

EXECUTIVE SUMMARY

Africa's growth continued to increase rising from 3.7 per cent in 2013 to 3.9 per cent in 2014. The performance was underpinned by improved macroeconomic management, diversified trade and investment ties with emerging economies among other factors. Africa's social development indicators reveal the weakness of the observed economic performance: high unemployment and poverty coexisting with robust growth. This is a paradox.

Trade continues to play a vital role in Africa's economic growth performance and it has potential to promote trade-induced industrialization

Industrialization promises to address this paradox by promoting economic diversification, inclusive growth, efficient utilisation of abundant physical, mineral and human resources and in the process eliminate poverty and hence structurally transform Africa economies.

Trade continues to play a major role in Africa's economic growth performance and it has potential to promote trade-induced industrialization of the continent provided it is deliberately directed at industrialization. For this purpose, trade policy must be consciously designed, effectively implemented and managed with regular monitoring and evaluation. Such a policy must recognise and key into developments in the global production system especially internationalisation of production system with a view to promoting value addition through processing and manufacturing. Finally, the goal of

trade-induced industrialization must also guide the conduct, negotiations and implementation of trade and investment agreements and arrangements.

ISSUES IN INDUSTRIALIZING THROUGH TRADE

Two but related challenges facing the continent are to maintain the strong economic growth and to transform it to productivity-induced sustainable, inclusive, employment-generating, poverty-reducing, and environmentally-friendly growth. The greatest deficiency of the current growth episode is its inability to promote structural transformation of the economies of the region. Rudimentary agricultural practices and provision of services dominate the structure of African economies. This overt dependence on traditional agriculture and services sectors can only support limited growth. Industrialization with its capability to generate direct and indirect employment, strong forward and backward linkages with other sectors of the economy including external sector not only promises to transform African economies but also to ensure that growth translates into sustainable development.

No doubt, Africa's industrialization should take advantage of its abundant and diverse resources including agricultural and mineral resources. Thus, as advocated in previous editions of the Economic Report on Africa (ERA), the continent should exploit its comparative advantage in commodity-based industrialization and add-value to these resources using its abundant human capital. Finally, continuous upgrading, a hallmark of modern industry, is important for sustainability of Africa's industrialization. In all this, industrial policy has

an important role to play so that industrialization is responsive to the yearnings of the continent especially in the promotion of inclusive and transformative growth.

Trade and industrialization are basically two sides of the same coin. A bi-directional relationship: industrialization facilitates trade, and trade also facilitates industrialization. Industrializing through trade emphasizes the role and place of trade in fostering industrial development and upgrade. Basically it involves analysis of the structure of exports and the role of trade policy in the production, imports and exports.

Based on this strong association between trade and industry, this Report, Economic Report on Africa 2015 examines how trade can serve as an instrument of accelerated industrialization and structural transformation in Africa. It also examines the challenges and opportunities for Africa to industrialize through trade in the context of the rapidly changing regional and global economic environment. In specific term, it attempts to answer the following three main questions:

- **When and how trade policies benefit or harm industrialization?**
- **What are the prospects for Africa to industrialize by tapping into global value chains?**
- **What are the current status of national and regional trade policies in Africa and what are their implications for the continent's industrial aspirations?**

This Report is a follow-up to the previous editions of Economic Reports on Africa especially ECA and AUC (2013), ECA and AUC (2014) and ECA and AUC

(2004). These Reports did not only focus on the role of industrialization in structural transformation of Africa by critically examining and analysing commodity-based industrialization and industrial policies in Africa but they also laid the foundation for the current Report as they emphasised the role of trade in fostering industrialization, both at regional and global level, and underlined the importance for Africa of implementing strategic trade policies aimed at overcoming market and institutional failures that hinder export competitiveness. They outlined the key factors constraining Africa's trade which include the continent's narrow production and export base dominated by low-value products such as raw materials and primary commodities, very high trade costs, tariff and non-tariff barriers to intra-African trade and Africa's access to international markets. This Report delves into greater depth on the relationship between trade and industry in Africa, and specifically the role of trade in supporting Africa's industrialization.

The theme of this Report is justified on many grounds and two of them are highlighted here. First, Africa is marginalised in the world trade. The continent's share in the global exports increased marginally from 4.99% in 1970 to 5.99% in 1980 and has continued the downward trend since then. It was 3.3% in 2010 and 3.3% in 2013. The share of African manufactures in total merchandise exports was 18.5% in 2013. Based on Africa's abundant physical,

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natural and human resources, the continent has potentials to significantly increase its share in the global exports.

Second and closely related to the first, empirical evidence shows that the newly industrialised countries (NICs) were able to catch-up with the developed countries through highly selective trade policies. This is evident in the fact that East Asia share in the global exports increased from 2.25% in 1970 to 17.8% in 2010 coupled with the fact that manufactures constituted between two-thirds and four-fifths of the region's total merchandise exports. Africa may not be able to replicate the feat performed by East Asia by towing the same or similar route due to the dynamics in the global trade and industrial production. However, it is also important to note that Africa is capable of surpassing the East Asian miracle by carefully designing trade and industrial path that takes into consideration lessons from experience as well as the current and future developments in the global environment.

Hence, for effective trade-induced industrialization in Africa, structural transformation of industrial production and trade is a basic pre-requisite. Three critical issues are: (1) production and trade in intermediates; (2) establishing, joining and upgrading along national/regional/global value chains; and (3) increasing role of services in (1) and (2) and in trade in general. Africa must imbibe the change from trade in products to trade in tasks and activities and promote the increasing role of services in the process.

Finally, and perhaps more important, trade policy is critical for effective trade-induced industrialization. National trade policy architecture and the flurry of activities in bilateral, regional and multilateral trade negotiations across the length and breadth of the continent must consistently give priority to industrialization.

Global value chains are an important feature in today's global economy and African countries seeking to develop exports and grow their economies need to take them into account