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Theme: Industrialization for an Emerging Africa

I. Background

Since the early 1990s, Africa has been experiencing robust growth rates. However, this solid growth performance was interrupted by the global recession of 2008-2009. Despite the severity of the global recession, which was fuelled by the financial and economic crisis of 2007/2008, the continent did not go deep into a recession but rather saw its economies significantly slowed down. The negative influences of the global crisis brought the average growth of Africa's economy to around 2 per cent, significantly down from about 5-7 per cent previously. Although there are currently turbulent head-winds coming out of the Eurozone, the 2007/2008 financial crisis is behind us and Africa's economy is roaring back, forecasted to grow between 5-7 per cent in the period 2012-2015.

It is worth noting that six of the world's ten fastest-growing economies (Democratic Republic of Congo, Ethiopia, Ghana, Mozambique, Tanzania, and Zambia) are in Africa, recording at least 7 per cent growth rate. The optimism from around the globe has led some commentators to predict that the average African economy will outpace its Asian counterpart in the next five years. The respected *Economist* magazine, which dubbed Africa a decade ago as *the hopeless continent* is currently highlighting its economic prospects, calling Africa *the hopeful continent*.

Africa's recent growth performance can be explained by a number of factors including: (a) implementation of prudent macroeconomic policies, such as reduced debt burdens, low-inflationary monetary stance, and an enhanced investment climate; (b) the post-2002 surge in commodity prices and expansion of oil production; and (c) increased inflows of foreign capital, both private capital and foreign direct investment (FDI).

While sustained growth has contributed significantly to rapid economic transformation in other parts of the world, in Africa it has been observed that the relatively good growth performance has not been inclusive as many millions of Africans are caught in the poverty trap due largely to the lack of diversification of sources of growth, including a continued over-reliance on primary commodity exports. Also, growth has been largely jobless and has been accompanied by rising inequality in some countries. In addition, Africa's significant natural resources are being extracted and exported in their raw form and not as finished products. Hence, no value is added to Africa's extractive commodities exports.

This is a serious, missed opportunity for more robust, diversified and sustainable economic development. Moreover, some of these resources represent an irreplaceable, non-renewable asset, and their exploitation generally has weak linkages to the rest of the economy and, consequently, lower contribution to GDP than could be achieved. Furthermore, Africa's dependence on primary commodity exports exposes it to volatile global commodity prices and resulting economic instability.

In order to significantly transform the economies of African countries from the current low-income to middle-income levels, it is paramount that value is significantly added to Africa's large reservoir of natural and agricultural resources. This will tremendously boost economic performance as well as uplift many Africans out of poverty through employment and wealth creation. The increased demand for Africa's natural resources, together with increased urbanization and consumer demand for processed goods within the continent provide an opportunity for resource-based industrialization. Indeed, Africa has the potential for increasing its production of higher value-added products.

Accelerating industrialization can potentially contribute to the expansion of trade within Africa and between Africa and the rest of the world through the diversification of exports. Moreover, creating food-processing industries in rural Africa would contribute to lifting a significant number of Africans from poverty. Evidence shows that a number of African resource-rich countries have remained poor, while other resource-poor countries have become richer through the implementation of policies that promote value addition, demonstrating that prosperity and poverty alleviation are consequences of smart policy choices. Hence, African countries should take advantage of the growing opportunities to promote industrialization.

Despite the progress made in a number of countries, industrialization in Africa remains a challenge. First, agriculture has not been sufficiently modernized and the manufacturing base is very low around the continent. Manufacturing is dominated by artisanal activities in mostly in the informal sector and is therefore insignificant in most African economies. Africa therefore lags behind other developing regions in its industrial performance. Second, the degree of export diversification is very low as most African countries continue to export unsophisticated commodities. At the moment, only a small group of countries dominate African manufacturing (South Africa, Tunisia, Morocco and Egypt) and they have managed to diversify to some extent. Third, a number of African countries are landlocked and face high transport costs, low economic density and geographic isolation from high-growth clusters. Markets are small and fragmented in most parts of Africa.

Industrial agglomerations and diversification are also not very common in Africa. The *Economic Report for Africa 2007* indicated that most African countries were still at a very early stage of industrial development. The Report recommended that African countries should strive for diversification into higher-valued products, capitalizing on its mineral and agricultural riches.

To capitalize on its mineral and agricultural resources, Africa needs to increase its participation in a broad range of global value chains (GVCs), starting with natural resource extraction and agro-industry and moving later into other manufacturing GVCs to create wealth and employment. For Africa to be successful with its diversification efforts, new industrial policies are needed that support the exploitation of its industrial potential.

The success of any industrialization programme requires the creation of an enabling environment that enhances the required domestic capacity and capability, particularly in respect of physical and social infrastructure, human capital, financial systems, research and development (R&D), technology, and governance. In addition, Governments should put regulatory frameworks in place for tackling market failures. The creation of such an enabling environment will help to realize the full potential of the African private sector in an industrializing economy. Deepening regional integration also offers potential for Africa to tackle some of the challenges it faces in pursuing an industrialization programme.

It has to be recognized that entrepreneurs in Africa continue to face greater regulatory and administrative obstacles. Compared to other regions of the world, the protection of property and investor rights is weak. Although there are improvements in some countries, doing business in Africa is not easy as entrepreneurs face high transaction costs, due to small and fragmented markets, protracted and cumbersome administrative procedures and bureaucratic bottlenecks, and poor physical and financial infrastructure.

Hence, there is a need for appropriate policies to encourage the development of Africa's private sector. This is because a credible private sector impacts positively on economic growth and poverty reduction through ability to contribute to the modernization of underdeveloped rural and urban informal economies. Moreover, Africa's vast unexploited resources and abundance of labour provide opportunities for development of the private sector and for attracting private investment. Africa also offers large untapped markets and all the benefits of emerging economies as well as attractive possibilities for investment diversification.

II. Objective and Focus of the 2013 Conference of Ministers

Highlighted above is a powerful case for Africa to adopt a strategy of industrialization in support of its development agenda. Africa's economic growth is currently largely driven by commodity exports, especially oil and metals. This is in sharp contrast to the growth pattern of other developing regions, especially Asia, where growth has been driven by a solid industrialization agenda, which places greater focus on manufacturing. The downside to Africa's reliance on a commodity-driven growth path includes risks to resource extraction, vulnerability to unfavourable terms-of-trade deterioration, risks of currency overvaluation as a result of Dutch disease, weak backward and forward linkages to the domestic economy, limited use of advanced technologies and, above all, weak creation of employment.

The current state of Africa's economies can be reversed with the pursuit of strong industrialization strategies, with greater emphasis on value addition to the extractive sectors and modernization of agriculture. The over whelming majority of the poor in Africa live in rural areas and depend on agriculture for their livelihood. A modernized agriculture sector which is labour-intensive, creates jobs and generates value added in agro-processing activities would uplift many Africans from poverty. A modernized agriculture sector also entails significant forward and backward linkages to the domestic economy. Such linkages do not exist to the same extent in the extractive industries.

Indeed, an agribusiness-led development strategy involving higher value added and stronger productivity growth throughout the entire value chain system of the economy offers strong potential and promise for rapid and broad-based economic growth and wealth creation, and for poverty alleviation for Africa's rural dwellers. It should be noted that Africa's transformation agenda will not succeed without efficient industrial capacity in place, as well as affordable infrastructure including energy, technology-based innovations, improved external and intra-African trade, sound financial mechanisms and enhanced agricultural supply chains.

The Conference, which has become the premier forum on the continent for African Ministers responsible for Finance, Economy and Economic Development as well as Governors of Central Banks to dialogue on issues pertinent to the African development agenda, will be held under the theme: *Industrialization for an Emerging Africa*. This wide-ranging theme builds on the recommendations of previous conferences and particularly on one outcome of the 2012 Conference, namely, renewed vigour for “*unleashing Africa’s potential as a pole of global growth*”.

As discussed above, accelerating Africa’s industrialization agenda is one way through which the recent economic growth achievements can be sustained. Industrialization will also contribute to sustained wealth creation as Africa’s natural resources and other raw materials will be converted into value-added products for export to global markets. In addition, industrialization will help to build competitive economies that can productively be integrated into the global economy. Industrialization is therefore a pre-condition if Africa is to register accelerated development.

The Conference will address the question of how African countries can design and implement effective industrial strategies and policies that will support the promotion of value addition and economic transformation, and reduce dependence on the production and export of unprocessed materials. Such strategies should not only focus on promoting high and sustainable long-term growth but must also ensure that the benefits of such growth are widely shared in order to reduce poverty and improve the standard of living for all Africans.

The Conference will have four plenary sessions:

1. *Accelerating Industrialization in Africa*
2. *Industrialization and Structural Transformation in Africa*
3. *Planning Industrialization*
4. *Financing Africa's Industrialization.*

The Conference, which will draw top-notch panellists from Africa and other regions, will be interactive, based on the *Davos Style*, so as to give the Ministers an opportunity to discuss and share their views and experiences in transforming their economies. The discussions will draw on an Issues Paper and technical background materials, which synthesize the results of recent research on the subject, including providing pragmatic policy recommendations and highlighting best practices in terms of policies and measures adopted by member States in formulating and implementing industrial policies.

The 2013 Conference promises to be a very exciting and engaging event, with high expectations, as the topics to be discussed and decisions to be taken will have important implications for Africa's future. Industrialization has the potential to be a powerful driver of sustainable pro-poor growth in African countries. The Ministers will place greater emphasis on the policies and institutions needed for the transformation of low productivity, and of subsistence-oriented systems, to efficient production systems. The pursuit of an African industrialization agenda must be underpinned by efforts at national, regional and continental levels to address binding development constraints within a holistic economic and social development framework.

III. Format of the Conference

A high-level panel of eminent personalities, senior government leaders and distinguished experts from regional and international organizations, including the United Nations system and the World Bank, will lead the discussions. The interactive moderated sessions with panel and audience participation will help to maximize the inputs from delegates and discussants.

The Conference will be preceded by a technical preparatory meeting of the Committee of Experts, which will analyse the theme and make recommendations to the Ministers for adoption. In addition, the Committee will review the state of economic and social conditions in Africa, consider other statutory issues relating to the work of the African Union Commission (AUC) and the ECA secretariat and make appropriate recommendations for consideration.

IV. Expected Outcomes

The Committee of Experts will prepare and adopt a concise report on the main recommendations and resolutions of its meeting, and submit it to the Conference of Ministers for adoption.

The Conference is expected to lead to the adoption of a ministerial policy statement, which will provide the basis for concerted action at national and regional levels on the issues discussed. The Ministerial Statement and other outcomes of the Conference will be submitted by AUC as major inputs to inform discussions at the African Union Assembly of Heads of State and Government in May 2013. ECA will also submit the documents to the United Nations Economic and Social Council.

V. Documentation

An Issues Paper on the conference theme and technical background papers on the subthemes for the plenary sessions will inform the discussions of the Conference. Other documents and reports to be presented include:

1. The *Economic Report on Africa 2013*, on the theme “*Making the most of Africa’s commodities*”.
2. Reports and other parliamentary documents from AUC and ECA on their activities in the past year.

VI. Participation

Participants and delegates to the Conference will include Ministers and representatives from member States, Regional Economic Communities, United Nations agencies, the African Development Bank, the Bureau of the Association of African Central Banks, the Association of African Universities, the African Capacity Building Foundation, the Arab Bank for Economic Development in Africa, the European Commission, the European Central Bank and other intergovernmental organizations. Invitations will be extended to other cooperating partners, non-governmental organizations and the private sector.

VII. Contacts

For more information about the Conference and the meeting of the Committee of Experts, kindly contact: Mr. Demba Diarra, Secretary to the Commission, ECA (Tel: +251 911223925, e-mail: ddiarra@uneca.org); or representatives of AUC: Mr. Abdallah Msa, Head of Division, Economic Policies and Research Division (Tel: +251 911784692, Fax: +251-11 5510249, e-mail: AbdallahM@africa-union.org); Mr. Abia Sunday Udoh, Policy Officer, Economic Policies and Research Division (Tel: +251 921947016, Fax: +251-11 5510249, e-mail: UDOHAS@africa-union.org); and Ms. Victoria Egbetayo, Policy Officer, Economic Integration and Regional Cooperation Division (Tel: +251 910204691, Fax: +251-11 5510249, e-mail: egbetayov@africa-union.org).