Overview

THE EXPERIENCE OF the last decade suggests strongly that Africa is likely to make the twenty-first century its own—an experience woven into this document countless times. Essentially, since the beginning of this century, African countries have shown strong economic growth owing to improved economic management, a generally hospitable international environment and rising prices for their commodity and other strategic minerals.

Growth was interrupted when the 2008 global financial crisis—and steep food and fuel prices—hit the continent. Yet Africa quickly recovered and saw its growth resume at pre-crisis rates, a clear indication of the deep restructuring under way for more than a decade. Several prominent international financial organizations and private think tanks, observing this trend, have stressed Africa's potential to be a "global growth pole"—one that, reflecting its own size and rate of growth, boosts growth in other countries, worldwide. The headline "Africa rising", which appeared on the cover page of *The Economist* news magazine on 3 December 2011, captures the growing optimism about Africa's role in the world.

Still, the continent should not rest on its laurels, as UNECA Executive Secretary, Mr. Abdoulie Janneh, warned in his June 2011 address to the African Union Executive Council in Malabo, Equatorial Guinea. The last decade's impressive growth must be examined in a proper context if Africa is to become a global growth pole, for the fact remains that the sources of Africa's growth have changed very little over the years: agriculture and natural resources remain the main drivers, and Africa has diversified its economies in little meaningful way. Moreover, job creation has not matched growth and employment needs. 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 set free its growth potential.

Thus the theme—and title—of the *Economic Report on Africa 2012* is *Unleashing Africa's Potential as a Pole of Global Growth*, examined in five chapters. Chapter 1 presents a review of the developments in the world economy and implications for Africa. Chapter 2 offers an overview of economic, social and human conditions in Africa in 2011 and prospects for 2012. The remaining three chapters focus on how to harness the continent's productive capacity by taking bold measures to ease the binding constraints that still stifle Africa's potential.

Chapter 3—the focus of the growth pole analysis—looks at Africa's growth in the last half century, particularly the drivers of growth in different development strategies. Through the optic of the global growth pole, it proposes several imperatives that Africa must fulfil, including sustained high growth, as well as economic transformation (mainly of infrastructure, human resources and local entrepreneurship). It also discusses options for capitalizing on the opportunities, and for managing the risks, of the emerging multipolar world and the gradual shift

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in the resource balance from the developed world to Asia and other developing regions.

In more detail, chapter 4 presents how to unleash Africa's productive potential. Emphasizing that Africa's marginal position in the global economy can be reversed with the right type of political leadership committed to mobilizing all sectors of society around a common national development vision and strategy, the chapter suggests the need for two other elements: a capable and pragmatic bureaucracy and a social compact in which the State, the private sector and civil society are mutually accountable for implementing that vision. The chapter then proposes options for improving political and economic governance, for relaxing constraints from deficits in human capital, infrastructure and local entrepreneurship, for unlocking Africa's agricultural potential, for stepping up regional integration initiatives and for harnessing new partnerships, particularly with the emerging economies of the global South.

Chapter 5 reviews the various resource-mobilizing channels open to Africa given the pressing need to transform itself structurally. It outlines innovative proposals on mechanisms for mobilizing, using and distributing resources for setting a foundation of shared growth and inclusive development. It begins by reviewing past experience as well as new opportunities and challenges facing policymakers in mobilizing and using external resource flows—official and private—for socio-economic structural transformation. The chapter then looks at new financial instruments for mobilizing private savings from international and domestic investors, as well as issues in mobilizing domestic public resources.

Chapter 1: Developments in the world economy and implications for Africa

AFTER A STRONG rebound in 2010, the world economy slowed in 2011 owing to increased risks and uncertainties that are expected to remain in 2012 and beyond. Although the negative effects of the triple crisis of 2007–2009—food, energy and finance—still linger, the euro area sovereign debt crisis has further aggravated structural imbalances in the world economy and cast a doubt on the prospects for sustained growth and a quick recovery.

The depth and complexity of the global crisis have so far defied policy responses from developed-country governments. They kept interest rates low and pursued tight fiscal austerity measures to restore fiscal credibility. Yet long-run structural problems, such as increased income inequality, dysfunctional labour markets and global imbalances in particular, have intensified.

African economies quickly rebounded from the 2008 financial crisis as commodity prices rose and export revenues returned to pre-crisis levels, enabling them to finance the necessary investments. Turmoil in North Africa and the euro area crisis combined to slow growth in 2011, but despite uncertainties some African countries have grown at double digits, reflecting higher commodity prices and strong domestic demand.

The world economy is entering a critical period full of uncertainties and challenges. In the short term, the euro area crisis might push the global economy into another recession with devastating consequences. High unemployment and rising food and energy prices have already

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widened income inequality and stirred up discontent and social instability around the globe.

Africa is not immune to the global crisis, though it is in a much better position to deal with global exigencies than before. The expected slowdown of the world economy may reduce demand for its commodity exports, lower prices and thus reduce its export earnings. However, export diversification in recent years can help the continent to better weather these effects through intra-African trade. Shortfalls in official development assistance could threaten many aid-dependent African countries' social development programmes, but this could also encourage the continent to mobilize local resources and reduce over-dependence on foreign financial assistance.

With the above risks and challenges as their backdrop, Africa's governments need to push through growth-promoting macroeconomic policies in the short run, while adopting long-term development strategies. Specifically, they should increase investments in high-quality education, health and infrastructure that can enhance long-term growth potential—within their fiscal space. Monetary policy has to be accommodative to support growth. All these measures should be combined with policies that provide social protection for vulnerable groups in society, thus consolidating the poverty-reduction achievements of the past decade.

African countries must pursue structural transformation to sustain growth, create jobs and reduce vulnerability to external shocks.

In the long term, African countries must vigorously pursue economic diversification and structural transformation to moderate negative external shocks from the euro debt crisis or volatility in commodity prices (or both) and provide decent jobs for African men and women. In addition, they should intensify efforts to diversify their export destinations, expand economic partnerships (including those with emerging economies) and deepen intra-Africa trade and investment. Crucially, though, Africa can grow faster and become a global growth pole by unleashing its productive potential through aggressively investing in infrastructure and human capital. Such a broad-based, transformative agenda will require each country to have strong political leadership and an effective institutional framework.

Chapter 2: Economic and social developments in Africa and prospects for 2012

THE PACE OF economic growth in Africa weakened in 2011, reflecting the impact of political and social strife in some countries in the north of the continent. Growth in the rest of Africa sustained strong momentum, however, as several countries benefited from increased export earnings, owing to higher global commodity prices and strong export demand, as well as buoyant domestic demand, fuelled by strong public investment, higher agricultural harvests and a recovery of inward capital flows that responded to a more stable economic environment and better economic management. Oil exporters lagged behind non-oil exporters for the first time in five years, and countries in North Africa faltered.

Continental growth is still creating too few jobs, however—unemployment remains high and youth unemployment especially is growing. These failures of growth are because much of the output growth is driven by capital-intensive sectors—and they lack economy-wide links—while the labour-intensive sectors lag behind. Economic growth has not therefore generated the jobs and incomes needed to reduce the high unemployment and poverty on the continent. African countries will have to diversify their sources of growth towards labour-intensive sectors to make inroads in these areas.

Inflation generally rose on the continent, sparked by rising global food and fuel prices. This was most felt in the Horn of Africa, where severe drought and lower food production led to steep increases in food prices. Policy remained generally accommodative though, and few countries (apart from those in East Africa, to limited effect) tightened their monetary stance. Fiscal policy was reasonably expansionary, with many countries sustaining their spending plans in support of public investment spending, but this further widened the aggregate fiscal deficit in 2011.

Growth prospects in the medium term are optimistic, with output for the continent as a whole set to recover strongly in 2012 and thereafter, premised on a return to political stability in North Africa. However, as the global economic slowdown threatens these prospects, they depend on the global economy regaining its growth momentum. Without this improvement, African countries are likely to suffer a setback through reduced exports and inward capital inflows.

But what of the longer term? What should Africa do, so it need not worry about what the rest of the world does?

Chapter 3: Africa as a pole of Global Growth

SINCE INDEPENDENCE, AFRICAN growth has been driven mainly by primary production and export alongside little economic transformation and too much unemployment and poverty. The continent still faces development deficits in infrastructure, entrepreneurship, human resources and science and technology. The last decade, however, has benefited from improvements in macroeconomic management, good governance and control of corruption such that manufacturing, modern financial and telecommunications services as well as tourism are beginning to make significant contributions to growth. During this period, Africa has witnessed a substantial improvement in its economic performance: its gross domestic product (GDP) grew by an average of 5.6 per cent in 2002–2008, making it the second-fastest growing continent in the world at times, behind Asia. Of the world's 15 fastest-growing economies in 2010, 10 were African. More reassuring, it is not only the resource-rich countries that are experiencing this growth—some African countries that do not boast of oil or mineral wealth are growing as well.

Future growth will depend on harnessing Africa's untapped natural resources, youthful population and growing middle class.

This resurgence is giving rise to Africa's growing recognition as an emerging market and a potential global 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.

African governments need to continue promoting good political governance as evidenced by the downward trend of government hardening and oppression of peaceful demonstrations. The focus was on shared values at the 16th African Union Summit in January 2011, which looked at reforming electoral systems, improving democratic processes and human rights, showing zero tolerance for unconstitutional changes of government, building on the New Partnership for Africa's Development (NEPAD) and its African Peer Review Mechanism (APRM) commitment to establish a more coherent Pan-African Governance Architecture and adopting the African Charter of Values and Principles of Public Service and Administration. There is also international support for initiatives to strengthen rule of law and parliamentary oversight as well as civil society engagement.

Africa has about 12 per cent of the world's oil reserves and 40 per cent of its gold as well as vast arable land and forest resources. These resources, along with rising demand for raw materials from emerging economies especially, make Africa an attractive destination for direct and portfolio investors. Foreign direct investment (FDI) inflows to Africa reached $62 billion in 2009, an almost seven-fold increase in a decade. The uptrend 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 youthful population and fast-growing labour force has to be offered comprehensive, innovative skills and knowledge development. This will ensure that they are a blessing and not a source of conflict and insecurity, which would harm the investment climate. This way, Africa will take maximum advantage of ageing populations in advanced economies and rising wages in Asia, thus becoming the next global manufacturing and high-tech services platform.

The high rate of urbanization and the 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 domestic market should attract high domestic and foreign investment.

In order to be a global growth pole, Africa needs to meet certain imperatives: the crucial imperative is to sustain its recent growth rate for at least another two decades. It can do this if it vigorously addresses the development deficits in the structural transformation of output (including industrialization) and trade, infrastructure, human resources and entrepreneurialism, and capitalizes on the opportunities—and manages the risks—of the emerging multipolar world.

If it meets these deficits, Africa may well be able to sustain its recent 5 per cent growth to 2034, by which time, if other countries maintain their recent growth rates, it should account for at least 5 per cent of world GDP (China's position in 2005)—and be regarded as 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 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 operations). 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. Success in this area would be seen in per capita electricity consumption of 1,129 kilowatt-hours and GDP per unit of energy use of 4, at least; a share of paved roads of at least 44 per cent; and telephone lines and Internet users per 100 people not less than 16 and 6, respectively, in any African country.

Human capital, too, has to be upgraded and secondary and tertiary enrolment should climb to at least 64 per cent and 16 per cent, respectively, matched by quality assurance mechanisms. Adult and youth literacy rates should be at least 77 per cent and 90 per cent, respectively, in any African country. Life expectancy should be 68 years at least and infant mortality 37 per 1,000 live births at most in any African country. Governments should strengthen health systems by allocating greater domestic resources; ensuring the removal of barriers to access to services; overseeing the development, deployment and retention of critical human resources for health; and abolishing

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inequity in access to health care. 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).

Finally, all African countries should nurture indigenous entrepreneurs capable of working with foreign counterparts to promote the effective transfer of knowledge and to ensure technological spillovers to African economies.

Beyond these measures, they 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, FDI from emerging economies, support for infrastructure development by new partners and development potential of diasporas (beyond remittances). All these interventions require collaboration among stakeholders under the leadership and guidance of a developmental State.

Chapter 4: Unleashing Africa's development capacity

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, and key elements include strengthening the institutions of the 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 to hold public officials accountable for their actions. It is particularly important that governments create a policy environment supportive of 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, including thorough and systematic reform of the educational system, with greater emphasis on quality than quantity. Governments will need to assign greater emphasis to science and technology, as well as entrepreneurship training that will catalyse the effective unlocking of Africa's productive potential, placing African universities at centre stage. Steps would entail reviewing knowledge production, the nature and content of knowledge, the place of research and knowledge production (and how to pay for it) as well as the types of partnership that African universities should seek in order to be equal players in the global arena—while remaining locally and nationally relevant.

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.

To take one example: technology transfer has been at the centre of the rapid diffusion of mobile telephony and wireless technologies in Africa, and has had a profound impact on individuals, firms and governments. It would have had a greater impact if Africa had helped to design, manufacture and build the components and the network infrastructure. Yet Africa is failing to attract foreign private research and development projects or manufacturing investment because of its limited base of technology and intellectual capital. Worse, according to one source, it is going backwards in technology production and ownership.[1]

Five radical steps are therefore needed to ensure that Africa benefits from the world's technological knowledge to meet its challenges of unemployment, poverty and climate change.

First, African countries need to put in place policies and strategies to integrate the three subcomponents of science, technology and innovation in all economic sectors and government agencies. Second, they should install mechanisms to mobilize, invest and manage funds for these three elements. Third, countries should increase investment in education, particularly in these subcomponents, to develop the necessary skills and talent needed to sustain innovation and entrepreneurship in a knowledge economy. Fourth, they need to upgrade soft and hard infrastructure to serve as a platform for technology transfer and innovation. Finally, they need to strengthen the business environment in order to meet innovative firms' needs through supportive financial, intellectual-property, competition and procurement policies. Such measures would virtually guarantee Africa's future growth, competitiveness and economic transformation.

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Reversing underinvestment in infrastructure

Investment in infrastructure is necessary for releasing productive capacity and for 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 action on many fronts. African governments should, for example, harness the domestic financial sector, such as 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 by 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 FDI from emerging economies, such as China and India, with relatively large financial resources as well as the appropriate skills and technology. Governments should also take steps to get more out of existing infrastructure through efficiency gains.

Boosting productivity in agriculture

An African green revolution is a prerequisite for Africa's green industrialization and for its response to climate change. In general, countries have moved up the technological ladder first by developing agriculture and promoting value addition through agro-industries before moving to heavy industry.[2] In Africa, raising the productivity (and hence profits) of small farmers should be given priority because the majority of rural Africans are engaged in subsistence agriculture. This approach demands high and sustained levels of investment in key public goods, *Green-economy development strategies are essential for promoting high and sustainable growth for Africa to become a global growth pole.*

such as rural roads and irrigation, agricultural research and new technology, support for input-related industries, such as fertilizers and seeds, and new economic links that will create economic opportunities for enterprises in rural areas.

Other interventions likely to increase the productivity of small farmers, in turn adding value and moving economies along the industrialization curve, are securing smallholders' rights in land policies, ensuring incentives for off-farm enterprise job creation, promoting African systems for supporting innovative farming technologies and expanding learning systems for farmers and agro-industries. Moreover, national governments need to take resolute steps to empower women farmers through better access to productive assets, land-ownership rights, credit and farming education.

Strategies for agricultural development should run parallel to those which allow countries to industrialize along green lines and to diversify economically, so as to render them less vulnerable to climate change. Green-economy development 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 food and water. As Africa is far from meeting its own development investment needs from domestic resources, external financial support for mitigation and adaptation is vital.

It is also imperative to examine the supply- and demand-side factors that may constitute barriers to mobilizing resources in a green economy. Governments can also increase spending on clean technologies and practices and gradually eliminate subsidies for polluting industries. National development plans should have policies that promote output and use of clean products; developing, diffusing and transferring technology are critical for this.[3]

Accelerating regional integration and intra-African trade

Progress in regional integration is mixed, but political commitment on what needs to be done is high. Such integration 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, for example, regional guaranteed payment systems. African governments should therefore develop trade-related regional infrastructure by encouraging private sector participation (domestic and foreign) into infrastructure. Finally, 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 and challenges. African governments should take an incisive approach towards them and develop a coherent 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. Moreover, the governments of resource-rich African countries should develop a strong governance framework for the extractive sector (such as gold and oil) to stamp out corruption and avoid the "resource curse". Strengthening governmental negotiation capacity is critical.

African governments need to develop comprehensive national and regional strategic frameworks for engagement with external partners and investors.

Chapter 5: 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 of mobilizing resources and to improve the mechanisms for using and distributing resources. In this way it can create a foundation for shared growth and inclusive development.

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 of repatriation of illicit capital flows and developing new financial instruments for securing private savings from international and domestic investors—encouraging only those likely to contribute to its development. African countries should also seek to improve public resource management and increase the participation of domestic stakeholders in development.

African countries should capitalize on the new opportunities for resources rarely available since independence, but the challenges of turning optimism into reality are equally daunting. In particular, the policy challenge shared by all African countries—resource-poor and resource-rich alike—is how to deploy new resources in socio-economic development and how to make resources for development less volatile and less subject to commodity booms. Their leaders could consider the following lines of action.

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.

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. They should seize on their newly acquired stronger position by presenting their home-grown development visions and strategies as a basis for negotiations.

For mobilizing 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 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.

Finally, it is crucial to forge a productive partnership between the State and domestic stakeholders by eliminating basic considerations of influence in the political economy of public resource management. This will allow governments to tackle the structural weaknesses in generating domestic public resources that stem from the shallow tax base and heavy reliance on resource-based and trade taxes. Authorities can broaden the tax base by improving the distribution mechanisms through fiscal channels, for example by ensuring better public goods provision and by mainstreaming the informal sector within the formal economy.

Notes

1 http://www.uneca.org/istd/tech_resurgence.pdf.

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

3 See UNECA and AUC (2011) "Economic Report on Africa 2011: Governing Development in Africa – the Role of the State in Economic Transformation". UNECA. Addis Ababa. Ethiopia.