Towards Economic Transformation: Placing Africa’s recent growth on firm foundations

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The African Center for Economic Transformation (ACET) is an economic policy institute supporting Africa’s long-term growth through transformation. It was established in 2008 by K.Y. Amoako, former Executive Secretary of the United Nations Economic Commission for Africa. Headquartered in Accra, ACET’s core staff of about 30 has included professionals from every sub-region of the continent plus the diaspora, augmented by a global network of seasoned business leaders and development experts.

Africa is growing again; that is the good news. The not-so-good news is that so far the growth has yet to open up new modern and higher technology opportunities in production and exports. And the growth is yet to create the formal sector jobs that the burgeoning and increasingly educated youth aspire to. However, the growth is beginning to provide glimpses of the possibilities: possibilities that both governments and private investors should position themselves to seize.

The story of Africa’s recent growth should be common knowledge by now. That many African economies are growing faster than they have done in 40 years, Angola, Nigeria, Ethiopia, and Rwanda, for example, have experienced high growth, but have done poorly on manufacturing value added from roughly 15% in 1970 to currently around 25%, while Africa’s average share of manufacturing value added in GDP has been stuck below 10%.

Big gaps also emerge when African countries are compared to one another. When we index all of the elements of DEPTH, the 21 countries we looked at in Africa, Mauritius, South Africa, Côte d’Ivoire, Senegal, Uganda, Kenya, and Gabon emerge as the top seven an economic transformation in 2010. The middle seven are Cameroon, Madagascar, Botswana, Mozambique, Tanzania, Zambia, and Malawi. The least transformed are Benin, Ghana, Ethiopia, Rwanda, Nigeria, Burundi, and Burkina Faso. Some in this last group, like Botswana, Ghana and Nigeria, have experienced high growth, but have done poorly on manufacturing and export diversification. Ethiopia and Rwanda made rapid progress on economic transformation between 2000 and 2010, but compared to the other countries, they started from a rather low base, hence their low ranking in 2010.

Transforming Economies Governments in many African countries realise the need to put their recent growth on firmer foundations by transforming their economies. In their strategies and programmes on economic transformation, almost all of these governments acknowledge the critical role that the private sector has to play in promoting transformation, and many are putting in place policies and incentives to attract private investments. Indeed, in the 2014 African Transformation Report, ACET discusses how governments can strengthen their capacities and reform their policies in order to attract investors and work fruitfully with the private sector to promote economic transformation. This means opportunities for investors. Countries to watch include Ethiopia, Kenya, Uganda, Mozambique, and Rwanda, which made the most progress during the period examined, and also Nigeria by virtue of its market size.

One promising recent example is Ethiopia, ranked number 13 out of 21 on our index of export competitiveness in 2010. Since then, the country’s export picture has changed dramatically, with establishment of a shoe factory by Chinese firm Hsajian in 2012, creating 350 Ethiopian jobs and boosting their productivity to 90% of that of their counterparts in China within three months (leading Bloomberg to describe Ethiopia as China’s China). Companies from other countries – UAE, Taiwan, and India for example – have also invested in Ethiopia, in both labour and uncultivated land to grow cotton. In horticulture, one of the world’s biggest private equity firms, KKR, is investing USD 200 million in Afriflora, an Ethiopian company that grows roses for the global market.

With Africa’s booming youth population, abundant labour, and a fast-growing middle class, the types of investments happening in Ethiopia, plus Rwanda, Nigeria and others) can be replicated around the continent. Labour-intensive light manufacturing is just one of the potential pathways that ACET has identified for Africa’s transformation. Other pathways include tourism, agroprocessing, oil gas and mining.

In the report, we compare the economies of African countries to those of eight non-African countries that have been notably successful at transforming their economies: Brazil, Chile, Indonesia, Malaysia, Singapore, South Korea, Thailand and Taiwan. And alert investors should know that the continent’s bright spots of the future will be those countries that not only grow, but also transform their economies. Those nations that, while pursuing further improvements in the macroeconomic and business environments, also diversify their production and exports and become more competitive on international markets. Those countries that increase the productivity of all resource inputs, especially labour; and the economies that upgrade the technologies they use in production. Only by transforming, countries can ensure that growth produces greater shared prosperity improved human wellbeing. Economic transformation, as we advocate it at the African Center for Economic Transformation (ACET), is therefore growth with Diversification, Export competitiveness, Productivity increases, Technological upgrading, and improved Human well-being. In short, Growth with DEPTH.

With our 2014 African Transformation Report, ACET has set about painting a whole new picture for Africa through the lens of Growth with DEPTH.

To compare African countries among themselves, ACET developed a subindex for each of the five main aspects of economic transformation and combined them to form the African Transformation Index. Countries are compared for three-year periods centered on 2000 and 2010 (1999–2001 and 2009–11). Twenty-one countries are currently represented.