report

36. In general, the observed changes in investment rates are not likely to last, because in Algeria and Egypt they are related to short term contingencies. Similarly, in Libya, Mauritania and Sudan, they can be expected to fade away since they are not endogenous to the economic activity. They are the result of events which are external, although structural: the lifting of the embargo, the inflow of foreign aid and the discovery of oil. Since these additional endogenous investments are not generated by the performance of economic agents, they will soon be overtaken by the level of the GDP. Nevertheless,

their high level makes it possible to predict changes in the levels and structure of the GDP by sector of these countries in the future.

I.2.c Foreign trade

37. Exports and imports constitute important parts of the resource utilization account of the GDP. The structures of these two aggregates will be studied in turn below.

38. The comparison of import structures over the two five-year periods reveals a greater concentration on the import of manufactured goods in Algeria, Morocco and Sudan, while in Tunisia we see relative stability and in Egypt a sharp fall in this category in favour of agricultural products. The analysis of the evolution of this share shows a fall that has been continuous since 1995.

39. The oil-producing countries have experienced greater concentration of their exports. Because of the rise in oil prices over this period, between 1999 and 2002 Algeria and Libya have seen the contribution of fuel to their exports rise from 95 percent to 98 percent and from 94.8 percent to 95.7 percent respectively.

40. The countries exporting most manufactured goods are Tunisian, Egypt and Morocco (in 1995, respectively, 79 percent, 40 percent and 51 percent of their exports were manufactured goods). These countries saw a relative increase in exports of manufactured goods in 2002. Morocco recorded a contribution of 62 percent or 11 points more, Tunisia 81 percent or 2 points more, and Egypt 41 percent or 1 point more than in 1999. The analysis of Egypt's exports per annum, however, reveals a fall in the weight of exported manufactured goods since 1996, when they had reached 48 percent.

41. In 1995 Morocco and Mauritania exported the largest shares of mining products (40 percent for Mauritania and 11 percent for Morocco). This share has nevertheless since diminished in Morocco, amounting to only 8 percent in 2002.

42. It is the structure of Sudan's exports which has witnessed to biggest variation over this period. Exports of petrol, which began in 1999, amounted to 14 percent of total exports in 1999 but reached 79.8 percent in 2003 and 82 percent in 2004. This concentration is likely to increase over the years to come with the expected exploitation of more deposits leading to more fuel exports.

43. We can thus note that the export structure has been conclusively modified in the case of Sudan, whereas the changes that have taken place in Egypt's imports and exports require explanation on the reasons of the fall on behalf of the imports of the manufactured goods, jointly with the fall on behalf of their exports.

Box 1

The Paradox of Variations in Egypt's External Trade

The statistics available for Egypt's external trade raise questions about the reasons why a fall in the share of imports of manufactured products has been accompanied by a fall in the share of exports of such goods.

In theory, decreased competitivity in Egypt would have been expected to lead to an increase in imports of these products. In fact, however, the opposite is the case.

We may wonder what reason underlies this paradox, and whether it is related to the strategy adopted by the country in response to the evolution and deregulation of foreign trade.

Nevertheless, a more detailed analysis in terms of the major products, taking account of the effects of devaluations on these products, might lead us to believe in such a scenario, if the volume of the supply of these products is linked to the fall in prices. This possibility could then be explained by a fall in the volume of imports so great that its effect outweighed that of the rise in price of imports.

Table 4
Evolution of the average structure of foreign trade
by broad product categories between 1995-1999 and 2000-2004

Period	1995-1999			2000-2004		
	Imports					
	Fuel (SITC 3)	Minerals and metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)	Fuel SITC 3)	Minerals and metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)
Algeria	1.4	1.2	64.4	1	1	69.7
Egypt	3	3	60.2	4.7	3	51
Libya	0	1	72.5	..	..	..
Mauritania	25.5	0	48	..	..	..
Morocco	13.6	3.2	62.2	17.3	2.3	63.3
Sudan	14.6	0.6	64.8	5.7	1	72
Tunisia	7	2.6	76.4	9.3	2.3	76
	Exportations					
	Fuel (SITC 3)	Minerals et metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)	Fuel (SITC 3)	Minerals and metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)
Algeria	95.8	0.8	2.8	97.7	0	1.3
Egypt	39.4	5.4	38.2	45.5	4.8	29.8
Libya	94	0	4	..	..	..
Mauritania	4.5	40	2	..	..	..
Morocco	2	11.8	56.2	4	8.3	64.7
Sudan	0	0.6	5.6	71.7	0	4.7
Tunisia	8.2	1.4	79.8	9.8	1.3	80.3

Source: UNCTAD, 2004

Table 5
Evolution of the structure of foreign trade by
broad product categories between 1995 and 2002

Country	Flux	Fuel (SITC 3)	Minerals and metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)	Fuel (SITC 3)	Minerals and metals (SITC 27 + 28 + 68)	Manufactured goods (SITC 5 to 8 less 68)
Year		1995			2002		
Algeria	Exportations	95,22	0,52	3,03	98,09	0,25	1,45
	Importations	1,10	1,57	64,63	1,43	1,20	66,61
Egypt	Exportations	37,25	6,41	40,32	39,22	5,36	41,17
	Importations	1,24	2,71	60,61	4,86	3,99	61,11
Libya (1997)	Exportations	94,78	0,08	5,17	95,61	0,03	4,24
	Importations	0,24	1,33	75,88	0,25	2,55	72,88
Mauritania	Exportations	0,50	40,42	0,19	..	..	..
	Importations	22,03	0,33	53,34	9,00	0,00	75,00
Morocco	Exportations	2,20	11,55	51,41	4,22	8,47	64,70
	Importations	13,80	4,02	56,36	17,68	2,36	62,37
Sudan	Exportations	0,25	0,38	6,15	69,15	0,33	3,15
	Importations	13,89	0,47	59,42	4,82	0,86	74,40
Tunisia	Exportations	8,47	1,72	79,39	9,24	1,39	80,73
	Importations	7,28	2,99	72,75	9,63	2,31	76,20
Total	Exportations	58,09	3,36	29,78	66,88	1,90	24,11
	Importations	4,98	2,49	64,57	7,89	2,40	67,30

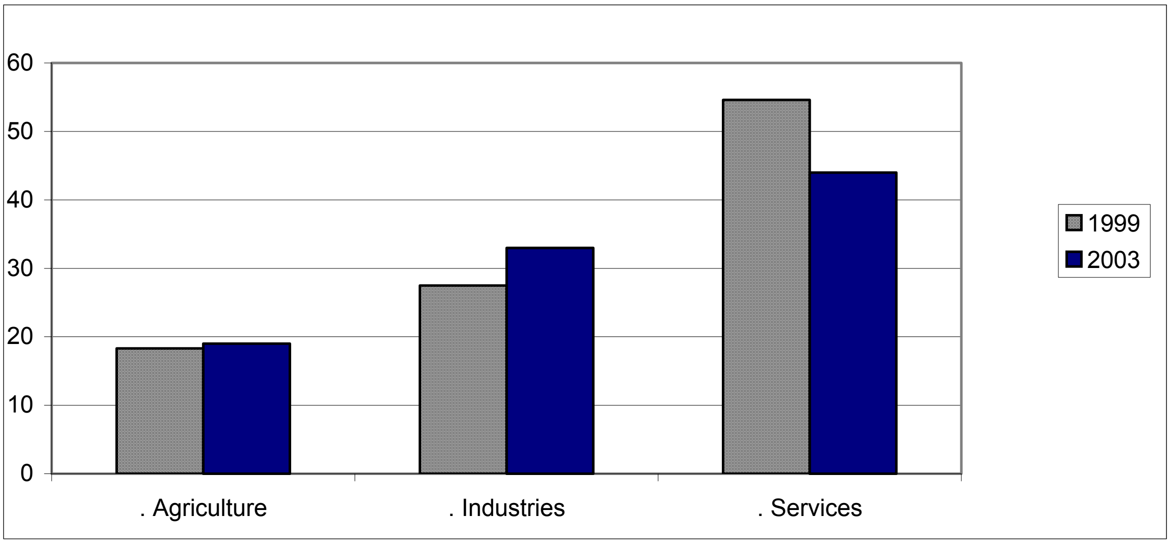
Source: UNCTAD, 2004

II. STRUCTURAL CHANGES BY SECTOR

II.1 Structure of GDP: Services fall but still remain dominant

44. In 2003, the services sector is still predominant in the economy of North Africa; it represents an average of 44 percent of the overall product compared to 33 percent for industry and 19 percent for agriculture.

Graph 2
Comparison of GDP structures by sector in North Africa between 1999 and 2003



Source: SRO-NA Estimates based on national data.

45. This proportion has undergone a clear change. In 1999, the tertiary sector represented 54.5 percent, as opposed to 27.5 percent for the secondary sector and 18 percent for the agricultural sector.

46. We can thus see an increase in industrial production to the detriment of the services and agricultural sectors.

47. By country, the composition of the GDP by sector explains this subregional trend. This is shown below:

Table 6
Changes in GDP structure by broad sectors

In percent of GDP	1999	2000	2001	2002	2003	2004
SECTORAL CONTRIBUTION TO GDP						
ALGERIA						
.Agriculture	10,6	8,1	9,8	9,5	12,0	
.Industries	46,7	56,7	54,7	52,7	48,0	
.Services	42,7	35,2	35,5	37,8	40,0	
EGYPT						
.Agriculture		16,5	17	16,6	18,0	
.Industries		27,1	27	26,7	28,0	
.Services		56,5	56	56,7	54,0	
LIBYA						
.Agriculture	8,9	8,8			9,0	
.Industries	45,7	45,3			46,0	
. Services	45,5	45,9			45,0	
MOROCCO						
. Agriculture	13,7	11,4	13,7	14,0	13,7	15,8
. Industries	30,2	30,8	30,4	30,3	29,3	29,4
. Services	56,1	57,8	55,9	55,7	55,0	54,8
MAURITANIA						
. Agriculture	20,0	18,2	19,6	18,3	21,0	19,0
.Industries	24,0	26,8	24,1	23,7	25,0	25,0
. Services	56,0	55,0	56,3	58,0	54,0	56,0
SUDAN						
. Agriculture	42,6	44		15,6		44,5
. Industries	16,2	22		24,1		25,4
. Services	41,2	34		30,3		30,1
TUNISIA						
. Agriculture	15,9	15,0	14.1	12,1	12,5	
. Industries	33,3	33,0	33.8	33,2	34,3	
. Services	50,9	52,0	52.1	54,2	53,3	
NORTH AFRICAN SUBREGION						
. Agriculture	18.0				16.0	
. Industries	27.5				36.0	
. Services	54.5				48.0	

Source: National data exploited by the Subregional Office (See data base in the appendix)

48. While in Sudan agriculture still contributes up to 40 percent of the gross product, elsewhere the increasing role of the service sector is striking; more than half of the product comes from the formal and informal services sector in Egypt, Morocco and Tunisia.

49. The overall decrease in the services sector is due to its reduction in the GDP of Algeria and Egypt. Sudan, although it contributes only a small part to the subregional GDP, has influenced this trend, since in 2004 the services sector contributed only 30 percent of the Sudanese GDP, as opposed to 41.2 percent in 1999. The other countries are experiencing what is almost stagnation in GDP structure by sector, with the exception of Tunisia, which has seen an increase of 2.5 percentage points in the contribution of the tertiary sector.

50. For Egypt, this decrease can be considered to result from short term contingencies, since it occurred only between 2002 and 2003 (2.7 points). Moreover, it was the result of equal increases in the shares of the primary and secondary sectors (1.4 point and 1.3 point respectively). The temporary nature of this change is confirmed by the fluctuations in these three proportions over the last four years.

51. Similarly, for Algeria this decrease has been observed since 2000, which correlates with the upturn in oil prices. However, despite the continued high oil prices, we can observe a relative increase in 2001, 2002 and 2003 of the shares of the primary and secondary sectors. This can be explained in terms of the effects of the injection of oil revenues into the other sectors of the Algerian economy (see the intersectoral section).

52. As for Sudan, the decrease in the tertiary sector there is clearly explained by the increased share of the secondary sector in the Sudanese economy, which rose from 16.2 percent in 1999 to 25.4 percent in 2004. The discovery of petrol and the beginning of its commercialisation are at the root of this evolution. However, it is worth noting that the agricultural sector continues to occupy an important place (the same proportion maintained between 1999 and 2003), which indicates that the primary sector is also profiting from oil revenues and is achieving growth equal to that of the GDP in general.

Box 2

A strategic structural change in Tunisia

The contribution of the tertiary sector to the Tunisian GDP has been increasing continuously since 1999; this is happening to the detriment of the primary sector and in parallel with an increase in the share of the secondary sector (1 percentage point over the four years). This situation appears to be structural, since on average between 1997 and 2001 (the 9th Tunisian plan) the primary sector has grown by only 2.6 percent per annum on average, while the tertiary and secondary sectors have seen average growth of 6.9 percent and 5.3 percent respectively. The structural and voluntarist character of this trend is confirmed by the forecasts of the 10th plan, 2002-2006, which predicts an average annual growth of 7.5 percent for the tertiary sector, 4.6 percent for the secondary sector and only 3.5 percent for the primary sector.

53. The main changes observed in GDP structure by sector in North Africa, according to this analysis and taking into account the aggregation level adopted (3 broad sectors) can be summed up as threefold: the increase in the share of the tertiary sector in Tunisia, the change due to the discovery of petrol in Sudan, and that resulting from the upturn in oil prices. These last two events, in addition to increasing the share of the energy sector, have led to an increase in the primary sector in Sudan and in Algeria. In Tunisia, the change observed is the result of a strategic development choice in favour of the tertiary sector.

54. The current situation does not a priori seem to display effective functioning. With the exception of Tunisia, the only progress observed is due to oil: the discovery of oil in Sudan and oil price rises in Algeria.

II.2 Stimulating Sectors

55. The analysis of the relations between sectors is very important, for two main reasons. The first is that each sector has effects on the others. Thus an acceleration of growth in a given sector will lead to increased growth in other sectors. The sectors which have been affected in this way will in turn have effects on the rest of the economy, and so on until the cycle ends. The totality of all these effects represents the growth indirect effects of a sector.

56. The indirect effect of the growth of a sector can arise from the availability of input on the market, made possible by this activity (which produces this input), which would then allow other sectors to produce more and become more competitive. It may also arise from a demand surplus (intermediary consumption) addressed to other sectors of the economy following the growth of this sector. This surplus is all the greater when the sector is interwoven into the framework of the economy using a production technique based on local production more than on imports. Finally, it may derive from the incomes distributed by a given sector. These incomes may play different roles depending on whether they are used for investment, the consumption of locally produced goods or that of imported goods. The increased incomes lead to an increase in final demand.

57. The second main reason is the importance of an understanding of intersectoral relations for economic integration and especially for the vertical integration of the production fabric. Knowledge of the closely related sectors both earlier and later in the chain is of capital importance for any conception of economic integration between countries.

58. The analysis of intersectoral relations requires sophisticated statistics and special instruments adequate for this purpose.

59. While waiting for such instruments to become available, the Subregional Office has attempted to carry out an evaluation of the capacity of certain sectors to stimulate the rest of the economy, by comparing the value added series of certain sectors with those of the rest of the economy.

60. The goal of this initiative was to inspire some reflection on the intersectoral issue by trying to identify which sectors should be a priority for diversification, according to the criterion of the greatest effect on general growth (direct and indirect effects).

61. The evaluation of the correlation[4] between the value added of a sector and that of the rest of the economy, together with the estimate of apparent elasticity between its value added and the sum of the value added of the other sectors, has thus made possible statistical indications about the possible interpenetration of the sector and the rest of the economy (see the methodological information, summary of econometric concepts and estimates of the correlations and apparent elasticities in the appendix)[5]. This approach can be said to have at least allowed us to concretise our observations and questions.

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4 *This evaluation was made by calculating the R2 of correlation. The analysis is based on the fact that the smaller R2 is, the weaker the link.*

5 *The elasticities were drawn from linear adjustments explaining the evolution of the rest of the economy by that of the most profitable sectors.*

62. The following table provides estimates of correlation and elasticity for certain sectors and countries of the subregion.

Table 7
Estimates of correlation ratio and apparent elasticities

Sector		Algeria	Egypt	Libya	Morocco	Sudan	Tunisia
Agriculture	Correlation		81		90	91	51
	Elasticity		0.88		0.95	0.55	1.5
Energy	Correlation	82		53		88	
	Elasticity	0.37		0.31		1.32	
Tourism	Correlation		77		96		94
	Elasticity		0.67		0.57		1.5
Transport communications	Correlation		86		99		99
	Elasticity		1.52		1.1		0.22

Source: Subregional Office estimates based on national data

63. A look at the results obtained from these estimates leads us to draw the following conclusions:

- The differences in correlation between the same sectors across countries is considerable, which shows the different degrees to which the same sectors are interwoven into the rest of the economy in one country or another. This conclusion must, however, be qualified, given that the strong diversification of the economy may reduce the value of the correlation even if the effect of the sector is real and considerable.
- Even when the correlation is close to one for certain sectors, a considerable difference exists between the elasticities, which indicates that actions stimulating activity in a particular sector may have a greater effect in one country than in another.

64. While this approach allows us to perceive the diversity of intersectoral relations, it does not allow us to draw conclusions or to make even approximate estimates of the marginal effects of the sectors on the rest of the economy.

II.3 Towards a deeper analysis

65. A detailed analysis of the resource employment accounts of the various sectors and subsectors should be carried out in order to identify the most profitable sectors and provide a complete description of the intersectoral relations. These accounts provide a precise description of intermediary consumption of local products by sector and in imports. They also describe the distribution of value added and the final demand of the sector. The description of agents' accounts can be used for an understanding of the demand generated by the incomes distributed by the sector.

66. All this information enables us to obtain an estimate of the increases in value added of the sectors following increased activity in a given sector. The social matrix contains all this information, which makes its availability an advantage for such analyses. In the case of problems in making these tools available, the construction of reduced (more highly aggregated) matrices could be carried out by the member countries with the support of the Subregional Office.

67. In the present report, the structure of the GDP is perceived through agriculture, services and industry. This distribution is unfortunately only an approximative one. There is a need to make finer distinctions. For instance, the service sector is currently emerging in the developed countries as the real driving force for economic growth. This is the age of the knowledge-based economy. Of the countries under review here, several seem to be following this trend.

68. Similarly, the analysis of external trade should be made in terms of value and volume, identifying the most important imported and exported products, with the aim of evaluating the role played by these goods and the role they will be required to play in the future.

69. It would also be useful to make a study of a period longer than five years, especially for the countries which have experienced particular economic conditions over this five-year period.

II.4 Some Observations on the Intersectoral Analysis

70. The search for sectors which have a strong intersectoral influence arises from the desire to orient public or private intervention to achieve maximum profitability. But this search requires very complete and detailed information concerning the social matrices, organised by sector and by agent, which is not available for all the countries of the subregion.

71. While we must be wary of making overhasty interpretations, the approach adopted may allow us to identify some profitable sectors, but basic questions remain to be answered and require more attention.

- Why does the agricultural sector not always have a stimulating effect? What paths do agricultural revenues follow to make this sector closely linked to non-agricultural economic sectors?
- Why in the oil-producing countries is the increase in oil revenues not accompanied by an equally strong growth of activities in the rest of the economy? What use is made of oil revenues? Are these the optimal uses, and for how long?
- Why is it that in two countries information technologies may show different degrees of penetration into the rest of the economy?
- What use is made of revenues from tourism? Has the satisfaction of needs in this sector been achieved largely at the expense of the local economy?

72. These questions are all the more important since the North African community is seeking to integrate the economies of the subregion. A detailed knowledge of the functioning of the different economies is necessary for an evaluation of the different aspects of economic integration in the subregion. It represents an indispensable step if we are to take action with a proper knowledge of impacts and effects.

73. A priori, a description of the current situation concerning the information needed is required. Following this, as far as possible, we need to see what alternatives are available where this type of information is not available. The possibility of assisting the member states to draw up social matrices should also be considered.

74. Finally, this task cannot be carried out without extensive consultations in various spheres, to ensure that it is realistic and useful. The analysis should be continuous and should form the basis for the implementation of a network allowing information and data to be transmitted between the REC member states and the Subregional Office. In particular, it should make possible studies of the future economic integration of the subregion.

III. SOME FACTORS INFLUENCING THE STRUCTURAL CHANGE

75. Among the factors which have affected the structural transformations of the economies, especially recently, political events are very important. Thus the world after September 11 has undergone changes to which economic structures will now have to adapt. But it is also necessary to integrate the changes arising from movements such as improvements in governance in the world, developments arising from the Doha Round negotiations, and the Monterey Conference. Account must also be taken of events inside the region, such as the lifting of the embargo on Libya, the obstacles to peace in Sudan, or the stumbling blocks to the implementation of the UMA agreements. Moreover, the structures are stimulated by the supply and demand polices adopted by the governments, and in particular by medium- and long-term development strategies.

76. However, North African countries face two basic constraints on the evolution of their structures, external constraint and the investment environment. In what follows we offer an analysis of the first one, while the second will be considered via reflections on two of its most striking current aspects: the edification of a knowledge-based society and governance, which are becoming prerequisites for investment. The first is linked to the availability of an infrastructure and workforce in line with the new requirements of the information economy, while the second can ensure the transparency and equity needed to attract and hold investors[6].

III.1. The External Constraint

77. North African economies are all dependent on relations with the rest of the world. The oil-producing countries are dependent in terms of growth, which remains very volatile since it depends on terms of trade; the oil importing countries are dependent in terms of their financial balance, which get worse with the rise in oil prices and because of short-term fluctuations in the products they export.

78. It must be noted that this represents a structural constraint for the first group of countries: Algeria and Libya at present, soon to be joined by Sudan and Mauritania. The hydrocarbons sector in these two countries influences GDP growth through its own growth. In addition, the weight of this sector within the GDP, which exceeds 35 percent in Algeria, 32 percent in Libya and 11 percent in Sudan, must be taken into account. To this must be added the growth generated by the demand this sector addresses to the other sectors. Most important here is probably the effect it has on the rest of the economy through the finance it brings in. The growth in public buildings and works, agriculture and construction is largely generated by the governments' support for growth in the two countries. The hydrocarbons sector also influences the rest of the economy through the demand that arises from the operational budget. In Libya the ordinary taxation system (excluding hydrocarbons) does not cover operational expenses, and in Algeria it covers less than 50 percent of them. **But the budgetary origin of the saving in these countries (public saving), combined with the orientation towards the privatization and market economy, makes difficult the financing of the industrial and tertiary sectors.**

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[6] *The contents of this section are freely inspired by the contributions of economists from Algerian, Moroccan and Tunisian universities.*

Box 3

Algeria's External Dependence

The oil counter shock of 1986 clearly revealed the external constraint on Algeria, which had until then been masked by the extensive growth of the 70s, achieved by means of oil surpluses and foreign debt. A World Bank study classifies Algeria as ranking ninth among the countries most vulnerable to shocks resulting from terms of trade. In Algeria terms of trade simply boils down to hydrocarbons purchasing power, given the importance of hydrocarbons in its exports. An initial plan of more than 7 billion dollars has just been completed. Another, which amounts to more than 50 billion dollars, is being implemented for the next five-year period. The savings which finance these plans are budgetary savings. This is the form of oil surplus par excellence.

79. The oil-importing countries are subjugated to the oil market as regards the protection of their budgetary balances and their balance of payments. In fact, the deficits, when they are large, put a strain on future attempts at developing diversified economies because of increasing recourse to domestic debt. The deterioration of financial equilibriums, together with the supplanting of domestic private investment, which is being experienced by several countries of the subregion, discourages direct foreign investment.

80. The exports of the countries of the subregion are generally made of products whose prices are determined exogenously. For instance, the external balances of Morocco and Tunisia depend in large part on the prices of phosphates and phosphate derivatives, prices in the world tourist market and money transfers from citizens living abroad. Consequently, these equilibriums are precarious, and this can detract from the countries' capacities to attract foreign investment. The scarcity of local and foreign investment is a significant obstacle to the transformation of economic structures.

81. For the oil-importing countries, the commitments made in the framework of the WTO and the conditions on access to finance set out at Monterey also constitute an important factor determining the transformation of their economic structures. The example of the ending of the Agreement on Textiles and Clothing clearly illustrates the effect of external constraint. Countries like Egypt, Morocco and Tunisia are getting down to reorienting their production and exports in order to protect an important part of their productive fabric and limit job losses.

82. Similarly, the difficulty in forecasting the effects of regional integration, in particular within the UMA framework, adds further uncertainty, which makes it difficult to take decisions in favour of one diversification strategy instead of another. This constraint requires the countries concerned to adopt an economic structure characterised by a certain flexibility, to allow them to adapt to UMA commitments when the obstacles to their implementation are removed.

III.2. The Knowledge-based Economy

83. The construction of the information society can be considered one of the foundations of the modernisation and structural transformation of our countries' economies. In its impact on work modes, behaviour, interpersonal relations and sometimes even ways of thinking, it represents one of the major challenges of the 21st century. The development of an economy based on knowledge makes it possible to increase the value chain of the businesses that are already in place, to create new types of activity, often with high value added, to improve competitivity and to create job opportunities for a more educated active population. Preconditions for its success include the availability of well trained human resources, a dynamic system of research and innovation, a well established information infrastructure and an economic and institutional environment favouring the spirit of enterprise. Most of the countries of the subregion have begun to take the measures necessary for the success of their entry into this new era. Tunisia, which has decided to make the knowledge-based economy a central part of its development, and which has achieved impressive progress in this field, put forward the idea of a World Summit on the Information Society (WSIS) as early as 1998. The second phase is being held in Tunis from 16 to 18 November 2005[7], following the first phase which took place in Geneva in December 2003.

84. Nevertheless, despite some progress, the subregion needs to accelerate its construction of the information society if it wishes to occupy an honourable position in the knowledge-based economy, and much remains to be done.
Below we shall review two important parts of this new economy: education and information and communication technologies (ICT).

III.2.a Education

85. North Africa has made significant progress in the field of education and training, as is revealed by the Subregional Office's study on the attainment of the MDGs five years after their launch by the United Nations General Assembly[8]. Thus the net rates of enrolment in primary school have risen between 1990 and 2000 from 75 percent to 93 percent in Egypt, from 52 percent to 79 percent in Morocco, from 51 percent to 64 percent in Mauritania, from 50 percent to 58 percent in Sudan, from 94 percent to 98 percent in Algeria and Tunisia and from 96 percent to 99 percent in Libya. Four out of the seven countries of the subregion now have rates above 90 percent.

86. Education has undoubtedly made possible considerable progress in social advancement and the training of the human capital needed to sustain the ever greater competition in the world knowledge-based economy. But high unemployment among the educated and the young raises the important question of the pertinence of the Education-Training-Employment strategy and job opportunities for the young.

87. Improving the quality of education represents a major challenge for the future at the levels of secondary and higher education. The North African countries must achieve higher growth rates in the sectors of high productivity which require high levels of

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[7] *For more information on this subject, see http://www.smsitunis2005,org*

[8] *See the Report on the Attainment of MDGs and the implementation of NEPAD in North African Countries: Progress and Prospects, document presented at the 20th meeting of the ICE- NA.*

competence in order to be competitive in the world market. Technological changes and globalisation are increasing the demand for a qualified workforce. In this context, the systems of education and professional training must respond to these technological changes at the world level:

- by establishing closer structural links between the systems of education, professional training and market needs;
- by developing technical and technological subjects;
- by diversifying the fields of specialisation and ensuring the flexibility needed to adapt education to market needs;
- by promoting private sector intervention.

The attainment of these goals is essential for changing economic structures and for the modernisation and emancipation of economies.

III.2.b. The Development of ICT

88. The telecommunications market in North Africa has become particularly dynamic in recent years, when it has seen some of the highest growth rates in Africa. The recent development of Information and Communication Technologies (ICT) illustrates the decision to opt for the modernisation and diversification of the North African economies. This sector has a stimulating knock-on effect on other sectors and vital fields such as exports, which gives it a particular strategic importance.

89. In Tunisia, the rapid spread of internet and cellphone use is a phenomenon which cannot be ignored today. These two means of communication have undergone very rapid development, of over 200 percent over the last four years (UNDP, 2004). Moreover, in 2003, according to the ITU, more than 1.5 million lines were in service for Tunisia's 10 million inhabitants. This figure was expected to reach 2 million in 2004.

90. Morocco was quick to opt for deregulation and competition in this sector, with the granting of the second GSM licence in 1999, the opening up of new telecommunications capital in 2000, the complete deregulation of the telecommunications sector in 2002 and the granting of new licences for GSM and fixed telephones. In this regard, it has frequently been cited by the ITU as an example of good management practice, and is today ranked first among the African countries in terms of telephone density. The infrastructure (transport and telecommunications) sector's share in the real GDP has shown a marked improvement in the last ten years: 7.2 percent in 2001 as opposed to 5.1 percent in 1991. This sector is considered among the most promising in Morocco, because of the expansion of its information technology branch.

91. According to the most recent figures, Libya is estimated to have 660,000 fixed telephone lines, which gives a telephone density of around 10 percent, the goal being to exceed 30 percent by 2020. The use of cellphones, presently estimated at 7 lines per 100 inhabitants, should increase in 2005 after the granting of a second GSM licence in September 2004.

92. Egypt is among the countries which understood very early on the strategic importance of the ICT sector and the extent of its contribution to a country's development. The Egyptian internet market is considered to be the largest in Africa, with more than 3 million users at the beginning of 2004[9].

93. These few examples demonstrate that the subregion is headed in the right direction. However, the steps that must be taken to achieve a knowledge-based economy cannot be limited to performances in the field of access, and must be accompanied by a firm political will, realised through effective implementation programmes. These must include actions in the following fields:

- The development of relevant information systems which makes possible the monitoring of progress achieved and the evaluation of the transition to a knowledge-based economy and its impact on economic and social development;
- The adoption of an innovative approach to structuring the whole of the educational and productive system around the notion of 'competence';
- The development, at all levels, of a system of research which makes possible the stimulation of creativity and the dissemination of the results of innovation;
- The formulation of a policy centred on the development of networks of excellence selected and integrated into the international community.
- The strengthening of good governance and of the regulatory framework in order to increase competition and transparency in public management and to minimise bureaucratic delays.

94. As long as the countries of North Africa do not view their insertion into the knowledge-based economy as a priority to be dealt with globally and integrated into all their production activities, the optimal transformation of their economic structures will not be possible.

III.3. GOVERNANCE

95. All countries are aiming at a progressive opening up of their markets. To benefit from the advantages of this opening via an appropriate transformation of economic structures, it is indispensable for countries to prepare for it at all economic levels, micro and macro, and in all fields, legal, political and social.

96. Faced with a transformation on such a scale, all countries have their judicial systems undergoing reforms, legislative powers which are progressing in order to gain sufficient experience and administrations which are getting more and more practised at their main task, which is to stimulate and direct the economy, especially the market economy. In this context, the government should set an example by installing a climate of confidence in the business world and indeed in the whole of society. In particular, this must be done in such a way that the regulatory framework is transparent and predictable in the medium- and long-term, so as to give confidence to capital, the factor which is most lacking in the region.

97. Despite the efforts made at the various levels, the requirement of efficiency and competitivity, combined with the need to reduce the budget deficit and that of the balance of payments, causes the countries problems of distribution of income and assignment of resources. These problems are complicated by the following:

- The excessive centralisation of the administration, which is a handicap for the rationalisation of public spending, causing the taxation system to be perceived more as a predator than as a redistributors;

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[9] *announced by His Excellency Mr. Ahmed Nazif, the Minister of Telecommunications, at the opening of Africa Telecom*

- The fact that the public sector is becoming less and less profitable, below the level it should be at; the sometimes hasty privatisations carried out by most of the countries of the subregion have reduced the powers of the only actor capable of creating and sustaining social mutations, and forced it to coexist with private economic sectors which are speculative and unproductive, unable to take over and not yet capable of serving as the kingpins of development.

98. The situation is still more complicated by the existence of behaviour suggestive of corruption and favouritism. This means that auditing must be carried out at all levels, at least a posteriori, and requires effective inspections of public finance.

99. With regard to the further implementation of legal and judicial reform, the ECA 2005[10] African Governance Report insists on the need for monitoring and reform of the institutions which will be responsible for the application of the new laws. This report underlines the need for transparency and openness in the reform process, in order to limit opposition to it, and the need to incorporate common law within the legislation.

100. The reinforcement of the legal system's capacity should be carried out by freeing it from the executive power and guaranteeing its independence, by modernising the courts through the mechanisation of certain procedures, and by incorporating customary courts into the judicial system and providing them with qualified staff. The independent financing of the judicial sector is an important means of ensuring this reinforcement.

101. As for the improvement of public sector management, the ECA Governance Report[11] observes that the problems of the public sector sometimes also affect parliaments, and that there is no miracle cure: 'Only a long term, sustained and well thought out effort, which is adapted to the situation of each country can succeed'. However, the main components needed to strengthen public sector institutions can be summed up as follows: the institution of a capable state with the appropriate structuration; the limitation of arbitration by the administration; the simplification of administrative procedures; the adoption of an appropriate pay policy and support from both internal partners (universities) and external partners (the financing of technical assistance) in order to solve the problem of the lack of a technically skilled workforce.

102. The reinforcement of the legislative bodies entails giving them real independence, together with raising educational levels and often of technical skills (in the case of specialised commissions). Moreover, it is essential to simplify citizens' access to parliamentary information, to set up contexts for exchanges between the parliament and civil society, and to keep parliament well-informed about all the countries' economic, social and political events.

103. Progress in governance in the countries of the subregion can be seen as a stimulant for the adaptation of economic structures, as well as infrastructures and a qualified workforce.

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[10] *Synopsis of the Report prepared for the forth African development forum (ADF IV), posted on the website www.uneca.org.*

[11] *ECA (2005), African Governance Report.*

IV. RECOMMENDATIONS

104. In this work we have tried to study the major trends in the structures of the North African economies, on the basis of the available data. The study has above all allowed us to confirm that a more detailed analysis is needed. For this reason we make the following recommendations:

- The analysis should be extended through a more detailed study, which would allow the countries of the subregion to have a better understanding of the functioning of their economies and to determine more precisely the sectors with most growth potential;
- The launch of studies to forecast the evolution of the economic structures should be envisaged, based on the present situations and on multiple scenarios for the future political evolution of the subregion;
- A more thorough study on a regional scale should be carried out, using more adequate means (especially statistical data), to examine past trends and optimal trends for the economies of North Africa. This would be carried out on the basis of existing studies in the member states and with the goal of a real subregional integration. This would not be a limited study but would extend over several years.

105. Commitment to a global and thorough study also entails tackling the question of the development policies adopted and the reforms which go with them, in particular the structural reforms and the actions undertaken within this framework for restructuring and sectoral redeployment. In particular, the behaviour of economic agents and the policies chosen to incite and orient these agents at the level of consumption, investment and exports should be analysed in order to obtain a better understanding of the means to be used in implementing the restructuration and diversification strategies.

106. In its third chapter, this report considers some constraints on the evolution of economic structures, but a systematic review of all the factors that influence this evolution is needed before we can define the conditions and specifications of the national and subregional strategies for restructuration of the North African economies.

107. The strategies of diversification and restructuration should be described in detail, including in particular a description of the reforms, measures and accompanying actions. Among these reforms those relating to the financial system, including those concerning the banking system, the money market and the financial market, are important. Similarly, budgetary reform, whether fiscal reform or reform of budgetary spending, is essential. The reforms and actions aimed at adapting the workforce to the needs of the economy, in terms of qualifications and knowledge of technology, and making possible a better equilibrium within the job market, are of capital importance.

108. It seems difficult to carry out such an analysis, given the poor quality of statistical information in the region, but it deserves to be attempted on the regional level in order to reveal the potential of intraregional exchanges.

109. In addition, the countries should be encouraged to draw up social matrices; the Subregional Office could assist them in this task and in that of preparing the statements which could be used in place of these matrices.

CONCLUSIONS

110. The economic structures of the North African countries have not generally seen major changes over the last five years. Thus growth has stagnated apart from some transitory events, and investment rates owe their growth, if any, to exogenous factors. Similarly, the structure of foreign trade has been affected only by the discovery of oil in Sudan, and the GDP structure displays only trends due to oil, with the exception of a strategic evolution of the tertiary sector in Tunisia.

111. However, the analysis of diversification, the general goal of all structural changes, remains incomplete without a measure of the effects of this diversification. To achieve this there is a need for specific information and tools. Social matrices would seem to be the most appropriate tool for this task, but alternative actions may be attempted if difficulties are encountered in the preparation of matrices.

112. Commitment to a global and thorough study also means tackling the question of the development policies selected and the reforms which go with them, in particular the structural reforms.

113. It appears from the study of external constraint that the latter plays a determining role in the stagnation of structures in North Africa. In fact, it is the cause of the rigidity of foreign trade structure in the oil-producing countries and of the fragile equilibrium of the balance of payments in the other countries.

114. The second major constraint concerns the investment environment, which encompasses both the modernisation of infrastructures and the respect of rules of good governance. This constraint would seem to be as active as the first one in the countries of the subregion.

115. Efforts must thus be made to make the legislative and judicial systems independent and to reinforce their capacities as well as those of the public sector in general. Similarly, investment in the modernisation of infrastructures, in ICT and in training the workforce to a high technological standard would allow access to the world of knowledge, which is the best way for the adaptation of economic structures to the realities of the world today.

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