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AFRICAN LIONS IN THE MAKING

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SIEMS EMERGING MARKET BRIEF

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I. INTRODUCTION

In recent years, there have been significant reforms in macroeconomic management, improved incentives for the private sector, and relatively favorable international context for commodity exporting countries. This environment has produced relatively high growth rates in many African countries. The continent's average growth is almost five times the Eurozone's average growth; in fact, some of the world's fastest growing economies are in Sub-Saharan Africa. Growth in 2011 is expected to average 5.5% and 6% in 2012 (World Bank, 2011).

Despite these recent developments, the nations of Sub-Saharan Africa have been far less successful in raising per capita income, reducing poverty, or transforming their economic structures. For example, in 2010, the average real per capita income was USD $688 or just about the same as in 1980. In contrast, during the same period, per capita incomes in East Asia grew by almost seven times. In 2008, half of Africans lived in poverty compared to 25% in the rest of the developing world.

In almost all African countries, the primary sector—either agriculture or minerals—still dominates production. Foreign trade mirrors the production structure: Exports are dominated by primary commodities that incorporate minimal application of science and technology, while the bulk of manufactured goods and knowledge-based services are imported. From the mid-1980s to mid-2000s, Africa's exports have remained primary production and resource-based, while exports from East Asian countries have diversified to include medium- and high-technology manufactured products. Not surprisingly, the employment structure mirrors that of production, with most African people engaged in low-productivity traditional agriculture, services, and the informal sector, which account for the widespread poverty observed in the continent.

Africa has recently experienced an increased economic momentum

Africa has recently experienced an increased economic momentum. If true change is to become reality, this momentum needs to be sustained. To tackle the economic situation in Africa effectively, it is clear that it is not enough to focus on the desirable ends of reducing poverty and expanding access to basic needs in health and education, as promoted by the Millennium Development Goals. Africa must follow the path of East Asia and transform its economy. Growth without structural transformation has not proved sustainable. The countries of the region need to modernize and diversify their economies if they want to become authentic economic lions. It is essential that they broaden their base of production, increasing the share of manufacturing and knowledge-based services. This would reduce economic volatility and provide greater scope for increasing returns and learning-by-doing, which would enhance the chances for further technological advances.

Notwithstanding its structural weaknesses, the continent is once again on an upward trajectory. The relevant question is whether the observed acceleration is a sign of hard-earned progress or the result of the commodity price boom of the last eight years. This paper shows that while the commodity boom might be one engine of growth in the continent, there are also fundamental changes that allow for cautious optimism about the future of the continent.

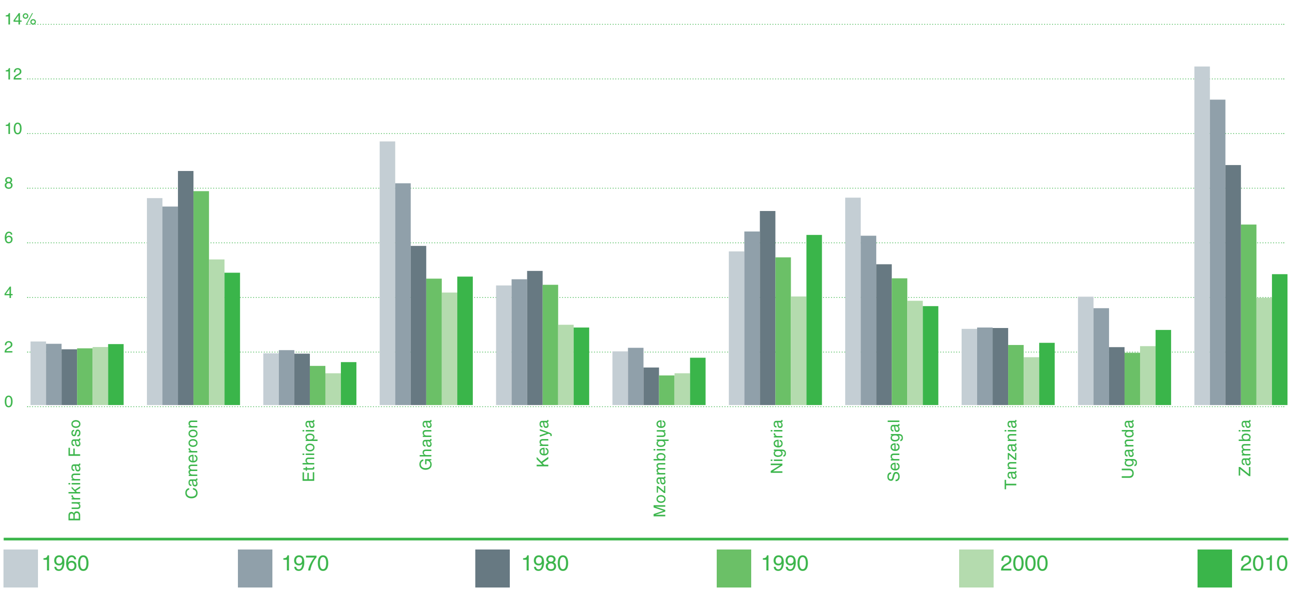
This study is structured in three sections. In the next section, I characterize the performance of 15 Sub-Saharan African economies in the last 30 years vis a vis other emerging market economies, showing the absolute and relative stagnation of most African economies. I have selected a sample of Sub-Saharan countries for presentation convenience. The 15 countries are Botswana, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, and Zambia. In 2009, these countries accounted for 62% of the population of Sub-Saharan Africa, 70% of its GDP, 64% of the total exports, and 81% of the manufacturing exports. In the third section, I analyze the recent economic improvement and the road ahead for Sub-Saharan Africa.

II. AFRICAN ECONOMIC PERFORMANCE IN RETROSPECTIVE

Africa experienced moderate growth from the mid-1960s until the end of the 1970s. However, its economic performance deteriorated rapidly in the late 1970s and early 1980s. Unlike many countries in other developing regions, which managed to restore growth after the lost decade of the 1980s, SSA's stagnation and decline continued during the first half of the 1990s, attributable to adverse external developments, structural and institutional bottlenecks, and policy mistakes. Table 1 shows per capita GDP levels and growth for a sample of 15 Sub-Saharan African countries between 1980 and 2010. As a comparison group, I included three East Asian countries, which the literature associates with the export-led growth model, and the four BRIC countries. The average annual per capita GDP growth rate for all Sub-Saharan Africa during the last 30 years was a poor 0.4%. Only Mauritius and Botswana achieved an average growth rate above 4%. The stagnation of the continent is further manifest when compared with the performance of countries such as South Korea, China, and India. In 1980, the South Korean per capita GDP was 63% of the South African per capita GDP; however, today, the South Korean per capita GDP is 2.85 times that of South Africa's. The Chinese per capita GDP in 1980 was lower than Burkina Faso's; 30 years later, China is more than six times larger.

The stagnation of the continent is further manifest when compared with the performance of countries such as South Korea, China, and India

FIGURE 1: Labor Productivity in Sub-Saharan Africa as a Share of US Labor Productivity (1960-2010)



Source: Own calculations using The Conference Board total economy database (2011).

Figure 1 shows the same depiction but comparing labor productivity for SSA countries as a share of U.S. labor productivity. The values are not only extremely low but show (in all cases but one) that African countries were further along in the U.S. technology frontier in 2010 than they were 50 years ago.

However, if we center our analysis in the last decade, the picture is far more encouraging for the continent. Average growth in the last 10 years in SSA has been 2.6%, the same rate achieved by Malaysia and slightly higher than attained by Brazil. The only disappointments in this sample have been Cameron, Kenya, and Senegal with average growth rates between 1% and

TABLE 1 GDP PER CAPITA LEVELS AND GROWTH RATES 1980-2010 (PPP, CONSTANT 2005 INTERNATIONAL $)

	1980	1990	2000	2010	1980-1990 CAGR	1990-2000 CAGR	2000-2010 CAGR	1980-2010 CAGR
Botswana	3,433	6,948	9,531	12,459	7.3%	3.2%	2.7%	4.4%
Burkina Faso	622	681	866	1,127	0.9%	2.4%	2.7%	2.0%
Cameroon	2,007	2,082	1,853	2,046	0.4%	-1.2%	1.0%	0.1%
Ethiopia	n/a	545	527	934	n/a	-0.3%	5.9%	n/a
Ghana	993	907	1,067	1,469	-0.9%	1.6%	3.2%	1.3%
Kenya	1,375	1,421	1,283	1,477	0.3%	-1.0%	1.4%	0.2%
Mauritius	3,729	6,115	9,154	12,270	5.1%	4.1%	3.0%	4.0%
Mozam-bique	440	400	506	845	-0.9%	2.4%	5.3%	2.2%
Nigeria	1,645	1,417	1,469	2,135	-1.5%	0.4%	3.8%	0.9%
Rwanda	815	726	661	1,044	-1.2%	-0.9%	4.7%	0.8%
Senegal	1,531	1,478	1,525	1,732	-0.4%	0.3%	1.3%	0.4%
South Africa	8,763	7,975	7,641	9,476	-0.9%	-0.4%	2.2%	0.3%
Tanzania	n/a	860	866	1,286	n/a	0.1%	4.0%	n/a
Uganda	n/a	563	774	1,141	n/a	3.2%	4.0%	n/a
Zambia	1,532	1,249	1,029	1,401	-2.0%	-1.9%	3.1%	-0.3%
Sub-Saha-ran Africa	1,790	1,617	1,575	2,041	-1.0%	-0.3%	2.6%	0.4%
Asian Export-Led Growth								
Korea, Rep.	5,544	11,383	18,730	27,027	7.5%	5.1%	3.7%	5.4%
Malaysia	4,867	6,607	10,209	13,186	3.1%	4.4%	2.6%	3.4%
Indonesia	1,323	2,008	2,623	3,880	4.3%	2.7%	4.0%	3.7%
BRICs								
Brazil	7,567	7,175	7,909	10,056	-0.5%	1.0%	2.4%	1.0%
Russian Federation	n/a	12,626	8,613	14,183	n/a	-3.8%	5.1%	n/a
India	895	1,244	1,769	3,240	3.3%	3.6%	6.2%	4.4%
China	524	1,101	2,667	6,810	7.7%	9.3%	9.8%	8.9%

Source: World Development Indicators (2011).

1.4%. Both Ethiopia and Mozambique have averaged more than 5% per year. Figure 1 also shows a modest convergence for most African countries to the U.S. technology frontier in the last 10 years.

The poor aggregate performance of the African economies is also reflected in the sectoral component of GDP. Industrial growth in SSA has fallen behind GDP growth since 1980.

If the African countries are to become true economic lions, they will need to substantially increase their industrial capabilities

Deindustrialization, at least in some African countries, appears to have been associated with trade liberalization and the decline of state-owned enterprises. Table 2 shows the value added of the manufacturing sector as a share of GDP between 1980 and 2009. On average, manufacturing accounted for 16.6% of the GDP. Since then, the importance of the sector has declined in most countries, with the average for all SSA reaching 12.7% in 2009. In com-

TABLE 2 VALUE ADDED MANUFACTURING AS PERCENTAGE OF GDP (1980–2009)

	1980	1990	2000	2009
Botswana	5.1	5.1	4.5	4.2
Burkina Faso	15.2	15.2	16.2	n/a
Cameroon	9.6	14.5	20.8	n/a
Ethiopia	n/a	4.8	5.5	4.0
Ghana	8.1	9.8	10.1	6.9
Kenya	12.8	11.7	11.6	8.7
Mauritius	15.8	24.4	23.5	19.4
Mozambique	n/a	10.2	12.2	13.6
Nigeria	n/a	n/a	n/a	n/a
Rwanda	15.3	18.3	7.0	6.4
Senegal	13.5	15.3	14.7	12.8
South Africa	21.6	23.6	19.0	15.2
Tanzania	n/a	9.3	9.4	9.5
Uganda	4.3	5.7	7.6	8.0
Zambia	18.3	36.1	11.4	9.6
Sub-Saharan Africa	16.6	17.6	14.9	12.7
Asian Export-Led Growth				
Korea, Rep.	24.4	27.3	28.3	27.7
Malaysia	21.6	24.2	30.9	25.5
Indonesia	13.0	20.7	27.7	27.4
BRICs				
Brazil	33.5	n/a	17.2	15.8
Russian Federation	n/a	n/a	n/a	15.0
India	16.7	16.7	15.6	14.8
China	40.2	32.7	32.1	33.9

Source: World Development Indicators (2011).

parison, South Korea, Malaysia, and Indonesia have more than 25% of their GDPs generated by the manufacturing sector; in China, this number is around 34%. I will argue later that if the African countries are to become true economic lions, they will need to substantially increase their industrial capabilities.

The countries that have historically managed to pull out of poverty are those that have been successful in diversifying their economies away from agriculture and natural resource-based activities. A productive agricultural sector can provide inexpensive food and raw materials to start a process of industrialization; however, in Africa, the agriculture sector has thus far failed to become an engine of growth or economic transformation for most countries in the continent. The historical trend of primary crops and livestock production shows that total food production has been growing at a slow rate of less than 1% per year. This is rather alarming considering that the food production's growth rate is not statistically different from population

TABLE 3 CEREAL YIELDS (KG PER HECTARE)

	1980	1990	2000	2009	1980-2009 CAGR
Botswana	237.2	265.3	130.0	464.8	2.3%
Burkina Faso	569.8	600.2	859.0	1,035.1	2.1%
Cameroon	864.3	1,241.4	1,763.5	1,573.9	2.1%
Ethiopia	n/a	n/a	1,116.3	1,651.7	n/a
Ghana	717.7	989.2	1,309.1	1,659.8	2.9%
Kenya	1,241.7	1,561.7	1,374.6	1,204.1	-0.1%
Mauritius	2,454.5	4,192.6	8,900.0	7,894.7	4.1%
Mozambique	595.6	473.9	868.0	845.9	1.2%
Nigeria	1,086.9	1,147.9	1,171.4	1,598.4	1.3%
Rwanda	1,211.8	1,042.6	848.3	1,097.2	-0.3%
Senegal	547.3	795.0	879.3	1,134.5	2.5%
South Africa	2,017.2	1,876.6	2,758.6	4,395.2	2.7%
Tanzania	1,020.2	1,506.2	1,439.2	1,224.0	0.6%
Uganda	1,491.0	1,497.6	1,539.3	1,539.4	0.1%
Zambia	1,567.4	1,352.0	1,682.2	2,068.3	1.0%
Sub-Saharan Africa	1,043.6	1,032.9	1,131.0	1,301.8	0.8%
Asian Export-Led Growth					
Korea, Rep.	4,055.8	5,852.9	6,435.7	7,072.8	1.9%
Malaysia	2,835.8	2,740.3	3,039.5	3,750.4	1.0%
Indonesia	2,865.6	3,800.2	4,026.3	4,812.6	1.8%
BRICs					
Brazil	1,575.7	1,755.0	2,660.6	3,525.5	2.8%
Russian Federation	n/a	n/a	1,563.3	2,279.2	n/a
India	1,350.0	1,891.2	2,294.1	2,471.0	2.1%
China	2,948.7	4,322.7	4,756.3	5,459.5	2.1%

Source: World Development Indicators (2011).

growth rate, which raises concerns about SSA's ability to ensure against food insecurity (Depetris Chauvin et al., 2011).

Table 3 displays cereal yields for SSA countries and other emerging market economies between 1980 and 2009. On average, yields in the continent grew only 0.8% per year, far below the growth rates registered in emerging market economies. This slow growth is particularly worrying given the initial average low yields. In the sample, only Mauritius and South Africa have cereal yields of the same magnitude to ones observed in countries such as China, South Korea, and Indonesia. Behind these low yields, there are a series of usual suspects: Agriculture activities in SSA are carried out mostly by small farmers with little access to basics such as seeds, water, fertilizer, and pesticides, let alone modern machineries and techniques. In addition, part of the problem lies in the market structures and the poor institutions, policies, and infrastructure serving the agriculture sector (Porto et al., 2011).

Export performance in Africa is similar to the previously described trends for GDP. Exports increased substantially from independence until 1980, when SSA exports accounted for 2.5% of the world's exports. During the 1980s, the export sector had poor performance; despite emphasis

TABLE 4 DECOMPOSITION OF EXPORT GROWTH IN SSA (HS 6-DIGIT LEVEL)

					Growth Decomposition			Export Growth per Year
			Exports (million of USD, 2008 prices)		Products Exported in Both Years	New Products	Lost Products	
	First Year	Last Year	First Year	Last Year				
Botswana	2000	2008	3,368.8	4,825.8	70%	222%	-192%	4.5%
Burkina Faso	1995	2005	197.7	329.4	83%	27%	-10%	5.1%
Cameroon	1995	2006	1,944.6	3,399.9	89%	26%	-15%	5.1%
Ethiopia	1997	2008	710.7	1,595.1	67%	40%	-7%	7.3%
Ghana	1996	2008	3,215.2	4,029.9	71%	43%	-14%	1.9%
Kenya	1997	2008	2,398.1	4,630.0	81%	23%	-4%	6.0%
Mauritius	1993	2008	2,034.1	2,086.8	-47%	296%	-149%	0.2%
Mozambique	2000	2008	350.1	2,332.1	11%	90%	-1%	23.7%
Nigeria	1996	2008	14,869.8	79,574.7	95%	6%	0%	14.0%
Rwanda	1996	2008	12.7	346.1	75%	25%	0%	27.5%
Senegal	1996	2008	392.5	1,776.3	53%	51%	-3%	12.6%
South Africa	1992	2008	17,121.0	73,102.2	58%	43%	-2%	9.1%
Tanzania	1997	2007	745.6	1,962.6	53%	49%	-1%	9.7%
Uganda	1994	2008	143.1	1,338.1	33%	68%	-1%	16.0%
Zambia	1995	2008	1,392.5	5,070.8	40%	65%	-4%	9.9%

Source: Easterly and Reshef (2010).

on trade liberalization and exports during the 1990s, the region accounted for only 0.9% of the world's exports in Year 2000 (see Table 5 for individual country shares and comparison with emerging market economies). If the focus is on only the past 10 or 15 years, the picture—as in the case of GDP growth—is somewhat more promising. From 1994 to 2008, exports per capita from Sub-Saharan Africa have increased an average of 13% per year. This is compared with 4% for the United States, 8% for Germany, 13% for India, and 19% for China (Easterly & Reshef, 2010). Among the countries in Table 4's sample, Mozambique, Nigeria, Rwanda, Senegal, and Uganda have achieved double-digit annual growth rates in their exports.

The composition of African exports continues to be dominated by primary commodities, despite some progress in moving to manufacture. The

TABLE 5 SHARE OF WORLD'S EXPORTS AND SHARE OF MANUFACTURING EXPORTS FOR SELECTED SSA COUNTRIES

	Country's Percentage Share of World's Export				Manufactures Exports (% of merchandise exports)			
	1980	1990	2000	2009	1980	1990	2000	2009
Botswana	0.03	0.05	0.04	0.03	n/a	n/a	89.56	77.97
Burkina Faso	0.01	0.00	0.00	0.00	10.77	n/a	18.45	12.10
Cameroon	0.04	0.05	0.03	0.02	3.76	8.52	3.26	n/a
Ethiopia	0.00	0.01	0.01	0.02	n/a	n/a	9.78	8.65
Ghana	0.00	0.00	0.03	0.00	0.93	n/a	14.75	n/a
Kenya	0.06	0.06	0.03	0.04	12.13	29.25	20.79	36.60
Mauritius	0.03	0.04	0.04	0.03	n/a	65.82	80.79	64.60
Mozambique	0.01	0.00	0.01	0.02	n/a	n/a	6.67	11.66
Nigeria	0.00	0.00	0.31	0.00	n/a	n/a	0.21	3.59
Rwanda	0.00	0.00	0.00	0.00	n/a	n/a	n/a	19.35
Senegal	0.03	0.02	0.02	0.01	15.08	22.51	26.94	41.28
South Africa	0.80	0.55	0.46	0.35	18.20	n/a	53.85	47.48
Tanzania	0.00	0.01	0.02	0.03	14.15	n/a	19.63	24.61
Uganda	0.00	0.01	0.01	0.03	n/a	n/a	3.11	n/a
Zambia	0.02	0.01	0.01	0.00	n/a	n/a	10.74	8.43
Asian Export-Led Growth								
Korea, Rep.	0.71	1.19	2.58	3.78	89.55	93.52	90.75	89.59
Malaysia	0.53	0.86	1.41	1.27	18.75	53.78	80.43	69.91
Indonesia	1.33	0.88	0.85	0.96	2.29	35.45	57.12	40.58
BRICs								
Brazil	0.68	0.81	0.81	0.92	37.21	51.92	58.43	39.47
Russian Federation	0.00	3.43	1.43	1.67	n/a	n/a	23.59	17.21
India	0.47	0.47	0.76	1.65	58.64	70.69	77.84	66.82
China	1.98	1.57	3.50	9.89	n/a	71.58	88.22	93.57

Source: World Development Indicators (2011).

TABLE 6 SHARE OF TOP FIVE EXPORTS AND MAIN EXPORT PRODUCTS								
	Share of Top Five Exports				Most Important Export Product			
	1980	1990	2000	2010	1980	1990	2000	2010
Botswana	n/a	n/a	91.44	87.43	Precious and semi-precious stones			
Burkina Faso	83.39	n/a	75.04	92.60	Cotton	Cotton	Gold	Gold
Cameroon	87.44	80.32	78.95	77.80	Crude petroleum and oils			
Ethiopia	n/a	n/a	86.89	76.04	n/a	Coffee	Coffee	Coffee
Ghana	n/a	n/a	74.89	n/a	Cocoa	Cocoa	Gold	Gold
Kenya	70.95	52.41	61.43	46.26	Petroleum products, refined	Tea	Tea	Tea
Mauritius	84.70	71.75	69.73	55.76	Sugar		Under-garments, knitted or crocheted	
Mozambique	n/a	n/a	73.57	80.17	n/a	n/a	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc	Aluminium
Nigeria	n/a	n/a	99.80	92.15	n/a	n/a	Crude petroleum and oils	
Rwanda	n/a	n/a	n/a	83.08	n/a	n/a	n/a	Ores and concentrates of base metals
Senegal	62.35	61.02	64.82	58.88	Petroleum products, refined	Fixed vegetable oils, soft, crude refined or purified	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc	Petroleum products, refined
South Africa	n/a	n/a	34.59	41.17	n/a	n/a	Special transactions, commodity not classified	Silver, platinum and other metals of the platinum group
Tanzania	n/a	n/a	n/a	n/a	n/a	n/a	Coconuts	Gold
Uganda	n/a	n/a	64.90	38.75	n/a	Coffee		
Zambia	n/a	n/a	76.56	87.36	n/a	n/a	Copper	
Asian Export-Led Growth								
Korea, Rep.	23.71	27.34	38.55	41.70	Ships	Thermionic, microcircuits, transistors, etc		Ships
Malaysia	70.10	43.73	50.64	40.57	Crude petroleum and oils	Thermionic, microcircuits, transistors, etc		
Indonesia	84.52	55.16	30.80	43.38	Crude petroleum and oils		Gas, natural and manufactured	Coal, lignite and peat
BRICs								
Brazil	n/a	26.48	22.61	39.93	n/a	Iron ore and concentrates	Aircraft and associated equipment	Iron ore and concentrates

Russian Federation	n/a	n/a	65.73	73.78	n/a	n/a	Crude petroleum and oils	
India	28.41	30.49	31.58	38.18	Precious and semi-precious stones			Petroleum products, refined
China	n/a	22.76	20.84	27.45	n/a	Motor vehicle parts and accessories	Telecommunication equipment	Automatic data processing machines

Source: UN Comtrade SITC Rev2, 3-digit (2011).

increase in the share of manufacture in African exports between 1980 and 2000 partly reflects the effect of declines in the prices of commodities relative to manufacture in those two decades (see Table 5). Progress in diversification has not been particularly impressive. Table 6 shows the share of the top five exports for each country. In nine cases, the top five exports account for more than 70% of the total export earnings. In the case of Burkina Faso and Nigeria, these figures are above 92%. Only South Africa, Uganda, and Kenya have concentration levels similar to those observed in the Asian export-led growth countries included in the sample.

The composition of African exports continues to be dominated by primary commodities, despite some progress in moving to manufacture

A recent study by Easterly and Reshef (2010) showed that while the composition of exports from Sub-Saharan Africa has remained relatively constant over time—with a relatively low share of manufacturing exports and high shares of all other export categories (agriculture, food, fuel, and ores and metals)—a detailed examination of export activity shows that these broad categories mask much heterogeneity. At the product level, in Africa, as elsewhere, export success is dominated by a small number of "big hits" that change by a surprising amount from one period to the next; those changes are not driven by global prices. Table 4 shows that in the decomposition of export growth, new products play an important role in many of the African countries.

The review of the economic performance of Sub-Saharan Africa shows absolute stagnation of the region from 1980 until the late 1990s. The growth and development failure translated into low per capita GDP, high poverty and unemployment rates, with production export and employment structures concentrated in primary activities of either lower productivity or little spillover effect to the rest of the economy. This poor performance is even more evident when compared with other emerging markets that had similar level of development 30 or

Over the last few years, the domestic reforms, alleviation of the debt problems, and a favorable international context have brought growth back to Africa

40 years ago. However, over the last few years, the domestic reforms, alleviation of the debt problems, and a favorable international context have brought growth back to Africa. This is the time for the African continent to transform its economies and secure the path of prosperity of other emerging economies in recent years. The next section of this study focuses on the future prospects for the continent.

III.
AFRICA TODAY AND THE ROAD AHEAD

DRIVING GROWTH IN AFRICA: COMMODITY BOOM OR GOOD POLICY?

Growth has returned to Africa. Six of the 10 fastest-growing economies in the last 10 years are in Africa. There seems to be dynamism and drive in the continent. Some observers believe that Africa will play an increasingly important role in the global economy; others raise critical questions on whether the current development is sustainable. Looking at the longer-term trends, many countries seen as fast growers in 1970—such as the Ivory Coast—are now stagnating. What can we learn from those experiences? The sources of Africa's increased economic momentum and likely staying power are not well understood. Is the acceleration in growth a sign of well-earned progress or the result of a commodity boom?

Growth has returned to Africa. Six of the 10 fastest-growing economies in the last 10 years are in Africa

On one hand, the macroeconomic and business environment has improved in most countries after nearly two decades of economic and administrative reform, whereby inflation, budget deficits, and debt levels were reduced (see Table 7). The reduction in external debt was particularly dramatic because Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Reduction Initiative (MDRI) granted debt relief to several African countries. In the sample of 15 Sub-Saharan African countries, the debt burden—measured as the stock of external debt to GDP—decreased from an average of 120% in 1994 to only 21% in 2009. During the last two decades, most state-owned companies were privatized. The process was particularly intensive during the 1990s when privatization was a central element in reform programs. Between 1991 and 2002, there were about 2,300 privatization transactions, generating a total sales value estimated in USD $9 billion. Most of these privatizations took place in highly productive sector companies: Privatization in manufacturing and industry, agriculture, agroindustry, and fisheries, and services, tourism and real estate accounted for 80% of the total transactions (see Figure 2). As a result of the process, the governments' equity share in the privatized companies was reduced from 89.1% to only 10.3% (see Table 8).

Regulatory, legal, and business environments also improved. The Africa Competitiveness Report (World Economic Forum, 2011) showed improvements in several competitiveness indices for Sub-Saharan countries; however, on average, Sub-Saharan Africa is still outperformed by Southeast Asia and all the BRIC economies. Only two countries from South Sahara Africa figure in the top half of the overall rankings (out of 139 countries): South Africa (54th), and Mauritius (55th). Both countries are behind China (27th) as well as behind Southeast Asia average and India (51st) but ahead of Brazil (58th), Russia (63rd), and the other regional averages.

Two countries—Namibia and Botswana—ranked 74th and 76th, respectively, which are above the Latin American and the Caribbean averages. The remaining Sub-Saharan African countries fare better than the regional average: Rwanda (80th), Gambia (90th), Benin (103rd), Senegal (104th), Kenya (106th), Cameroon (111th), Tanzania (113th), Ghana (114th), and Zambia (115th). The Africa Competitiveness Report emphasizes the genuine progress made by the continent in term of the first generation of reforms. In addition to improvements in the macroeconomic fundamentals already mentioned, most economies have opened to trade and investment; this has translated into an increase in labor productivity growth that grew, on average, at -0.4% per year from 1980–2000 but at 2.8% since. However, according to the report, substantial challenges remain: The top factors affecting business in most African countries been insufficient access to financing, corruption, and inadequate infrastructure.

Substantial challenges remain: The top factors affecting business in most African countries been insufficient access to financing, corruption, and inadequate infrastructure

Despite the encouraging numbers, many economists account for Africa's recent performance as part of the commodity price boom. Surely, Africa has benefited from the surge in commodity prices over the past decade. The data shows that the fastest-growing economies are ones exporting oils and other minerals. Yet, the commodity boom explains only part of Africa's broader growth story. Natural resources—and the related government spending they financed—generated just 32% of Africa's GDP growth from 2000 through 2009 (McKinsey, 2009); the remaining two-thirds came from other sectors, including wholesale and retail, transportation, telecommunications, real estate, expansion of the banking sector, and manufacturing. Economic growth accelerated across the continent, with 27 of its 30 largest economies growing, including resource-rich economies and others with less generous natural endowments. The key reasons behind this growth surge included government action to end armed conflicts, improved macroeconomic conditions, and microeconomic reforms to create a better business climate.

The question that remains whether the growth rates observed over the last few years can be maintained. It is likely that such growth is unsustainable for all but the most handsomely endowed countries; for the majority, a steady long-term increase in per capita GDP will be predicated on deepening the tradable goods sector—both manufacturing and services—and exporting an increasingly more sophisticated mix of goods (Yusuf, 2011). As shown next, there are a few positive trends in this regard.

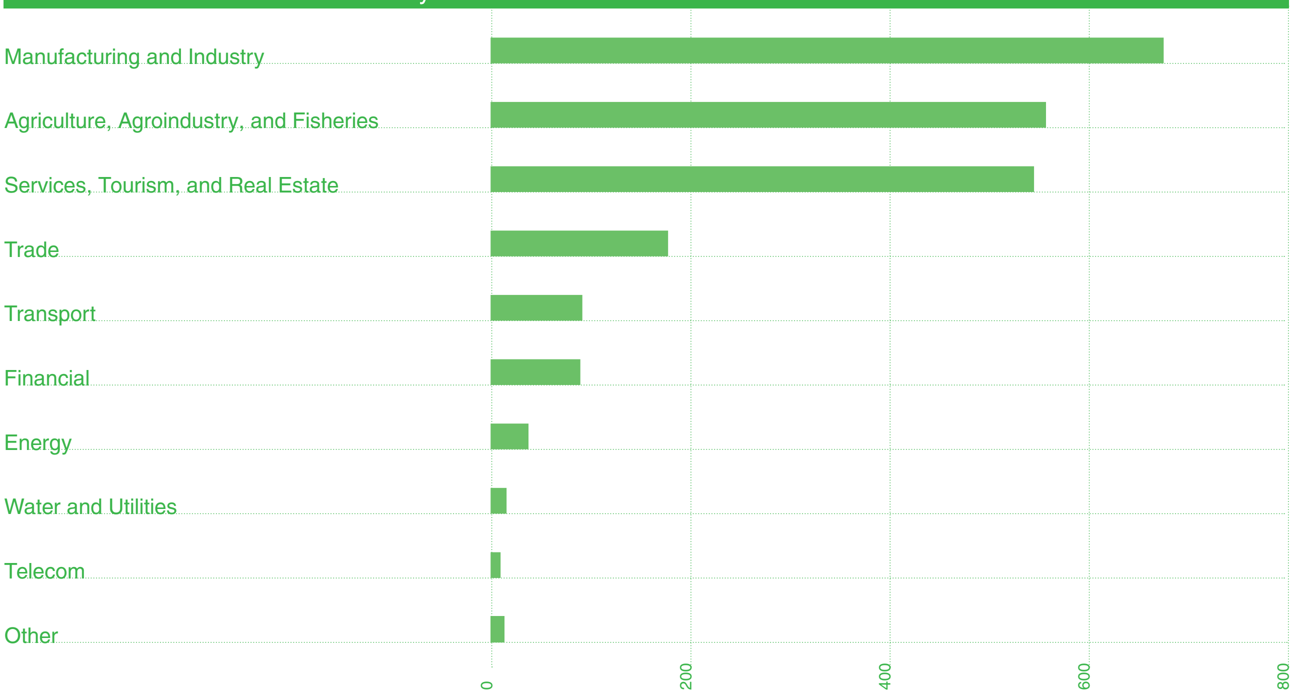
FOREIGN DIRECT INVESTMENT FLOWING TO AFRICA

In addition to growth, foreign direct investment (FDI) has returned to the con-

TABLE 7 IMPROVEMENT IN MACROECONOMIC INDICATORS								
	Inflation				External Debt/GNI			
	1980s	1990s	2000s	2009	1980s	1990s	2000s	2009
Botswana	10.8	10.8	8.7	8.0	23.2	13.6	6.6	14.1
Burkina Faso	5.0	4.5	3.0	2.6	26.9	47.4	35.6	22.9
Cameroon	9.1	5.6	2.6	3.0	41.0	95.3	56.4	13.6
Ethiopia	4.6	8.0	10.9	8.5	55.2	104.0	48.3	17.6
Ghana	48.3	27.6	18.5	19.3	48.2	79.8	73.3	37.3
Kenya	11.8	17.4	10.9	9.2	63.0	79.7	37.0	26.5
Mauritius	11.2	7.6	6.0	2.5	45.6	31.8	13.5	8.4
Mozambique	45.1	34.5	10.7	3.3	130.4	252.5	83.6	43.0
Nigeria	20.9	30.6	12.2	11.5	77.0	118.1	35.6	5.1
Rwanda	4.7	8.6	8.2	10.4	20.6	63.1	53.7	14.9
Senegal	6.9	4.5	2.1	-1.1	72.8	76.7	45.1	27.1
South Africa	n/a	9.9	6.1	7.1	n/a	17.8	16.6	15.1
Tanzania	30.1	23.1	6.8	12.1	129.9	131.2	55.2	34.0
Uganda	111.2	13.0	6.4	13.0	40.2	74.3	42.7	16.2
Zambia	69.3	76.2	17.3	13.4	192.2	218.2	103.5	26.8
Average 15 Countries	27.8	18.8	8.7	8.2	69.0	93.6	47.1	21.5

Source: World Development Indicators (2011).

FIGURE 2: African Privatization by Economic Sector



Source:Nellis (2003).

tinent. Africa started the 21th century with an important amount of FDI inflows. For the first time since 1970, FDI inflows to Africa reached nearly USD $20 billion in 2001. Africa inward FDI hit another record of USD $21.7 billion in 2004. From 2004, FDI inflows to Africa continuously increased, reacing USD $72 billion in 2008—the continent's highest level of inward FDI since 1970.

As in many of the world's regions, FDI inflows to Africa slowed in the wake of the recent financial and economic crisis but strongly rebounded during 2010. The main destinations for this FDI in Sub-Saharan Africa were Angola, Nigeria, South Africa, and Sudan in terms of value, respectively (see Figure 3), and South Africa, Nigeria, Kenya, and Ghana in terms of number of new FDI projects. A recent report (Ernst & Young, 2011) showed that investor perceptions about investment prospects in Africa have improved in the last three years and that this performance will continue into the future (Figure 4). The same report showed that strategic resources—mining and metals, oil and gas, and exploitation of other natural resources—continue to dominate the FDI focus; however, there is an incipient trend toward diversification into tourism, telecommunications, consumer products, construction, and financial services.

From 2004, FDI inflows to Africa continuously increased, reacing USD $72 billion in 2008—the continent's highest level of inward FDI since 1970

Regardless of the favorable picture of the last 10 years, FDI to Africa remains low in relative terms, attracting less than 5% of global FDI. Africa should take advantage of new sources of FDI and further attract FDI from other developing regions. Africa currently receives a small proportion of FDI from large developing countries. For example, Africa accounted for

TABLE 8 GOVERNMENT EQUITY SHARE IN PRIVATIZED COMPANIES

Sector	Before Privatization	After Privatization
Manufacturing and Industry	79.70	7.90
Agriculture, Agroindustry, and Fisheries	79.50	1.60
Services, Tourism, and Real Estate	70.20	14.30
Trade	95.30	3.30
Transport	97.60	4.90
Financial	86.70	8.20
Energy	88.30	46.50
Water and Utilities	100.00	12.50
Telecom	95.80	42.80
Electricity	100.00	33.00
Other	63.30	10.20
Total	89.10	10.30

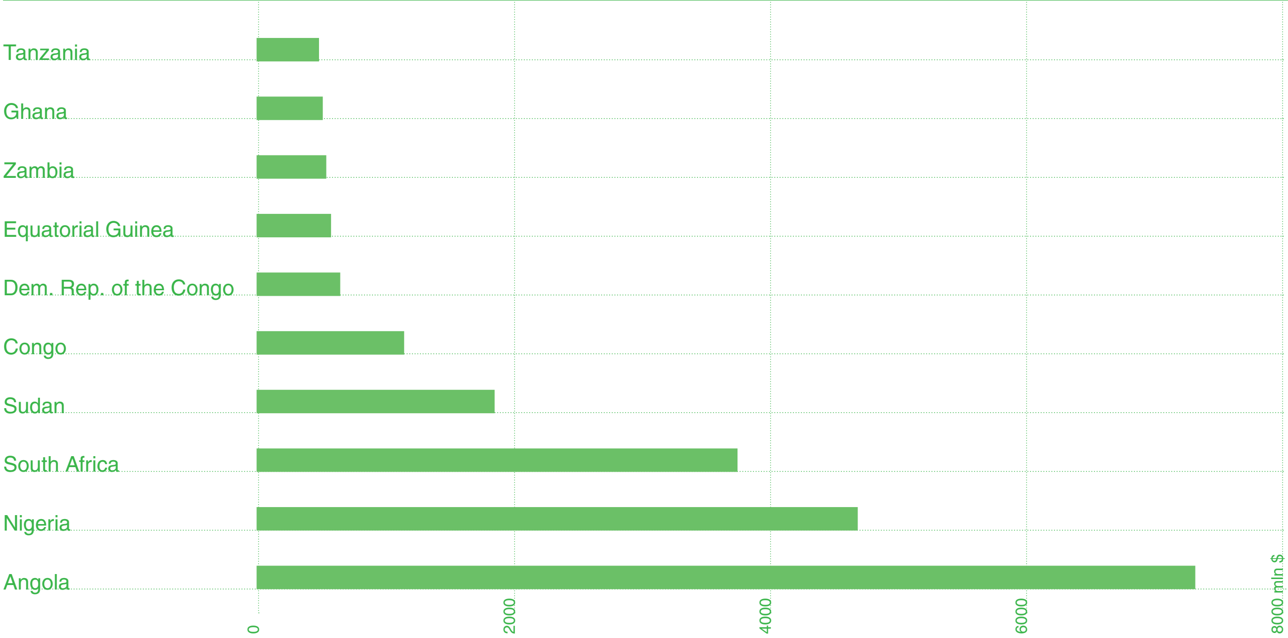
Source: Nellis (2003).

only 4.2% of Chinese FDI stock abroad in 2008. In addition, Africa does not attract resources from sovereign wealth funds created by several middle-income developing countries; it is estimated that these funds have assets of USD $2 to $3 trillion, and their investments have been primarily in developed countries. To attract more FDI from developing countries, African countries should further improve their business environments and invest in infrastructure, education, and skills of their populations so investors have the necessary manpower and infrastructure to do business on the continent. African countries should also strengthen regional integration as it facilitates intraregional investment and creates larger markets for investors. Lastly, African countries should transform their economies so that foreign investors can invest into sectors other than only natural resources. In that sense, the AGOA agreement and the European Union's Everything but Arms initiative should be seized as opportunities to prepare African countries for producing light manufacturing products (Mijiyawa, 2011).

EMERGING MARKET ECONOMIES: PARTICIPATING IN AFRICAN ECONOMIC AFFAIRS

Another important development in Africa is the increasing economic presence of other emerging market economies, in particular China and, to a less degree, India and Brazil. China's role in Africa has attracted wide attention. Many Western and African companies increasingly feel that Af-

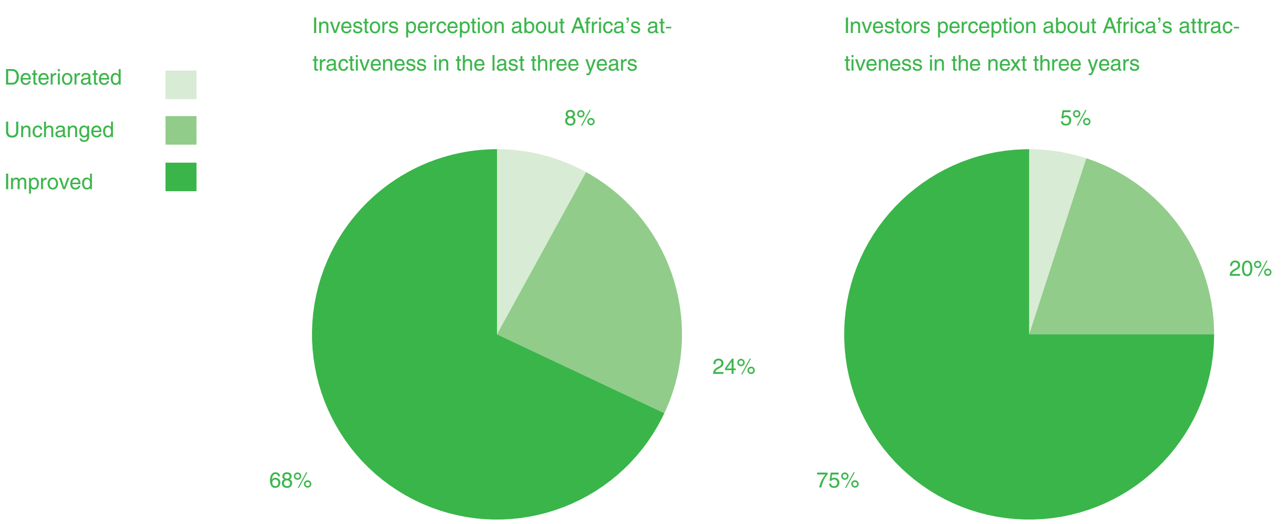
FIGURE 3: Top Ten FDI Recipients in Sub-Saharan Africa (2000-2009)



Source: Mijiyawa (2011)

rican governments are overly focused on attracting Chinese investors, even when alternatives might offer greater long-term benefits. The media often presents China's growing role in Africa as either "the solution" or "neo-colonialist." Of course, the reality is far more complex and nuanced, as would be expected given the diversity of countries in Sub-Saharan Africa and China's complex set of global relationships—political, military, and economic. While trade is the largest component of China-Africa economic engagements, it has had limited transformative impact on African economies. Under the Forum on China Africa Cooperation (FOCAC), 450 African products now enjoy zero-tariff treatment; there is already an increase in African exports to China of products in this category. From 2005 through June 2010, China imported African products with an accumulated value of USD $1.32 billion under zero-tariff terms, including agricultural products, leather, stone materials, textiles and garments, machinery parts, base metals, and wood products. As Chinese consumer demand and disposable income continue to grow, the composition of Chinese imports is shifting to a higher value added product mix. African enterprises, both large and small, should be aggressively pursuing this emerging market. The expansion of China's interests and investments in Africa—estimated at above USD $115 billion—provide an opportunity for African countries to link their economies more closely to a key source of economic growth with far-reaching implications. Doing so would require that African countries develop comprehensive strategic plans to engage with China in ways that promotes a transformation agenda.

FIGURE 4. Investors' Perception about Africa's Prospects



Source: Ernst & Young (2011).

PRIVATE SECTOR AND THE TRANSFORMATION PROCESS

Some interesting private sector trends and opportunities could enable economic transformation in Africa. The first is a growing recognition of the importance of complex value chains that require more integrated and systemic thinking to maximize value for countries and companies. This is leading governments and companies to become more sophisticated about finding win-win opportunities in these value chains. Examples are the renewed interest in local content policies and the creation of agricultural growth corridors such as the one in Tanzania. A second private sector trend is the greater awareness of the transformative power of "soft infrastructure," particularly around enabling transactions, providing access to information, and basic financial services for previously excluded or underserved populations. For example, the experience in Kenya with mobile financial transactions reveals the power of ICT to enable financial inclusion and broader economic growth. There is also a greater recognition among African companies of the importance of development, retention, and mobility of employable skills/talent for competitive success. A further trend involving the private sector is the possibility that leapfrogging to decentralized solutions might shift some challenges to allow wider private sector participation and competition in sectors traditionally the domain of the public sector (for example, in energy with solar home lighting systems that shift some of the rural electrification burden to the private sector).

INDUSTRIAL POLICIES AND URBANIZATION STRATEGIES: BACK ON THE POLICY AGENDA

There is increasing interest in African industrial policies. Inspired by the performance of other emerging markets and new theories of structural economics, countries are seeking to target industries compatible with comparative advantage. The sectors targeted often follow five criteria:

1. Growth and employment potential and scope for the privately owned SMEs playing a leading role in the development of the selected activity.
2. Modest capital intensity consistent with relative national resource endowment.
3. Existing domestic market supported by a supply chain and a marketing infrastructure.
4. Availability of most raw materials domestically or through convenient importation.
5. Transferability of labor skills needed to other industries.

For example, applying these criteria to Nigeria generates a list of products including leather goods, consumer electronics, certain auto parts, motorcycles, tractors, and a variety of petrochemical products, including fertilizers. So far, most of the active industrial policy in Africa has been conducted using Special Economic Zones (SEZs), as they continue to be viewed as an instrument for testing the edges of policies that can build political support for an export-led growth strategy before introducing it more widely. In Africa, the experience with SEZs in Mauritius, Ghana, Madagascar, and Lesotho has encouraged policymakers to believe that SEZs can supplement nationwide policy initiatives to jumpstart industrialization. Viewed as one piece of an integrated export-oriented industrial strategy—complemented by financial, infrastructure, skill development, and education policies—SEZs could add value, but much depends upon the government's capacity to design an effective policy framework and implement policies in coordinated manner (Yusuf, 2011).

Rapid and sustained long-term growth with rising employment will need to be grounded not just in macro and industrial policies but also in urbanization strategies, centered on key cities across Africa. The Asian experience suggests that unless Africa's cities hold onto the talented and create opportunities for entrepreneurs, other policy levers will not work. Industrial clusters are more likely to germinate and grow in urban environments that are well furnished with services providers, infrastructure, good transport linkages, housing, and amenities valued by the industrial workforce (Yusuf, 2011). Urbanization is an upward trend across the continent, and getting it right would be the key to the future success of the African Economic Lions. Mid-sized cities and urban corridors are set to become increasingly important in the African economy. Companies located close to these centers of activity will be able to benefit from demand from foreign investors and from general economic generation (Ernst & Young, 2011).

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GOOD PERSPECTIVES

Despite the crisis, international conditions are still favorable for most African countries. The current rapid growth and urbanization in emerging markets—likely to continue—are influencing the consumption of commodities and, therefore, their prices. The region's low-cost labor, large and growing internal market, and natural resources hold considerable potential for the next 20 years (Standard Charted, 2010). The key challenges will be providing infrastructure and jobs for a population that is predicted to increase by 50% between 2010 and 2030. While Asia's demand for commodities and the Chinese investments in African infrastructure will help, a problem with commodity-driven growth is that it does not generate jobs. The development of a non-commodity economy will be vital; this will require substantial investment in infrastructure and human capital by local governments. African governments need to prioritize and sequence reforms and investments in the business environment and infrastructure to unleash the potential for growth in their industries, bringing together policies to promote competitiveness within a coherent strategy rather than as a series of ad hoc interventions that, in isolation, are likely to be ineffective.

These are good times for Africa, and the elusive path to prosperity seems at hand for the first time in many decades. Hopes are high in the continent: grounded in improved macroeconomic frameworks and policies, the rise of an African middle-class, and the opportunity presented by tighter links with fast-growing emerging markets. The future will depend on whether African policymakers grasp this opportunity, get the drivers of economic transformation right, and transform—once and for all—the economy of a continent that holds 20% percent of the world's land, 15% of its population, but just 4% of global GDP.

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