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CODESRIA

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# Debates

## Defining Structural Transformation in Africa\*

Poverty reduction has been essentially associated with a profound structural transformation of the economy, a process entailing a reallocation of economic activities from the less productive sectors to the more productive ones. The speed with which this process takes place has been a key factor that differentiates development levels across countries. The issue of structural transformation has been at the core of economic development debates with initial empirical analyses originated with Fisher (1935, 1939) and Clark (1940) who dealt with sectoral shifts in the composition of the labor force.

The concept of structural transformation has evolved over time. It shifted from a simple reallocation of economic activity across three broad sectors (agriculture, industry and services) that accompanies the process of modern economic growth to encompass issues of sustainability and inclusiveness.

Timmer (2007) defines structural transformation as a process characterized by a decline in the share of agriculture in GDP and employment; a rural-to-urban migration that stimulates the process of urbanization; a rise of a modern industrial and service economy; and a demographic transition from high to low rates of births and deaths. This requires proactive policies and strong push from state institutions, coupled with strategic capacity.

I published with Thomas Theisohn in 2003 a book entitled "Ownership, Leadership and Transformation", where the issue of understanding the role of national agency was assessed in relation to structural transformation. We said then that traditionally, the notion of capacity came from the engineering world, and was understood to involve using particular processes to transfer knowledge, especially technical and scientific skills (Morgan 2001). Little attention was paid to less sector-specific realms, including policy formulation, social and economic research, systems analysis and review and feedback mechanisms. Today we know

**Carlos Lopes**  
United Nations Economic  
Commission for Africa  
Addis Ababa, Ethiopia

better: knowledge cannot be transferred. It has to be acquired, learned and reinvented. And it encompasses both the deep pool of local understanding that is the very foundation of learning, and the wealth of global information that can be reconceived to meet local needs. When adaptation fails to happen, however, there is no ownership and likely no lasting capacity development.

Structural transformation is perceived by some more in terms of a process by which the relative importance of different sectors and activities of an economy changes over time. In the African context, this implies a relative decline of low-productivity agriculture and low value added extractive activities, and a relative increase in manufacturing and high-productivity services.

However, we have learned from past experience that there is a strong historical pattern of worsening income distribution between rural and urban economies during the initial stages of the structural transformation. Even currently, rich countries did not escape from this pattern during their early development in the 19th and early 20th centuries. The good news though is that absolute poverty does not necessarily worsen during such episodes. In East Asia, for instance, the evidence reveals that absolute poverty actually fell very rapidly, albeit associated with inequality.

Knowledge of environmental impacts has become more profound, raising the momentum towards a more sustainable and inclusive structural transformation objective, accompanied by a relative decoupling of resource use and environmental impact from the economic growth process. As latecomers to this process, an effective structural transformation for Africans means making significant

productivity gains in rural areas with vibrant hubs of agri-business and linkages across industrial activity; the translation of Africa's youth bulge into a demographic dividend; access to social services that meet minimum standards of quality regardless of location; reduced inequality – spatial and gender; and progression towards an inclusive green growth trajectory (UNECA 2013).

### Where is Africa?

Africa has experienced unprecedented growth over the past decade and has been remarkably resilient to the global economic crisis. The continent, has also made significant strides, during this period, in all dimensions of human development, comparable with other regions of the world in similar economic trajectories. But such a remarkable economic performance has not created enough jobs. The continent remains also home to the world's highest proportion of poor people. Furthermore, African economic growth has been proven vulnerable to volatility in commodity prices and demand and perception fragility.

Despite a stream of bad news, Africa is the continent that grows the most, its debt to GDP ratio only increased 2 per cent last year, is negative in relative terms, if reserves are taken into account, and that its macro-economic profile is more shaken by internal policy blunders that are fixable than commodity prices per se. We know from others' experience that they faced a difficult time when they were embarking in their industrialization process, like Africa intends to do now, but that only contributed to acceleration, not slowing down, of their transformation ambitions.

### What others have done before

Structural transformation has been operated across regions and historical periods and Africa as a latecomer has the privilege to learn from others' experience.

Over the period of 1950-1980, Brazil like many countries in Latin America led

industrial policy aiming at creating new industrial sectors, changing the prevalent pattern of specialization in primary commodities and promoting technology-intensive activities. As a result, Brazil successfully entered many new industries, such as petrochemical and renewable fuels, especially ethanol, and established the bases for the development of new technologies. In the 80's, the Government introduced a more liberal New Industrial Policy package.

In the 2000s, the Government targeted specific sectors with Guidelines for Industrial, Technology and Foreign Trade Policy (PITCE). Over the last thirty years, Brazil has been among the most active countries in terms of their use of policies designed to expand natural-resource-processing industries and food production. Today, the country is among the top three producers and exporters of orange juice, sugar, coffee, soybean, beef, pork, and chicken. It has also caught up with the traditional big five grain exporters (USA, Canada, Australia, Argentina and European Union).

China has transformed its economic structure through an agro-based industrialization to accelerate growth and development. The period 1978-83 emphasized agriculture. In its

Five Year Plan (1981-1985), China encouraged foreign trade and foreign direct investment in an attempt to facilitate the importation of advanced technology. Strategic industries identified in the Five-Year Plan of development have been given targeted support such as protection from foreign competition and subsidized loans from state-owned 'policy banks'. Throughout a deliberate strategy, China has combined a variety of policies to develop both its agricultural and industrial sectors as well as the service one. China became in two decades the largest exporter of manufactured goods.

Another example of successful transformation is the United Arab Emirates. UAE operated a structural transformation to diversify its economy essentially based on crude oil sector which accounted for about two thirds of the GDP. This country developed its industrial base and invested its oil wealth in industry-related infrastructures. Furthermore, in 1985, the first free zone in Dubai, Jebel-Ali, was created with appealing incentives to foreign investments of which 100 per cent

foreign ownership, no customs duties, unlimited repatriation of funds and exemptions from certain labor laws. The UAE government also promoted a number of manufacturing industries through industrial policy – fertilizer, oil refining, and cement. As of 2010, manufacturing in the UAE accounted for around 10 per cent of GDP, a significant jump from the 0.9 per cent share in 1975 (World Bank 2013).

Between 1957 and early 1990 Malaysia achieved substantive economic transformation with the share of manufacturing in GDP rising from 14 per cent in 1971 to 30 per cent in 1993 (Lall 1995). Malaysia's export to GDP ratio increased from 46 per cent in 1970 to 95 per cent in 1995 (Athukorala and Menon 1999) and the share of manufactures in total exports of Malaysia rose from 12 per cent to 71 per cent between 1970 and 1993 (Lall 1995). This period had three distinct phases of industrial expansion: import substitution 1957-1970; New Economic Policy 1970-1985, the New Development Policy of 1986 which moved the country's industrial policy closer to the type practiced by the East Asian Newly Industrialised Economies.

### **How to deal with the transformation challenges**

A country's capacity to design and implement a successful transformation agenda can be undermined by internal and external factors. Gains can be reversed if there is inconsistent policy implementation or poor perception of new threats.

Internal factors include: poor economic management capacities typified by macro-economic instability, poor planning design and implementation capacities, weak institutional and individual capacities, and limited investments in social and economic infrastructure, limited investment in technology and R&D and political instability.

On the other hand, external factors include: limited policy space; barriers to trade that undermine export revenues and constrain exports of manufactured goods; the disproportionate concentration on dealing with ODA focus areas rather than handling it in its real macro dimension; and the concentration of FDI in extractive mineral and gas sectors of the economy with limited investments in value addition. Furthermore, in recent years, climate change has emerged as a

threat to development through its destructive impacts.

To address these challenges and promote a sustainable and inclusive structural transformation, the role of institutions and of the State is determinant. The emerging consensus is that a developmental state is central to the process of accelerated economic growth and transformation of any country.

The state's role in bailing out the economies in Western countries, following the 2008-2009 global economic crisis, reaffirms the important role that it can play in sustaining the transformation process and has taken the dust from Keynesian debates.

A developmental state is defined as a 'state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal' (UNECA 2011). More specifically, a developmental Nation-State entails the following (UNECA 2016):

- Scaling up public investment and public goods provision. Africa at its stage of development requires a big push in public investment – economy, region and continent-wide – in the coming decades. Without committed public investment, sustained private investment will not be made, causing overall productive investment to fall below the level needed to keep the growth momentum going.
- Maintaining macro stability to attract and sustain private investment. In fact macroeconomic stability is essential, as high uncertainty and risks deter private agents from making forward-looking productive investments. At the same time, harsh fiscal retrenchment and overly restrictive monetary policy aimed at attaining the stabilization objective only cannot take the transformation agenda forward.
- Coordinating investment and other development policies. Public investment using scarce resources should be made selectively, sequenced and directed to achieving the highest development dividends in the long run. This requires public and private investment to be well co-ordinated across sectors in a big push with aggregate demand

spillovers to facilitate "a move from a bad to a good equilibrium" (Murphy et al. 1989), especially given the well-known market failure of coordination.

- Mobilizing resources and reducing aid dependence over time. This requires a solid framework to develop financial institutions (banking and non-banking) and deepen financial markets.
- Securing fiscal sustainability by establishing fiscal legitimacy. This call for an urgency to develop the capacity of prudent and efficient public finance management. But this must be the bedrock of a relationship between the government and domestic actors, for fiscal sustainability can only be secured in the medium to long run on such a foundation.
- Other development policies critical for structural transformation include trade, technology, financial development, oversight regulation and competition, education and health, and sectors specific policies such as those for industry and agriculture.

### **Why is the Current African Growth not Good Enough?**

As said before, African current growth has not generated sufficient jobs and has not been inclusive enough to significantly curb poverty. It has been driven for a third by commodities price boom and government related spending. Fluctuations in commodities prices has made such growth vulnerable. This reminds us the imperative for structural trans-

formation that in our case focus on the potential offered by industrialization. Be it through the expansion of commodities value chains. Be it through the positioning for agro- business to act as the pull factor for agricultural to get out of the doldrums. Be it through the capacity to attract low-value manu-facturing production facing rising labor costs in Asia. This is not Out Reach.

Structural transformation has been experienced for real by many countries in different regions of the world. But will not happen spontaneously but rather as a resultant of deliberate and coherent policies entrenched into a coherent development strategy, enlightened by a transformational leadership.

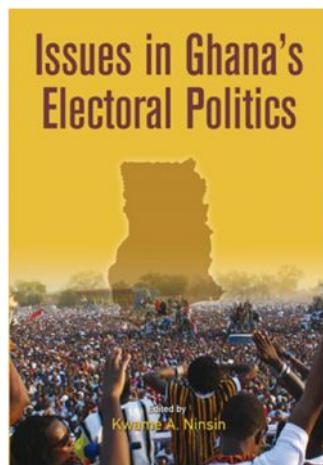
\* Based on a presentation to the Africa Transformation Forum in Kigali, 14 March 2016

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### **Issues in Ghana's Electoral Politics**

Edited by Kwame A.Ninsin



Ghana attained independence in 1957. From 1992, when a new constitution came into force and established a new – democratic – framework for governing the country, elections have been organized every four years to choose the governing elites. The essays in this volume are about those elections because elections give meaning to the role of citizens in democratic governance. The chapters depart from the study of formal structures by which the electorate choose their representatives. They evaluate the institutional forms that representation take in the Ghanaian context, and study elections outside the specific institutional forms that according to democratic theory are necessary for arriving at the nature of the relationships that are formed between the voters and their representatives and the nature and quality of their contribution to the democratic process.