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# OIC OUTLOOK

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## STRUCTURE OF THE ECONOMY IN THE OIC MEMBER COUNTRIES

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# OIC OUTLOOK

## STRUCTURE OF THE ECONOMY IN THE OIC MEMBER COUNTRIES

Value added of a sector means the sector's contribution to the total GDP and is calculated as production minus intermediate consumption in that sector. In this report, it is aimed to investigate the value added structure of three major sectors (agriculture, industry and services) at the sub-groups<sup>1</sup> level of the OIC. But the individual country performances will also be highlighted when it is striking.

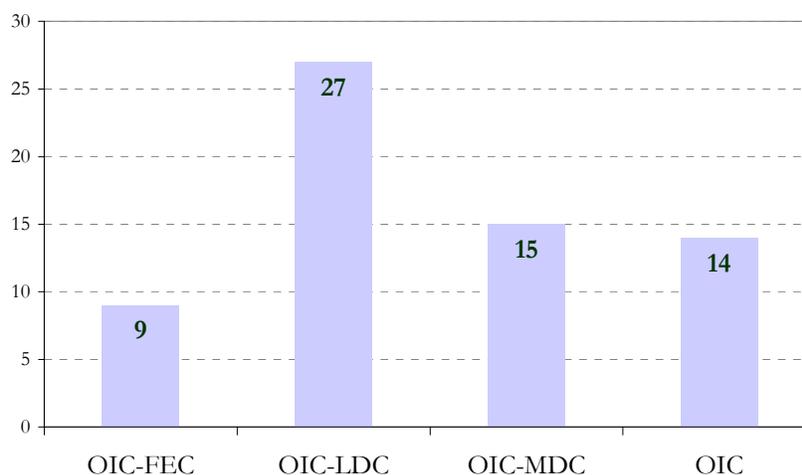
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### AGRICULTURE

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Agriculture is widely known to be the primary economic activity and is assumed to play a major role in the economies of the developing countries. This argument is valid for some OIC member countries, especially for LDCs, as well.

*Figure 1: Agriculture Value Added as % of GDP Average 2000-2005*



In Figure 1, it can be seen that agriculture accounted for 14%, on average, of the total GDP of the OIC countries during the six-year period of 2000-2005<sup>2</sup>. Among the sub-groups of OIC, the LDCs have the highest share of 27% as expected, followed by the MDCs with 15%, while the FECs are lagged behind with only 9%.

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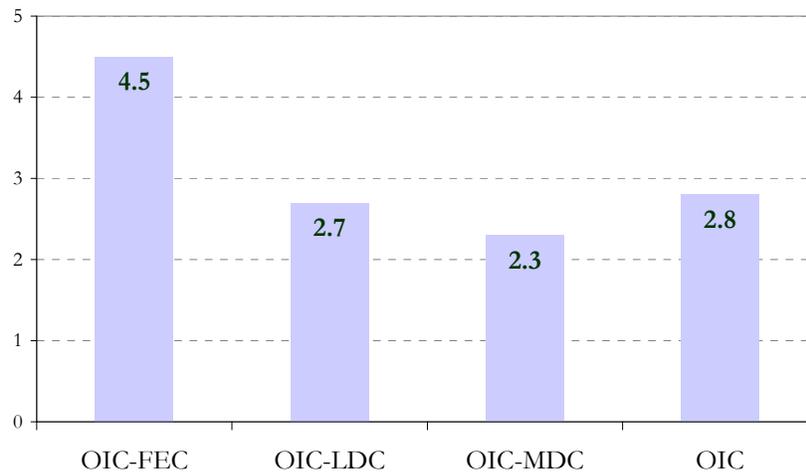
<sup>1</sup> FEC: Fuel Exporting Countries (11 countries), LDC: Least Developed Countries (18 countries), MDC: Middle Developed Countries (17 countries)

<sup>2</sup> The calculation was made based on the countries for which the data are available (see Table 3).

Coming to the individual countries, Kuwait, which is a fuel-exporting country (FEC), recorded the lowest rate of 1% within the group of OIC member countries. In contrast, Guinea-Bissau is at the top with a rate of 60%. Agriculture is also the dominant sector in 7 countries, 5 of which belong to the LDCs sub-group, namely Chad, Guinea-Bissau, Mali, Sierra Leone and Togo, and 2 to the MDCs sub-group, Cameroon and Kyrgyz Republic (see Table 3 below). Hence, as the income level increases, the share of the agricultural value added in total GDP decreases.

Figure 2 shows the average growth rates of the agriculture value added of the OIC and its sub-groups in the period 2000-2005<sup>3</sup>. The highest average growth rate of 4.5% was recorded by the OIC FECs while the lowest (2.3%) was recorded by the OIC MDCs. In the same period, the average growth rate of the agriculture value added of the OIC countries as a group was only 2.8%. Looking Figure 1 and 2 together, a negative relation is observed between the share of agriculture in GDP and its growth rate (i.e. for the countries where the agricultural share is low/high, the average growth rate is high/low).

*Figure 2: Agriculture Value Added Average Growth Rate (2000-2005)*



However, in overall picture, the performance of agriculture in OIC countries is not promising. In fact, a combination of both internal and external factors has recently contributed to the continued weak performance of the agriculture sector in many OIC countries. Externally, these include the fluctuations in world agriculture commodity

<sup>3</sup> The average was calculated using the formula for CAGR (Compound Annual Growth Rate):  $[(FV/IV)^{1/n} - 1] \times 100$ , where FV is the value at the end of the period, IV is the value at the beginning of the period and n is the number of years.

prices and trade difficulties that most of these countries are still facing in the international commodity markets. Internally, among other, the scarcity of water resources in many of these countries, inadequate agricultural investments and technologies and the increasing migration of agriculture labour force from the rural areas to the urban areas seeking higher wages in other sectors can be listed.

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## INDUSTRY

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Industry recorded an average value added share of 39% of the total GDP of the OIC countries during the period under consideration. Since oil and gas production are categorized under industrial activities, the high rate of the OIC FECs (50%) and low rate (26%) of the OIC LDCs are simply anticipated (Figure 3). The OIC sub-group of LDCs might even had a lower rate if countries such as Yemen (42%) and Sudan (29%), which are also FECs although they are classified under the OIC LDCs, are excluded from that sub-group. The OIC MDCs recorded an average rate of 34% and ranked second after the OIC FECs. At the individual country level, Iraq is the country with the highest rate of 70% and Guinea-Bissau, which has the leading position in share of agriculture, is at the bottom with 12%. Among other OIC countries, industry is the dominant sector in 13 countries, 2 of which, namely Malaysia and Indonesia, are MDCs. The remaining 11 countries are FECs (see Table 3).

*Figure 3: Industry Value Added as % of GDP Average 2000-2005*

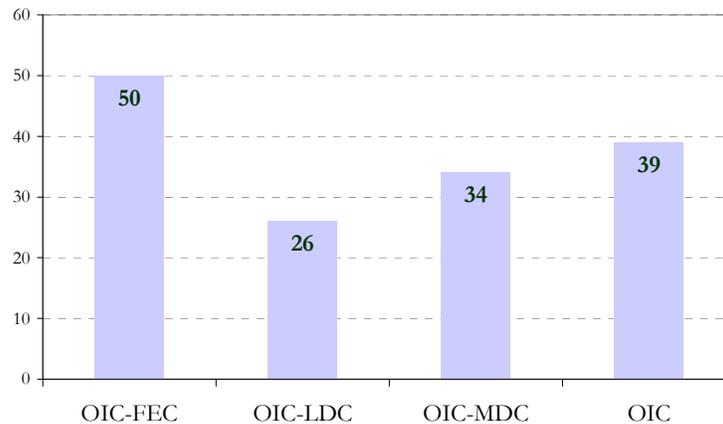
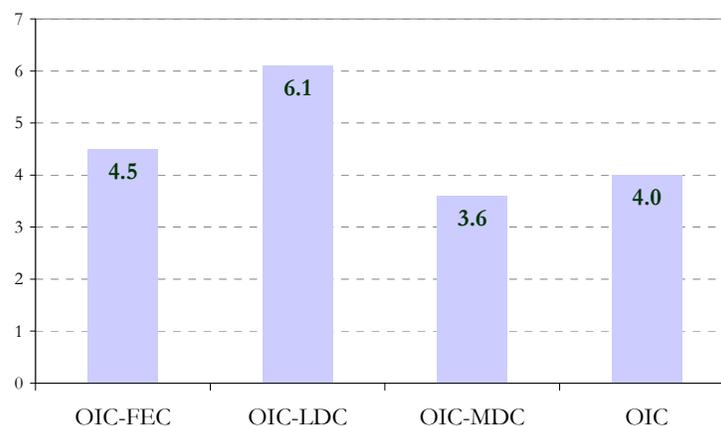


Figure 4 shows the average growth rates of the industry value added of OIC and its sub-groups in the period 2000-2005. It is observed that the OIC LDCs subgroup recorded the highest average growth rate of 6.1% followed by the OIC FECs with 4.5% and the OIC

MDCs with 3.6%. Meanwhile, the average growth rate of the industrial value added of the OIC countries as a group was 4%.

*Figure 4: Industry Value Added Average Growth Rate (2000-2005)*



However, since the production of gas and oil is classified under the industrial activities, the share of industry in the GDP of an economy, per se, does not exactly reflect the industrialisation level of that economy. Therefore, the performance of the manufacturing sector must also be considered in order to have a clear picture of the performance of the industrial sector as a whole. This can be seen in Table 1 below.

*Table 1: Manufacturing as a Sub-sector of Industry*

	MANUFACTURING VALUE ADDED AS % OF GDP (AVERAGE 2000-2005)	MANUFACTURING VALUE ADDED GROWTH RATE (AVERAGE 2000-2005)
OIC-FEC	9	6.9
OIC-LDC	12	5.7
OIC-MDC	20	2.8
OIC	15	1.6

Within the subgroups, the highest average share of the manufacturing sector in the GDP (20%) was recorded by the OIC MDCs and the lowest (9%) was recorded by the OIC FECs. In contrast, OIC FECs and OIC MDCs have the the highest (6.9%) and lowest (2.8%) average growth rate of the manufacturing sector, respectively. On the other hand, OIC LDCs show a moderate structure with the manufacturing sector accounted for 12% of their total GDP and by an average growth rate of 5.7% during the period under consideration.

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## SERVICES

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Services have become major economic activities and one of the main economic sectors in most of the developing economies in recent years. Figure 5 shows that the average share of the value added of the services sector in the OIC countries as a group accounted for 47% of their total GDP in the period 2000-2005. The services sector is the dominant sector in 27 OIC countries, almost all of them are MDCs and the LDCs (see Table 3). Among the individual countries, Sierra Leone had the lowest share of 19% while the contribution of services sector was as high as 71% for Lebanon. At the OIC sub-groups level, the OIC MDCs are at the top with an average share of 51%, which is higher than the OIC average of 47%, while the OIC FECs show the lowest performance with 41% share. The share of OIC LDCs is equal to that of the OIC average.

*Figure 5: Services Value Added as % of GDP Average 2000-2005*

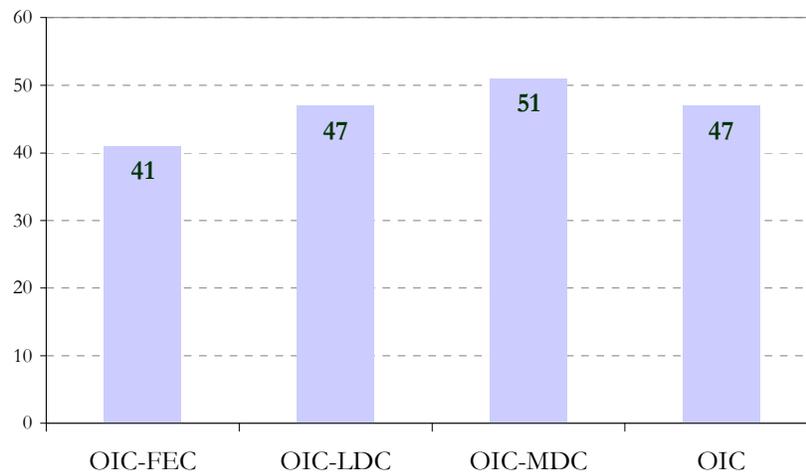


Figure 6: Services Value Added Average Growth Rate (2000-2005)

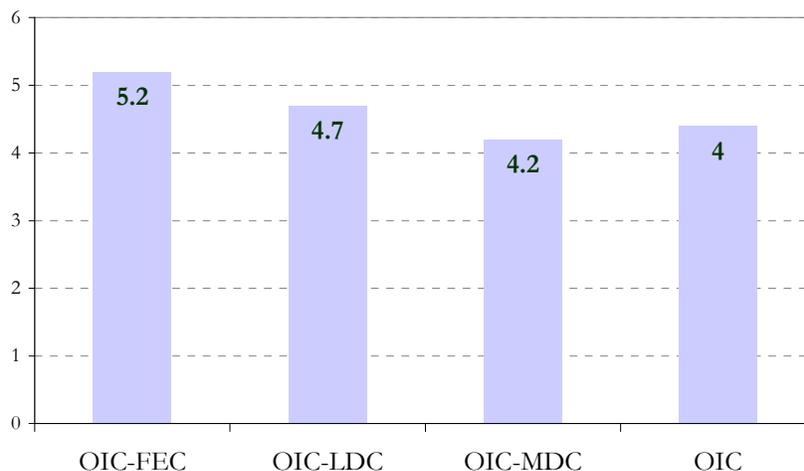


Figure 6 above depicts the average growth rates of the value added of the services sector of the OIC and its subgroups in the period 2000-2005. The highest average growth rate of 5.2% was obtained by the OIC FECs, followed by the OIC LDCs with 4.7% and the OIC MDCs with 4.2%. In the same period, the average growth rate of the value added of the services sector of the OIC countries as a group was 4.4%.

When the average growth rates of the three sectors in the group of the OIC countries are compared to each other in the period under consideration, it is observed that the highest growth rate occurred in the services sector with 4.4% , followed by industry with 4% and agriculture with 2.8%.

Table 2: Structure of the Economy in the OIC Member Countries

	VALUE ADDED AS % OF GDP OIC-TOTAL (AVERAGE 2000-2005)	VALUE ADDED GROWTH RATE OIC-TOTAL (AVERAGE 2000-2005)
Agriculture	14	2.8
Industry	39	4.0
Services	47	4.4

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## CONCLUDING REMARKS AND POLICY IMPLICATIONS

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The above picture about the sectoral composition of GDP in OIC member countries shows that the services sector with a share of 47% has started to play a very important role in the economies of most OIC member countries. On the country level, we see that out of the 46 countries , for which data is available, the services sector is the leading

sector in 26 countries. This sector has at the same time recorded the highest average growth rate for the period 2000-2005.

Although there is a considerable number of OIC member countries whose economies are dependent on agriculture, this sector has fallen behind with respect to the services and the industry sector. The rate of growth in the mentioned period for agriculture is the lowest with 2.8% and the overall contribution of the sector to the OIC economy is only 14%.

The industry sector has a share of 39%, half of which is contributed by 15 member countries belonging to the FEC's sub-group. The progress of this sector is close to that of services sector and is more satisfactory than agriculture in the period under consideration. The high share of industry in the total GDP of OIC can be explained by the classification of the production of oil and natural gas as industrial activities. Because these are the main production commodities in countries that make up the highest share of the total OIC GDP.

The fluctuation of prices in the international markets, and the lack of water have resulted in the deterioration of agriculture sector within the OIC member countries. This deterioration has led to occupational problems that have caused an increase in the level of poverty in some OIC member countries. It should be highlighted that agricultural productivity is an important aspect of alleviating poverty and developments in the field of agriculture will generate positive results for overcoming poverty in the OIC member countries.

In LDCs , particularly, and in other countries, where agriculture is the dominant sector and where migration from rural areas to urban areas has followed an upward trend, , strict actions should be taken for the development of a proper system of policies to support and improve agriculture. In order to control migration and maintain sustainability in agriculture, measures that will create opportunities for farmers or small agricultural enterprises should be introduced. Stress should be laid on investment in irrigation, roads, and other rural infrastructure along with maintaining stable output prices for commodities and subsidies in irrigation, fertilizers and pesticides. Low pay-back development credits and financing can be considered as an aid for farmers to

continue their production. Some of these actions have been undertaken in Indonesia and have succeeded. Some drawbacks were recognized during the process but solutions will differ from country to country.

In the OIC MDC's , the services sector has the highest share of GDP. On the other hand, when compared to other subgroups, the MDC's have the lowest growth rate in all 3 sectors of the economy. As already stated, most LDC's used to be dependent on agriculture. From the distribution of sectors on the country level, we can see that LDC's and MDC's both have 13 countries in which the services sector has the biggest share. Among countries for which data is available only 2 MDC's , namely Cameroon and Kyrgyzstan , are dominant in a sector other than services which is agriculture. In the light of the fact that these countries are highly dependent on the services sector, measures to be introduced should be towards developing this sector in these countries and maintaining a higher growth rate in the years to come.

In FECs and in other countries where the economies are bound to the international markets and international price fluctuations, measures should be taken based on the idea of creating a safe environment for these economies against international fluctuations to overcome any drawbacks.

The contribution of production is what determines the export commodities of the countries. 15 of the OIC member countries are classified as non-fuel primary product exporters and 17 are classified as fuel exporters (IMF 2007, UNCTAD 2004).

The impact of production on exports should be studied carefully and stress should be laid for the development and sustainment of the achieved development in the sector that has the highest contribution to the economy. This does not mean that countries should rely on only one sector for development. All sectors of the economy should be considered as important but the sector with the highest contribution and continuous productivity should be kept alive. This will help in overcoming other socio-economic problems as unemployment, reducing gaps among income groups and alleviating poverty.

Table 3: Value Added of Economic Sectors as % of GDP 2000-2005 (average)

	AGRICULTURE	INDUSTRY	MANUFACTURING	SERVICES
Algeria	9	61	6	30
Azerbaijan	10	62	8	28
Gabon	8	57	5	35
Iran	10	45	12	45
Iraq	9	70	2	21
Kuwait	1	50	2	49
Nigeria	23	57	4	20
Oman	2	56	8	42
Saudi Arabia	4	59	10	37
Turkmenistan	20	41	22	39
United Arab Emirates	2	56	9	41
<b>OIC-FEC</b>	<b>9</b>	<b>50</b>	<b>9</b>	<b>41</b>
Afghanistan	36	25	15	39
Bangladesh	20	27	17	53
Benin	32	14	8	54
Burkina Faso	31	19	14	50
Chad	45	13	11	42
Gambia	33	13	5	54
Guinea	25	36	5	39
Guinea-Bissau	60	12	9	28
Mali	38	25	3	37
Mauritania	24	29	5	47
Mozambique	22	30	14	48
Niger	40	17	7	43
Senegal	18	19	11	63
Sierra Leone	50	31	5	19
Sudan	34	29	7	37
Togo	42	23	10	35
Uganda	33	24	9	43
Yemen	13	42	5	45
<b>OIC-LDC</b>	<b>27</b>	<b>26</b>	<b>12</b>	<b>47</b>
Albania	23	21	12	56
Cameroon	43	19	10	38
Cote d'Ivoire	23	26	19	51
Egypt	15	36	17	49
Indonesia	13	46	28	41
Jordan	3	29	19	68
Kazakhstan	7	39	15	54
Kyrgyzstan	38	25	9	37
Lebanon	7	22	14	71
Malaysia	9	51	31	40
Morocco	14	30	17	56
Pakistan	22	25	18	53
Syria	23	36	30	41
Tajikistan	24	32	24	44
Tunisia	12	28	18	60
Turkey	12	23	14	65
Uzbekistan	28	29	11	43
<b>OIC-MDC</b>	<b>15</b>	<b>34</b>	<b>20</b>	<b>51</b>
<b>OIC</b>	<b>14</b>	<b>39</b>	<b>15</b>	<b>47</b>