

2014 African Transformation Report

Growth with Depth

acet African Center
for Economic
Transformation
analysis. advice. advocacy.

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Africa is growing rapidly; but will it last?

Will the growth make our countries internationally competitive and resilient?

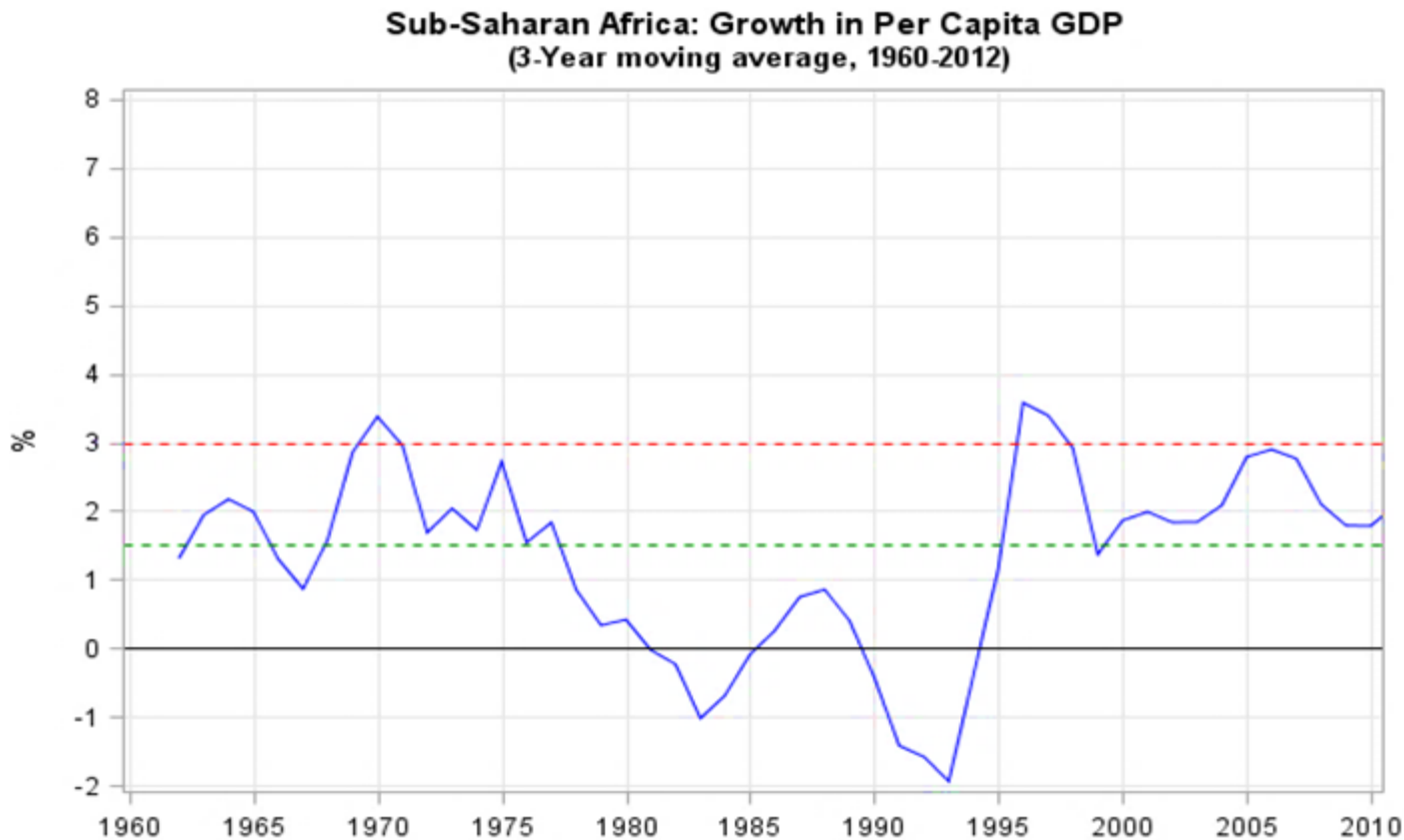
Will the growth expand formal employment to bring about shared prosperity?

AFRICA'S GROWTH REVISITED

Africa had a period of rapid growth before but it did not last

The rapid growth was followed by two decades of economic collapse.

How do we ensure that this time the growth continues?



WHAT IS TO BE DONE?

BUILD ON RECENT POLICY IMPROVEMENTS;

PURSUE ECONOMIC TRANSFORMATION

Economic Transformation = Growth with DEPTH

- **D**iversification of economic production and exports
- **E**xport competitiveness
- **P**roductivity increases
- **T**echnological upgrading
- **H**uman well-being improvements



FEATURES OF THE *AFRICAN TRANSFORMATION REPORT*

1.

Focuses economic policy in Africa on economic transformation

HOW?

Provides a clear and measurable definition of economic transformation

Evaluates the performance of SSA countries

2.

Provides analysis to inform transformation strategies, policies and implementation

Compares African countries with each other on economic transformation

Discusses key drivers of economic transformation

3.

Provides a tool (the ATI) for monitoring economic transformation

Explores potential pathways to transformation

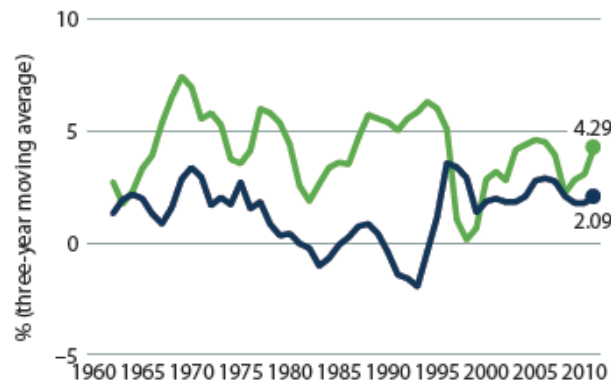
TRANSFORMATION RECORD

Sub-Saharan Africa vs. Comparators

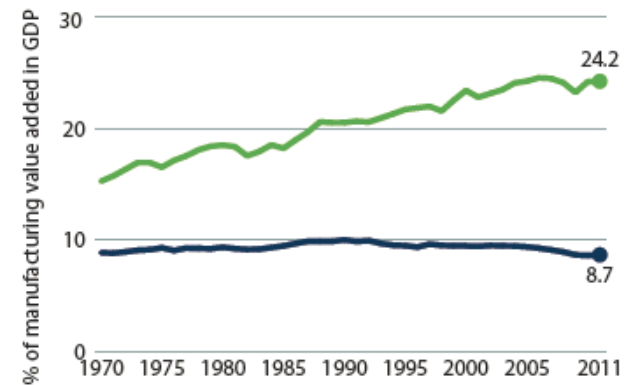
Figure 1 Growth with DEPTH for transformation

— Sub-Saharan Africa — Earlier transformers

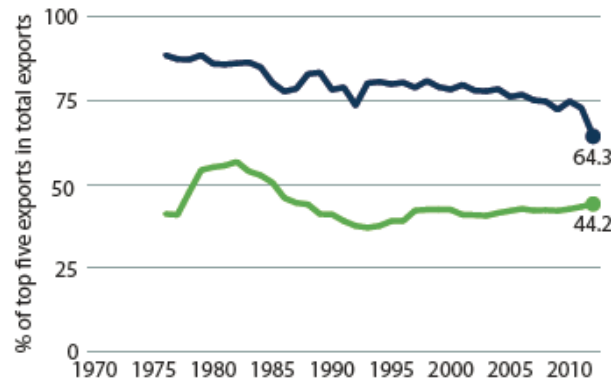
GDP per capita growth



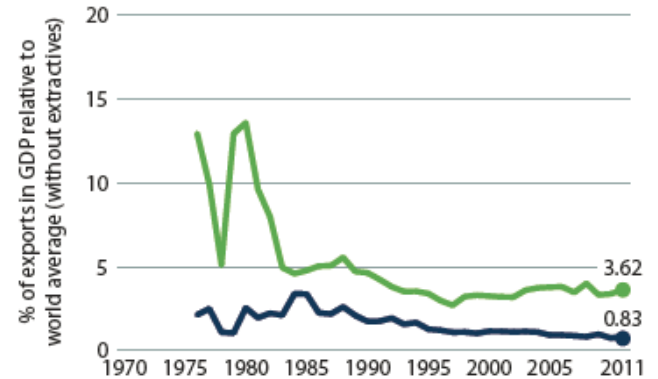
Diversity in production



Diversity in exports



Export competitiveness



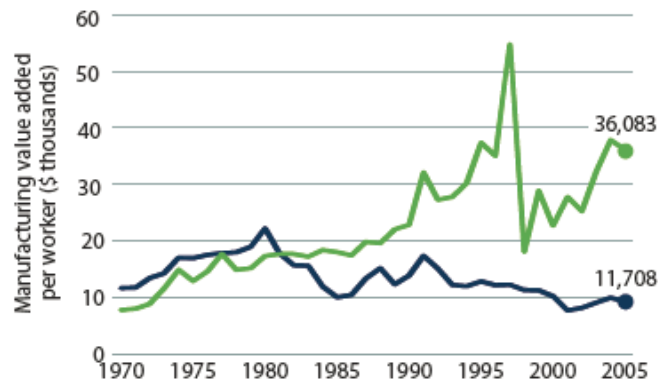
African countries have not transformed in more than 40 years

TRANSFORMATION RECORD

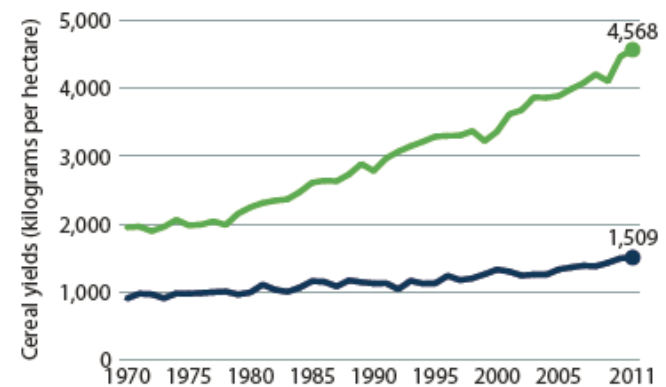
Sub-Saharan Africa vs. Comparators

Whether we look at the period of state-led import-substitution or the subsequent period of “structural adjustment” with liberalizations, privatizations, and “rolling-back” of the state.

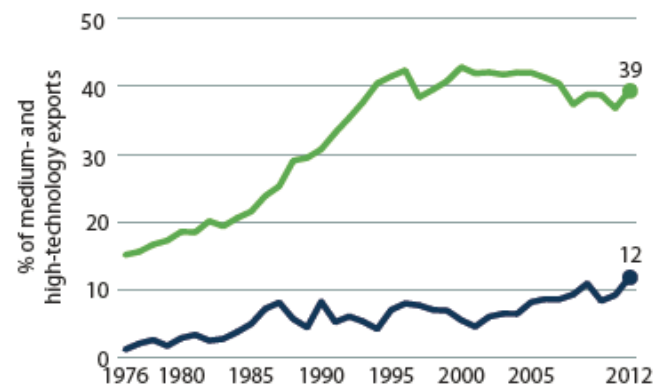
Productivity in manufacturing



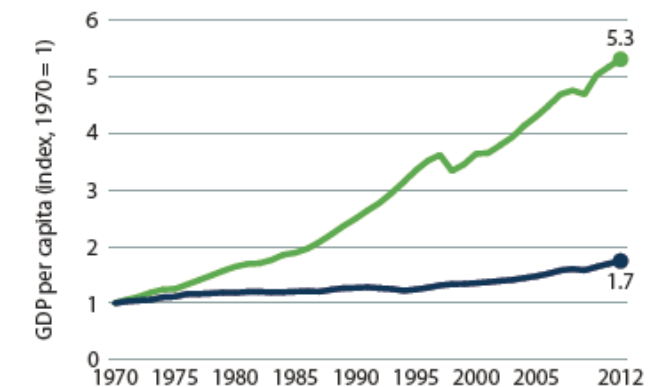
Productivity in agriculture



Technological upgrading

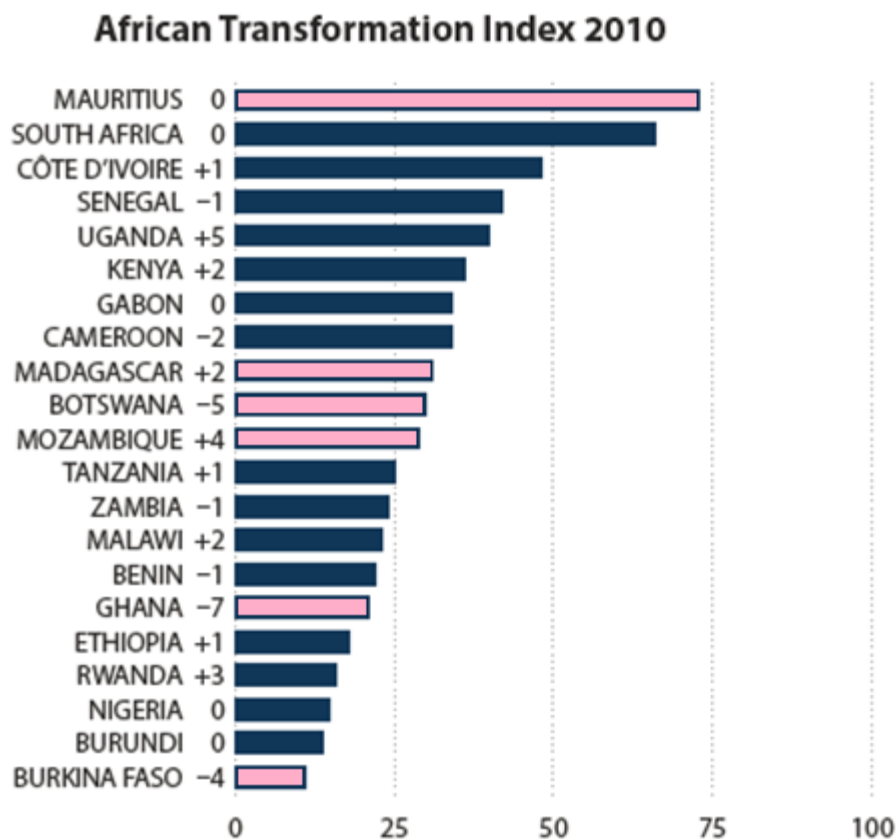


Human well-being



THE AFRICAN TRANSFORMATION INDEX

Figure 1.4 How 21 African countries rank on transformation



It's time to use the growth with depth framework to promote economic transformation in Africa—and to learn from past successes and failures on the continent and elsewhere.





DRIVERS

The State and the Private Sector as Partners in Transformation

- **Private sector:**
 - Leads in production and marketing of goods and services
 - Creates employment
 - Expands exports
- **State:**
 - Sets vision and strategy
 - Provides good economic management—macro and exchange rate, public expenditure management
 - Provides a business-friendly environment
 - Facilitates businesses' access to technology and export markets, and helps them venture into new economic activities



DRIVERS

The State and the Private Sector as Partners in Transformation

Public-private partnership requires:

- **Effective coordination within government on strategy development and implementation**
- **Effective consultation mechanisms between the government and the private sector**
- **Specific transformation initiatives and institutions—export and investment promotion, industrial zones and parks, transformational development banks**
- **An Entrepreneurial Nation making bold and informed bets**



DRIVERS

Export Promotion

- Exports can be critical; they were for East Asia.
- Global environment has changed, but export promotion can still help—but the strategy and instruments must adapt:
 - *Products*—must be based on current comparative advantages of abundant cheap labor and natural resources
 - *Markets*—OECD, yes; but also emerging markets (China, India, Brazil) and regional markets in Africa
 - *Instruments of export promotion*—have to be different, particularly because of the WTO

DRIVERS

Export Promotion

Figure 3.4 Where the growing export markets are

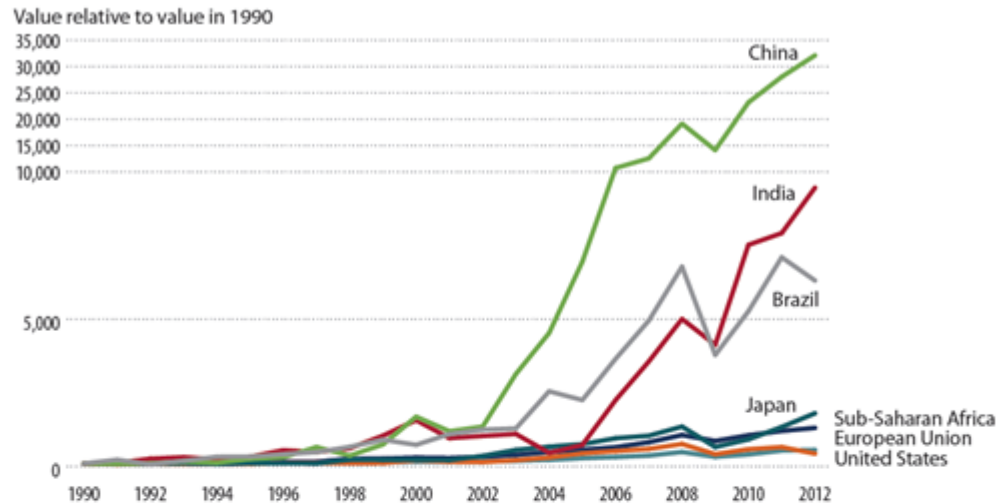
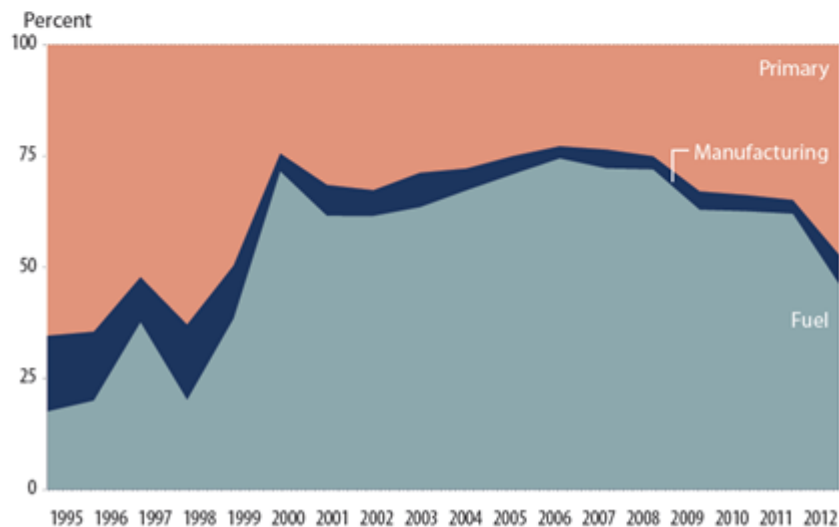


Figure 3.5 Composition of China's imports from Sub-Saharan Africa



Pursuing growing and emerging markets while improving access to traditional OECD markets.

China's imports from Africa are mostly fuel and primary commodities. Need to expand manufacturing.



DRIVERS

Export Promotion

- **Need clear Export Promotion Strategy—to complement National Transformation Plan—in collaboration with business; “whole-of-government” approach**
- **SEZs/industrial parks (infrastructure—short term)**
- **Improved market access support**
- **Skills for exports being promoted**

DRIVERS

Building Technical Knowledge and Skills

- **Africa has a large and growing youth population; by 2050, it will be larger than China's or India's. Will it be a dividend for transformation or a social and political ticking bomb?**
- **Progress made on enrolment at primary school level; still lagging at secondary and tertiary levels.**

DRIVERS

Building Technical Knowledge and Skills

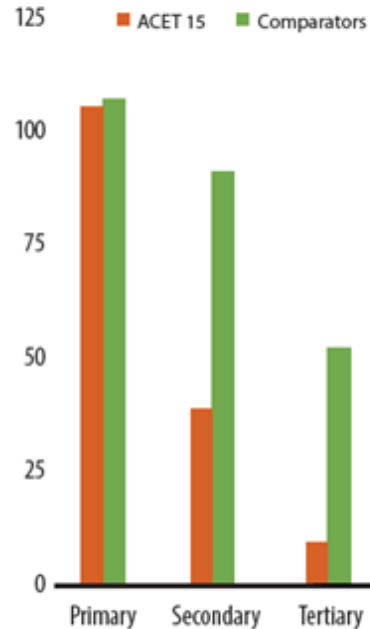
Countries must:

- Increase supply, and create demand—re-orient training, and promote employment-generating transformation
- Emphasize TVET; raise its image; link closely to economic transformation strategy
- Emphasize STEM

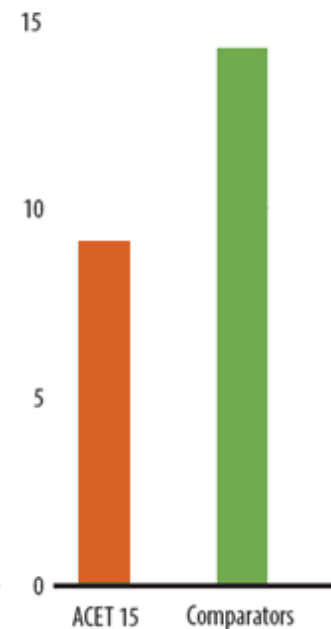
Develop “mission-oriented” training system focused on sectors and products being promoted; bring in business as partner

- Explore regional solutions, particularly in STEM at tertiary level
- Pursue other innovative solutions—teachers, ICT, textbooks

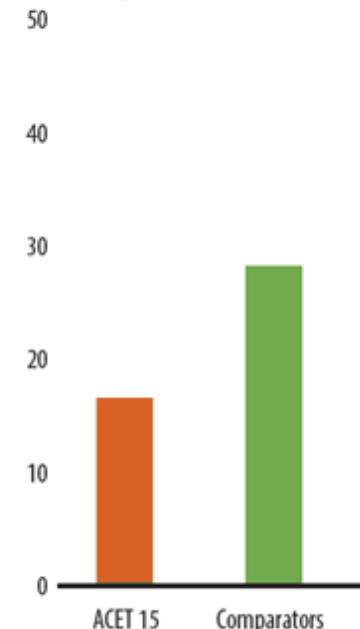
Gross enrollment (%)



TVET enrollment as % of total secondary enrollment



STEM enrollment as % of tertiary enrollment



PATHWAYS TO TRANSFORMATION

Labor-Intensive Manufacturing



Use current advantage of cheap and abundant labor, but over time raise productivity through skills development and cost reduction. Wages can rise while competitiveness is preserved.

- **Garments—case studies of six African countries; China, WTO; Global-value chains and “triangle manufacturing”**
- **Component assembly—e.g. electronics—again GVCs, particularly FDI**



Box 5.4 Stars of FDI manufacturing

For the ACET 15 we further classified “Star Categories,” awarding five stars to countries that had 100 or more plants; four stars for countries with 51–100 plants, and so on. Gold Star Achievement Awards, used to recognize rising stars in almost every industry, can be a powerful symbol of recognition and motivation.

★★★★★ (100+ plants)

★★★★ (51–100 plants)

South Africa (61)

★★★ (11–50 plants)

Kenya (11)

Nigeria (11)

★★ (5–10 plants)

Cameroon (5)

Ghana (5)

★ (0–4 plants)

Tanzania (3)

Zambia (3)

Senegal (2)

Botswana (1)

Burkina Faso (1)

Ethiopia (1)

Mauritius (1)

Mozambique (1)

Rwanda (1)

Uganda (1)

Source: ACET research.

PATHWAYS TO TRANSFORMATION:

Agro-processing



- **Traditional exports (coffee, cocoa): Move up value chain, add value, process, increase employment**
- **Nontraditional exports (fruits, horticulture): Strengthen the whole value chain—farm, processing, exports**
- **Food import-substitution: Take advantage of urbanization and growing middle class; save foreign exchange; create agricultural, manufacturing, and service jobs**

PATHWAYS TO TRANSFORMATION:

Managing Oil, Gas, and Minerals



- **Get what you deserve: Know what you have; negotiate for a fair deal (taxes, royalties, equity stakes—each has pluses and minus); be aware of capacity to track revenue flows**
- **Extractives are exhaustible: Transform them into other assets—human capital, physical capital, financial capital, and institutional capital**
- **Use the capital to promote technological upgrading, higher productivity, and growth in other sectors**
- **Promote upward and downward linkages**
- **Be efficient in public expenditures**
- **Watch the macroeconomics and the exchange rate—avoid “Dutch Disease”**

PATHWAYS TO TRANSFORMATION:

Tourism



Image: <http://victoriafalls24.com>

- **Africa has great potential: fantastic landscapes and wildlife; sunny beaches; diverse cultures and history**
- **Tourism can provide foreign exchange and government revenue to finance necessary imports of machinery, technology, and inputs for transformation**
- **Creates employment**
- **Advertises African countries for increased FDI**
- **Promotes regional integration and information sharing through greater regional travel by Africans**

AFRICA MUST TRANSFORM!

- We have to act to transform hope into reality:
 - Governments must put transformation at the top of their agendas, implement policies, and exercise the discipline (including efficient management of resources) to promote transformation
 - Governments should support and collaborate with the private sector
 - Citizens should demand and monitor progress on economic transformation
- The ATR and ATI will continue to support and inform the push for economic transformation.