



# **Making the Most of Africa's Commodities:** Industrializing for Growth, Jobs and Economic Transformation

ECONOMIC REPORT ON AFRICA

2013

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# Foreword

Africa is at a critical juncture in its development trajectory. The global economic and geopolitical changes of the last two decades have shifted the global traditional power structures and witnessed the emergence of new powers from the South. This shift, driven largely by a revolution in information and communications technology, has led to substantial increases in cross-border capital flows and trade in intermediate goods, thus reflecting the rising importance of value chains. Changes in demography, rapid urbanization and a prolonged commodity-price boom have also made huge global changes, all of which present unprecedented opportunities for Africa to overcome its legacies and embark on a bold agenda that will see the continent emerge as a global economic power.

Given its remarkable growth since 2000, the continent has been hailed as the next frontier for opportunity and a potential global growth pole. Political conflicts have declined, economic growth is robust and economic management, governance and political stability have improved. All have contributed to a marked shift in global perception of the continent, from pessimism to enormous potential, with both traditional and new economic powers clamouring to offer their partnership.

Yet recent economic performance has not generated enough economic diversification, job growth or social development to create wealth and lift millions of Africans out of poverty. A key challenge, therefore, is how Africa can pursue more effective policies to accelerate and sustain high growth and make that growth more inclusive and equitable. African countries must use this global interest as springboard to achieving broad structural transformation based on the needs and priorities of Africans.

***African countries have a real opportunity, individually and collectively, to promote economic transformation and to address poverty, inequality and youth unemployment. They can capitalize on their resource endowments and high international commodity prices as well as changes in how global production processes are organized.***

It is precisely because of these challenges that the theme of this year's *Economic Report on Africa 2013* is on "Making the most of Africa's commodities: industrializing for growth, jobs and economic transformation". This theme is important because commodity-based industrialization can provide an engine of growth for the continent, reducing its marginalization in the global economy and enhancing its resilience to shocks. African countries have a real opportunity, individually and collectively, to promote economic transformation and to address poverty, inequality and youth unemployment. They can capitalize on their resource endowments and high international commodity prices as well as changes in how global production processes are organized.


This report argues that the deindustrialization of many African economies over the last three decades, resulting in their increasing marginalization in the global economy, was mainly the result of inadequate policies and offers a policy framework for these countries to trigger resource-based industrialization. Key among the components of this framework is the need to design and implement effective development plans and industrial strategies to address constraints and tap opportunities for African countries to

engage in value addition and commodity-based industrialization. For industrial policy to be effective there is a need for policy space. Many African countries saw notable improvements in policy space especially before the recent global financial crises thanks to prudent macroeconomic management. Successful industrial policy would assist African countries strengthen and sustain their policy space through higher and sustainable growth rates and tax revenue.

This report also underscores the need for African countries to develop appropriate local content policies, boost infrastructure, human skills and technological capabilities, and foster regional integration and intra-African trade. In this regard, the implementation of the Continental Free Trade Area (CFTA) and the regional and continental priorities of the Accelerated Industrial Development of Africa's (AIDA) Action Plan, for example, will be crucial.

This report is based on nine studies of African countries, which have helped to generate evidence-based policy recommendations. The studies show that African countries are adding value to their commodities and developing local backward and forward linkages to the soft, hard and energy commodity sectors. But the depth of linkages varies among countries and value addition remains generally limited, mainly because of country- or industry-specific constraints that require strategic and systematic industrial policies.

The need for Africa to industrialize to accelerate and sustain growth, create jobs for millions of its youth and achieve economic transformation makes this report timely. It is our belief that this report generates the kind of knowledge needed for the discourse on policy choices for Africa's transformative development.



**Carlos Lopes**  
United Nations Under-Secretary-General  
and Executive Secretary of UNECA



**Nkosazana Clarice Dlamini-Zuma**  
Chairperson  
Africa Union Commission

# Executive Summary

## AFRICA'S IMPERATIVE TO INDUSTRIALIZE IN TODAY'S GLOBAL CONTEXT

The global economy has, since the turn of the century, seen vast shifts in production and trade patterns alongside the emergence of new growth poles in the South. The rapid rise of economic powers such as China, India and Brazil, the continuing financial and economic problems of industrialized countries, and ways of doing business revolutionized by advances in technology have taken the world into a new phase of globalization. This evolving order presents Africa with challenges as well as opportunities which, if met by effective policies, could lead to substantial socio-economic and political transformation, propelling the continent as a new pole of global growth.

Following two decades of near stagnation, Africa's growth performance has improved hugely since the start of the 21st century. Since 2000 the continent has seen a prolonged commodity boom and sustained growth trend. And although growth slowed from an average of 5.6 per cent in 2002–2008 to 2.2 per cent in 2009—hit by the global financial crisis and steep food and fuel price rises—Africa quickly recovered with growth of 4.6 per cent in 2010. The continent's growth slipped again in 2011 owing to political transition in North Africa, but rebounded strongly once more to 5.0 per cent in 2012, despite the global slowdown and uncertainty.

This remarkable performance—although largely commodity driven—is underpinned by a variety of factors, such as strengthening domestic demand associated with rising incomes and urbanization, increasing public spending (especially on infrastructure), bumper harvests in some regions (due to favourable weather), tightening trade and

investment ties with emerging economies (linked to their investment in Africa's natural resource and extractive industries) and post-conflict economic recovery in several countries. Africa's medium-term growth prospects remain strong, too, at for example 4.8 per cent in 2013 and 5.1 per cent in 2014.

Yet this impressive growth story has not translated into economic diversification, commensurate jobs or faster social development: most African economies still depend heavily on commodity production and exports, with too little value addition and few forward and backward linkages to other sectors of the economy. Indeed, the pattern of social development in Africa has been mixed over recent years: changes for the better are still recorded in most areas (especially education, child and maternal mortality rates, and gender equality), but the pace is too slow for African countries to achieve their social development goals, especially some of the Millennium Development Goals by the end date of 2015.

The limited impact of commodity-driven growth on employment and social development has been aggravated by liberalizing reforms and globalization that, in the absence of serious government policies to promote economies' productive capacities and ability to compete in international markets, have left a legacy of inappropriate incentives and institutions that threaten economic and political stability as well as social cohesion. Major deficits in state and institutional capacities, in physical and policy infrastructure, as well as an inability to mitigate impacts of external shocks have contributed to the continent's "transformation challenge". African countries must therefore address the reasons why stronger growth and trade have not stimulated economic diversification, job creation and socio-economic development.

The key challenge for African countries today is how to design and implement effective policies to promote industrialization and economic transformation. Despite some gains in manufacturing over the last decade, the continent is yet to reverse the de-industrialization that has defined its structural change in recent decades: in 1980–2010, its share of manufacturing in aggregate output declined from more than 12 per cent to around 11 per cent, but remained at more than 31 per cent in East Asia, where labour-intensive industries induced high and sustained growth and helped lift hundreds of millions of citizens out of poverty.

Africa has also lagged behind East Asia on other measures. That region has seen not only surging per capita income but also a soaring share of global exports and income over the last four decades (table 1). Industrial policies were particularly successful in East Asia because of committed and visionary political leadership and institutions that designed and enforced strict performance criteria for industries that received subsidies and trade protection, supported by a capable bureaucracy largely insulated from political capture.

**TABLE 1: AS AFRICA DE-INDUSTRIALIZED, EAST ASIA WAS FIRING ON ALL CYLINDERS**

	1970	1980	1990	2000	2010
<b>Africa</b>					
Real per capita GDP (US\$)	246	900	780	740	1,701
Share in world output (%)	2.75	3.65	2.22	1.85	2.73
Share in global exports (%)	4.99	5.99	3.02	2.31	3.33
<b>East Asia</b>					
Real per capita GDP (US\$)	335	1,329	3,018	4,731	8,483
Share in world output (%)	9.83	12.94	18.14	21.53	20.69
Share in global exports (%)	2.25	3.74	8.06	12.02	17.8

Source: World Bank, World Development Indicators, 2012.

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