

African Lions in the Making

By Nicolas Depetris Chauvin

Growth without structural transformation has proved to be unsustainable. Africa needs to diversify their economies if they want to become authentic economic lions.

These are promising times for Africa, which has been enjoying almost a decade of stronger economic growth. The continent's average growth last year was almost five times the Eurozone average growth and some of the world's fastest growing economies are in Sub-Saharan Africa. Growth this year is expected to average 6 percent and the IMF is projecting a similar average annual growth rate for the next several years. There have been many promising developments in recent years: the oil discoveries, the privatizations reducing the role of the state, and the burgeoning of foreign investment to name a few. Africa is rising, giving it a good chance of following in Asia's footsteps.

Despite these recent developments, the nations of Sub-Saharan Africa have been far less successful in raising per capita incomes, reducing poverty, and transforming their economic structures. For example, in 2010 the average real per capita income was US\$688, just about the same as it was in 1980. In contrast, per capita incomes grew by almost seven times in East Asia during the same period. In 2008 half of Africans lived in poverty, compared to 25 percent in the rest of the developing world. In almost all African countries, the primary sector in either agriculture or minerals still dominates production. Foreign trade mirrors the production structure: exports are dominated by primary commodities incorporating little application of science and technology, while the bulk of manufactures and knowledge-based services are imported. From the mid-1980s to mid-2000s, Africa's exports have remained primary production and resource-based, while exports from East Asian countries have diversified to include medium- and high-technology manufactured products. Not surprisingly, the employment structure mirrors that of production, with most people engaged in low-productivity traditional agriculture, services, and the informal sector, which account for the widespread poverty observed in the continent.

This gloomy picture is the result of a previous failed growth experience in the continent. Africa experienced moderate growth from the mid-1960s until the end of the 1970s. However, economic performance deteriorated rapidly in the late 1970s and early 1980s. Unlike many countries in other developing regions which managed to restore growth after the lost decade of the 1980s, stagnation and decline continued in SSA during the first half of the 1990s due to a combination of adverse external developments, structural and institutional bottlenecks and policy mistakes. The average annual per capita GDP growth rate for all Sub Saharan Africa during the last thirty years was



a poor 0.4%. Only Mauritius and Botswana achieved average growth rate above 4%. The stagnation of the continent is even more manifest when it is compared with the performance of countries like South Korea, China, and India. In 1980, South Korean per capita GDP was two thirds of the South African per capita GDP. Today South Korean per capita GDP is almost three times larger than the South African one. Chinese per capita GDP in 1980 was lower than the one from Burkina Faso. Thirty years later, it is more than six times larger.

In despite of its structural weakness, the continent is once again on an upward trajectory. While this is very much welcomed, there are a few questions that urgently need to be answered. Is the observed acceleration in growth a sign of hard-earned progress or the result of the commodity price boom of the last eight years? What if commodity prices slide? What if global markets continue to flag? Indeed, how can Africa sustain its growth and not repeat the mistake of the past? Most analysts seem to agree that African economies need to do more than simply grow. They need to be transformed. The reason? Growth without structural transformation— such as growth induced by commodity price increases, new discoveries of natural resources, or increases in foreign assistance— is not sustainable. Only growth with economic transformation will continue to create enough productive jobs, impart the right skills for a modern economy, improve people's living

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standards, and foster cohesive societies. That means less reliance on primary commodities and more reliance on industry, manufacturing, and knowledge-based services. It also means modernizing agriculture and upgrading skills and technological capacities to compete in the global marketplace. Economic growth and structural transformation should thus be seen as mutually reinforcing processes that support a single coherent economic transformation agenda.

The African Development Bank, in its new strategy under its president Donald Kaberuka, is pushing infrastructure at the core of its efforts to transform Africa's economies from producing primary goods from agriculture and mining to scaling up manufacturing and services. The World Bank, in its new strategy for Sub-Saharan Africa, envisions a production mix that is considerably more diversified, with manufacturing and services growing rapidly and absorbing labor at a rapid clip. It also envisions regionally integrated infrastructure providing services at globally competitive costs. McKinsey in its report *Lions on the Move: the progress and potential of African economies*, point to the transformative power of diversifying production from agriculture and resources to manufacturing and services—and boosting exports to finance investment. This, in what's expected to be a \$2.6 trillion market by 2020. An Ernst & Young 2011 report (*It's time for Africa*) shows that investor perceptions about investment prospects in Africa have improved in the last three years and this performance will continue into the future. The same report shows that while strategic resources (mining and metals, oil and gas, and exploitation of other natural resources) continue to dominate the FDI focus, there is an incipient trend towards diversification (tourism, telecommunications, consumer products, construction, and financial services).

Indeed, more African countries are formulating long-term visions to 2020, even 2030, with economic transformation at the center. Among them are Ethiopia, Kenya, Nigeria, and Rwanda. The best way to embark on a transformation agenda is for governments to engage with the private sector in laying out a long-term vision and to support entrepreneurs in implementing that vision. It is clear that to effectively tackle the economic situation in Africa it is not enough to focus on the desirable ends of reducing poverty and expanding access to basic needs in health and education as promoted by the Millennium Development Goals. Africa must follow the path of East Asia and transform its economy. Growth without structural transformation has proved to be unsustainable. The countries of the region need to modernize and diversify their economies if they want to become authentic economic lions. It is essential that they broaden their base of production to increase the shares

of manufacturing and knowledge-based services, which would reduce economic volatility and provide greater scope for increasing returns and learning-by-doing, which would enhance the chances for further technological advance. For the vast majority of African governments, transforming their economies will involve rethinking policies and strategies to address what we view as the critical drivers of economic transformation: investing in infrastructure, diversifying exports and increasing trade and competitiveness, investing in human capital through education and skills development, improving foreign direct investment strategies, implementing policies to upgrade technology, creating an enabling environment for business and developing targeted strategies for agriculture, manufacturing, and high value services.

This is the right time for a positive transformation agenda. Despite the crisis, international conditions are still favorable for most African countries. The rapid growth and urbanization that we observe and that is likely to continue in emerging markets is having an impact on the consumption of commodities and therefore in their prices. The region's low-cost labor, large and growing internal market, and natural resources hold considerable potential for the next 20 years. The key challenges will be providing infrastructure and jobs for a population which will have increased by 50% between 2010 and 2030. While Asia's demand for commodities and the investments that the Chinese are doing in infrastructure in Africa will help, a problem with commodity driven growth is that it does not generate jobs. The development of a non-commodity economy will be key, which will require substantial investment in infrastructure and human capital by the local governments. African governments will need to prioritize and sequence reforms and investments in the business environment and infrastructure in order to unleash the potential for growth in their industries, and bring together policies to promote competitiveness within a coherent strategy rather than as a series of ad hoc interventions that in isolation are likely to be ineffective. It will depend on African policy makers to grasp this opportunity, get the drivers of economic transformation right and transform once and for all the economy of a continent that holds 20% percent of the world's land, 15% of its population but just 4% of the global GDP.

About the author

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