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**Expert Group Meeting
26 – 27 February 2013 – Rabat, Morocco**

**Diversification and sophistication in the process
of economic transformation of the
North African countries**

Aide-memoire

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I - Context

North African countries could and need to rank among emerging economies through a significant transformation of their economies, which raises the issue of the nature of processes to guide these structural changes. There is the issue of the poor performance of growth in North Africa, facing unique challenges in the region and the relative slowness of economic and social development, attributed at least partially to the lack of diversification of these economies. Even if some of them are more diverse than others, the performance of most economies in the region is still too heavily dependent on commodity prices or weather conditions. North African economies are poorly diversified, and tend to specialize in sectors or products that face sluggish demand and low value added, and some export with little or no processing and therefore almost no value added.

The price volatility of raw materials associated with the crises of recent years has slowed economic growth and showed the high vulnerability of North African economies to shocks, despite their low level of integration into global markets, which stresses again the need for their structural transformation.

Indeed, the relative specialization in production and exports of the country and its negative impact on development has confirmed the need for diversification and economic reforms as a priority after crises. The question that arises is how to revive and strengthen the process of diversification in order to sustain growth and improve the competitiveness of the economies of North Africa? A corollary question is how to make diversification an engine of structural change in North African economies.

The experience of developed countries as well as emerging countries, particularly in Asia, show that it is through deep structural transformation of the economy that these countries have managed to find real development (UNIDO 2009). Similarly, studies (Imbs and Wacziarg 2003) show that the transition from the group of low-income countries to middle-income countries is through the development of a strong and diversified economy that also emphasizes the role of the state in this process.

In North Africa, this issue is even more acute. With minerals and hydrocarbons important, the North African states have considerable leverage to direct and guide the development of the productive apparatus. Nevertheless, the countries of the sub-region face many challenges: the issue of unemployment stresses 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 (explosive growth) has yet to be identified in the industries and services in the region, and hence the need for a structural transformation of North African economies.

The strengthening of this process should take place in two directions. The first is related to the acceleration of the pace of diversification. The second is a change in the nature of the process through its reorientation towards more dynamic and efficient technologies. Indeed, the literature suggests that beyond economic diversification and exports, it is the nature of this

particular diversification and sophistication in the process of production and exports, which constitutes a lever for the structural shift of these economies (Hausmann et al. 2007). Modernization, sophistication and diversification of economic structures in these countries may constitute a new paradigm for the development of the region in the coming years. Increased processing would lead to higher value-added. A supportive strategy for exports is to enter niche markets and market diversification.

Therefore, we need to answer a number of questions about the role of diversification and sophistication in the structural changes in North Africa. What is the length and type of diversification and sophistication in the sub-region? What are the factors affecting it? What are the links between sophistication of production and productivity growth? What is the role of regional integration in the process of diversification and sophistication of economies? Moreover, what role can and should the state play in this process? What are the key institutions to guide this process of diversification and sophistication? What is the role for the private sector, academia and civil society in these institutions? What can we learn from specific experiences in Africa and other developing countries?

This new paradigm will open up new perspectives. First, it will provide a new foundation for strong and sustainable growth. Then it will promote improvement of the competitiveness of North African economies and improve their international integration. Finally, enhancing the growth and competitiveness will be the foundation for a lasting improvement in human welfare.

II - Objectives of the consultation

The Office for North Africa of ECA (ECA - NA) is mandated to assist its Member States to address the challenges they face and to facilitate economic cooperation, integration and development at the subregional level. To this end, and in the ongoing search for greater efficiency, the Office included in its 2012-2013 program the Organization of an expert meeting on diversification and sophistication in North Africa. A background note on the subject will be prepared by the Office, to serve as introductory working document for the meeting. It will be supplemented by discussion notes and the contributions of all the experts participating in the meeting. The overall objective of this consultation is to support the deliberations and the efforts of the Member States in the transformation of their economies and to provide decision-makers and actors in the process of reforms of the elements for analysis and action.

The specific objectives are:

- To have discussions on the optimum conditions for acceleration of the diversification and the sophistication of the production and exports and priority lines of action for a structural transformation process, which fully takes into account North African economies in the emergence and sustainable development.
- They must ultimately make recommendations on how to further the process of diversification, sophistication and the structural transformation of North African economies, as well as the expectations of the various stakeholders (State, civil society, media, international community, the United Nations).

III - Format of the meeting

The meeting is scheduled to last a day and a half. Its work will be organized in plenary sessions

- (i) an analysis of the challenges and issues of structural transformation in North Africa through diversification and sophistication, taking into account the experiences of other regions;
- (ii) the state of play of diversification and sophistication in North Africa;
- (iii) taking into account the nature and the specificities of the enterprises of the subregion;
- (iv) a discussion on the green economy and the opportunities of sophistication for the structural transformation of the economies;
- (v) a reflection on the role of regional integration as a lever of diversification and sophistication;
- (vi) the formulation of recommendations for a more sustained commitment by stakeholders in the process of structural transformation.

IV - Participation

Will participate in this expert meeting of senior representatives of the Member States, experts from the subregion and other parts of the world, representatives of the private sector, academic world, organizations of civil society and representatives of institutions actresses in the material.

V - Date and place

The meeting will be held in Rabat, Kingdom of the Morocco, on 26 and 27 February 2013.

VI - Contacts

Information about the meeting can be obtained:

On the part on substantive part from

Mr. Nassim Oulmane

Email address: oulmane@uneca.org

Ms. Juliana Gonsalves

Email: jgonsalves@uneca.org

On the logistics from

Miss Gaia Calligaris

Email: gcalligaris@uneca.org

Ms. Naima Sahraoui

Email: nsahraoui@uneca.org

On documentation

Mr. Mohammed Mosseddek

Email: mmosseddd@uneca.org

Office Phone: 00 (212) 537-71 56 13 / 537 71 78 29

E-mail: srdc-na@uneca.org - Website: www.uneca-an.org / www.uneca.org