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Unleashing Africa's Potential as a Pole of Global Growth*

I. Africa's rising optimism

Africa's experience over the last decade suggests strongly that the continent is likely to make the 21st century its own. Since the beginning of this century, African countries have shown strong economic growth. While growth slowed down from an average of 5.6 per cent during the period 2002-2008 to 2.2 per cent in 2009, when the global financial crisis and steep food and fuel prices hit the world, Africa quickly recovered with an average growth rate of 4.6 per cent in 2010. The continent's average growth declined again in 2011 as a result of political transition in North Africa, but remained strong at 4.5 per cent in sub-Saharan Africa. This remarkable economic performance reflects improved economic management, a generally hospitable international environment and rising prices for commodities and strategic minerals. Observing this trend, several prominent international financial organizations and private think tanks have said that Africa has the potential to become a "global growth pole" that reflects its own size and rate of growth as it boosts growth in countries worldwide.

The global economy contracted by 2.2 per cent in 2009, while its growth rate in 2011 remained below the pre-crisis average of 3.2 per cent recorded from 2002 to 2008. In 2012, the global economy continues to struggle to achieve strong, sustainable and balanced growth. Efforts to spur the growth needed to generate jobs and address the problem of high global unemployment are being undermined by persistent macroeconomic imbalances. These imbalances have been driven by high levels of borrowing and sovereign debt in developed countries, insufficient economic growth but high savings in emerging and developing economies and a largely ineffective global policy coordination and mechanism to address the imbalances.

The current dynamism of African economies suggests that the continent can be a major part of the solution to both the problem of spurring global growth and that of global imbalances. However, to unleash its potential, Africa must address challenges and constraints relating to its own economic structure. The reality remains that the sources of Africa's growth have changed very little over the years, with agriculture and natural resources as the main drivers, while growth has been largely jobless. It is therefore important to carefully review Africa's development experience in the recent past, analyse the attributes of a global growth pole, consider the steps or "imperatives" that Africa must take to become a global growth pole and identify what it has to do to free its growth potential. This requires bold action on several fronts by Africans and international partners alike.

II. Key imperatives for Africa as a pole of global growth

Since independence, Africa's growth has been driven mainly by primary commodity production and exports. However, with improvements in economic governance and macroeconomic management and control of corruption in the last decade, manufacturing, modern financial and telecommunications services and tourism are beginning to make significant contributions to growth. These changes underpinned substantial improvements in economic performance as Africa grew by an average of 5.6 per cent from 2002 to 2008, making it the second-fastest growing continent in the world at the time, behind Asia (figure 1). The figure clearly shows the resilience of African economies since the start of the 21st century. Indeed, 10 of the world's 15 fastest-growing economies in 2010 were African, including countries that had no oil or mineral wealth.

This resurgence has given rise to Africa's growing recognition as an emerging market and a potential global

* Contributed by Adam B. Elhiraika, Chief, Forecasting Section, Macroeconomic Policy Division (MPD), UNECA, based on the Economic Report on Africa (2012) of UNECA and African Union Commission.

growth pole. It has prompted African leaders, institutions, development partners and other stakeholders to suggest that future world growth will depend on harnessing Africa's unique features, especially its untapped huge natural resources, youthful population and growing middle class.

In addition to the steady growth performance, Africa boasts massive natural resources that make up about 12 per cent of the world's oil reserves, 40 per cent of its gold and about 52 per cent of its arable land and forest resources. These resource endowments make the continent an attractive destination for foreign investment. Indeed, foreign direct investment inflows to Africa reached US$62 billion in 2009, an almost seven-fold increase in a decade. This upward trend is expected to continue. Meanwhile, rigorous implementation of the African Mining Vision will strongly improve the development effectiveness of the continent's natural resources.

To make the most of Africa's demographic potential, the young population and fast-growing labour force have to be offered comprehensive, innovative skills and knowledge development to make them an asset rather than a liability to the investment climate. Only then will Africa take maximum advantage of ageing populations in advanced economies and rising wages in Asia, to become the next global manufacturing and high-tech services platform.

The high rate of urbanization and rise of the middle class in Africa will play a major role in growth. The number of middle-class households will increase by half from 2010 to 2020; and by 2030, the top 18 African cities will have a combined spending power of $1.3 trillion. This large, untapped internal market should attract higher and more differentiated consumption patterns and lead to high domestic and foreign investment.

In order to be a global growth pole, Africa must sustain its recent growth rate for at least another two decades. This can be done if binding constraints and flaws in the structure of output and trade, infrastructure, human resources and entrepreneurialism and risk management are tackled.

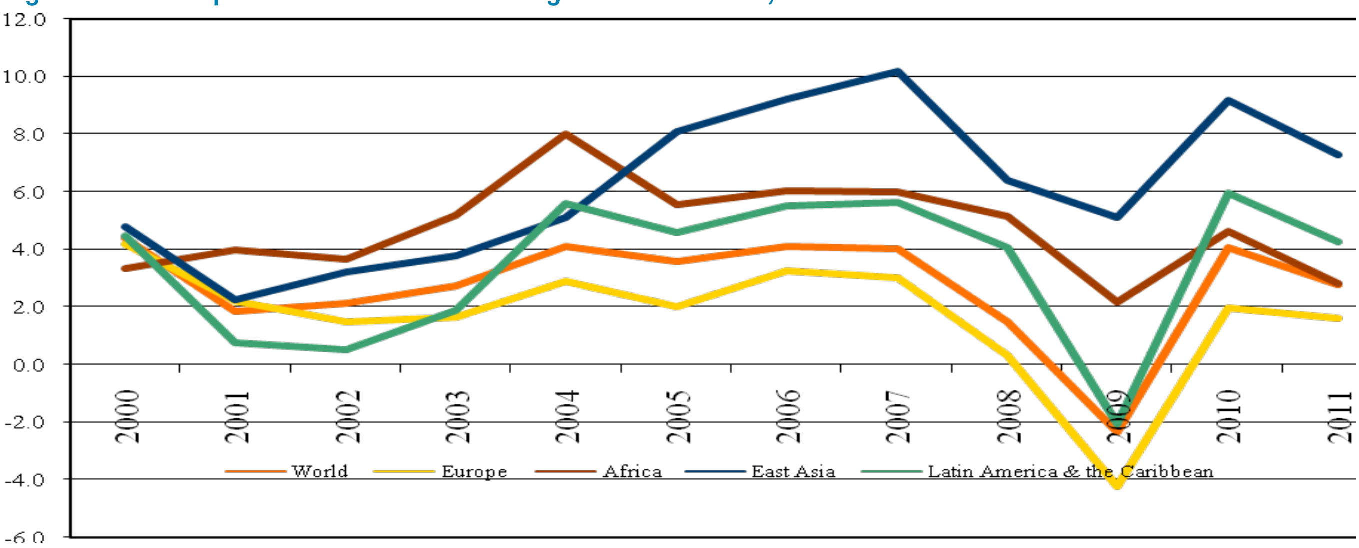
If it addresses these flaws, Africa may well be able to sustain its recent 5-per cent growth until 2034, by which time, if other countries also maintain their recent growth rates, it should account for at least 5 per cent of world GDP (China's position in 2005), qualifying it to be a global growth pole. If the continent were to grow at an average annual rate of more than 5 per cent, it would account for 5 per cent or more of global GDP in a shorter period.

Industrialization is critical. African countries should pursue economic transformation programmes to lift the share of manufacturing to at least 25 per cent of GDP, from the current continental average of about 10 per cent, and to restructure services from distributive trades (dominated by informality) towards the more modern services needed to support sophisticated economies (as Africa transits to knowledge-intensive activities). These moves should be complemented by extensive economic diversification where the share of manufacturing exports climbs steeply and the composition of manufactured imports changes towards capital goods, industrial intermediates and components.

Investment in infrastructure is also vital. Better roads, dams and hydropower should translate into increased electricity consumption and tighter transport connections, reducing transaction costs, raising economic productivity and competitiveness and improving living standards. Also, human capital should be upgraded by expanding quality education at all levels. Governments should strengthen health systems by allocating greater domestic resources; removing barriers to services access; overseeing the development, deployment and retention of critical human resources for health; and abolishing inequity in health care access and utilization. Current initiatives to reduce the prevalence and burden of HIV/AIDS and malaria should be sustained, in line with achieving the Millennium Development Goals (MDGs).

Lastly, all African countries should nurture indigenous entrepreneurs capable of working with foreign counterparts to promote the effective transfer of knowledge and

Figure 1: Growth performance of different regions of the world, 1971–2011



Source: United Nations Statistics Division. Data on Europe for 2005–2011 includes only the European Union ensure technological spillovers to African economies. Beyond these measures, our countries should capitalize on and manage the opportunities and risks in the emerging multipolar world. The two opposite aspects stem from rising global commodity prices and demand, strategic trade relations with new development partners, foreign direct investment from emerging economies, support for infrastructure development by new partners and the development potential of diasporas (beyond remittances). Effective interventions in all these areas require collaboration among stakeholders under the leadership and guidance of a developmental State.

III. Unleashing Africa's potential as a pole of global growth

Sustaining the current growth momentum in Africa and unleashing the continent's productive capacity requires innovative and bold actions on many fronts.

Promoting good political and economic governance

Entrenching good governance is a precondition for Africa's development and social progress. Although political and economic governance are improving, much more needs to be done. The key elements include: strengthening the institutions of State to foster predictability, accountability and transparency in managing public affairs; promoting free and fair electoral processes; fighting corruption and inefficiency; enhancing public service delivery; and expanding social protection programmes. Greater effort is needed to expand political space for citizens to take part in decisions and hold public officials accountable for their actions. It is particularly important that Governments create a policy environment that supports entrepreneurship and private sector development and reduce the cost of doing business by stamping out rent-seeking practices by public officials.

Repurposing education for development

Human capital formation is lagging in Africa, and a fresh approach is needed to bridge the education–employment mismatch (between graduates' academic training and the skills needed in the labour market). Africa's development potential can only be unbridled if Governments greatly improve human resources, through a battery of actions, to make the educational system relevant to the economy. This should include thorough and systematic reform of the educational system, with greater emphasis on quality than quantity. Governments will need to assign greater importance to science and technology, as well as entrepreneurship training that will catalyse the effective unlocking of the continent's productive potential, placing African universities at centre stage.

Promoting technology transfer and innovation for value addition and structural transformation

Technology transfer and innovation are key drivers of economic and social development in a knowledge economy. They hugely enhance productivity and efficiency, while lowering the costs of production and information, the keys to unlocking sustained growth, competitiveness and economic transformation. Africa's fast growth in the last two decades has partly been supported by acquisition of mature technology, as seen in the steep increase in the royalties and licensing fees it pays and imports of capital goods and business services.

Reversing underinvestment in infrastructure

Investment in infrastructure is necessary for releasing productive capacity and improving living standards, yet poor infrastructure remains a major obstacle in Africa. The key constraint is lack of financing; and closing the gap will require actions such as harnessing domestic financial resources through commercial banks, insurance funds, the stock market and pension funds. African central banks should play a catalytic role by introducing incentive-based risk sharing and issuing bonds, launching guarantee schemes and adopting new financial instruments to lever their balance sheets. These domestic efforts should be complemented by efforts to attract foreign direct investment from emerging economies, such as China and India, with relatively large financial resources as well as appropriate skills and technology to enhance efficiency gains.

Boosting productivity in agriculture

An African green revolution is a prerequisite for the continent's green industrialization and response to climate change. In general, countries move up the technological ladder first by developing agriculture and promoting value addition through agro-industries before moving to heavy industry.* The continent should give priority to raising the productivity of small farmers as the majority of rural Africans are engaged in subsistence agriculture. This approach demands high and sustained levels of investment in key public goods such as rural roads and irrigation, and in agricultural research and new technology, input-related industries, such as fertilizers and seeds and new economic links that will create economic opportunities for enterprises in rural areas.

Strategies for agricultural development should run parallel to those that promote green industrialization and economic diversification and reduce vulnerability to climate change. These strategies are essential for promoting high and sustainable growth and for Africa to become a global growth pole. Harmful impacts of climate change fall unduly on the poor and exacerbate inequalities in health, education, labour force participation and access to

* See ECA and AUC (2009) "Economic Report on Africa 2009: Developing African Agriculture Through Regional Value Chains". ECA. Addis Ababa, Ethiopia.

food and water. As Africa is far from meeting its own development investment needs from its domestic resources alone, external financial support for mitigation and adaptation is vital.

Accelerating regional integration and intra-African trade

While progress in regional integration is mixed, political commitment to what needs to be done is high. This is an important first step towards global integration and requires better links among Africa's countries by heavy investments in roads, telecommunications and intra-African financial institutions that will facilitate payments through regional guaranteed payment systems, for example. African Governments should therefore develop trade-related regional infrastructure by encouraging private sector participation (domestic and foreign) in infrastructure. Lastly, Governments must redouble their efforts to simplify procedures and harmonize policies in a wide range of areas such as customs, immigration, border control and cargo inspection.

Harnessing new development partnerships through strategic engagement

The rise of powerful Southern economic powers such as China and India presents opportunities as well as challenges. African Governments should take an incisive approach towards them and develop a coherent regional strategy to ensure that trade, investment and finance from these countries serve to accelerate the continent's development potential, promote technological progress, enable capital accumulation and consolidate structural transformation. They should encourage, in particular, investments in infrastructure and agri-business. Also, strengthening governmental negotiation capacity is critical.

Mobilizing resources for structural transformation

The last decade has seen a notable recovery in African countries' capacity to mobilize resources and raise investments, although the continent's growth prospects and its capacity for mobilizing resources remain vulnerable to external shocks. Given the new opportunities from strong demand for Africa's resources and fundamental changes in the geopolitical landscape, it is vital for Africa to optimize the various channels for mobilizing and allocating resources.

Africa can draw on its experience with traditional aid donors for the challenges in dealing with new players, including investors from emerging economies as well as multinational corporations and international portfolio investors who have recently renewed their interest in resource-rich Africa. To avoid non-productive capital flows (financial and human), African countries should explore mechanisms for repatriating illicit capital flows and developing new financial instruments for securing private savings from international and domestic investors, while encouraging only those likely to contribute to their development. They should also seek to improve public resource management and increase the participation of domestic stakeholders in development.

African countries should capitalize on new opportunities for less volatile development resources by considering the following lines of action:

a. To mobilize private domestic and foreign savings through the financial system, Governments should concentrate on deepening financial markets and strengthening the capacity of financial institutions so that mobilized funds are effectively intermediated and used for productive investments and socio-economic development. It is also important to explore and deepen mechanisms of regional cooperation for countercyclical macroeconomic management. This may lead eventually to stabilization or development funds among several countries or Africa-wide.

b. Windfalls from commodity booms and newly available resources should be deployed purposely to help diversify and transform economic structures, while resource rents should be distributed to aim for inclusive growth.

c. African Governments should take strategic positions with all the categories of external actors and investors - traditional aid donors, new development partners, multinational corporations and private portfolio investors - by presenting their home-grown development visions and strategies as a basis for negotiations. Lastly, it is crucial to forge a productive partnership between the State and domestic stakeholders by promoting greater inclusion, transparency and accountability in policy design and implementation.

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