

FOREWORD

Africa's recent growth performance only reinforces the call for urgent structural transformation. The continent's strong growth is projected to continue in the medium-term due to increasing domestic demand, driven mainly by the rising middle class, improving regional business environment and macroeconomic management, increasing public investment, especially in infrastructure, a buoyant services sector and robust trade and investment ties with emerging economies.

Africa, however, needs more than marginal growth. The continent requires a great leap in economic performance that will be sustainable, inclusive, and transformative. Structural transformation of the African economies through industrialization is imperative. The current merchandise export structure, dominated by raw and unprocessed commodities, is not conducive to the envisaged level of development. This fact was clearly established by several past editions of the Economic Report on Africa (ERA). This edition builds on ERA 2013 and 2014, as they advocated commodity-based industrialization and stressed the important role of industrial policy in the structural transformation.

This edition's entry point is the symbiotic relationship between trade and industrialization. It emphasizes the role and place of trade and trade policy in the industrialization process. Trade can, under certain conditions, promote industrialization. Needless to say, trade can—on the other hand—lead to de-industrialization. Thus, the central message of this Report is that trade-industrialization virtuous link is not automatic: it requires appropriate policy.

This Report draws attention to the structure of African exports and the need to add value to exports through processing and other industrial activities. It identifies roles for trade policy in promoting trade in intermediates: joining, creating, and upgrading along value chains. This direction is important in order to incorporate the dynamics of modern industrial production and trade in tasks and activities, in addition to final products.

Effective participation in global value chains (GVCs) requires investments in sector-specific skills and human capital, as well as infrastructure, financial services and a conducive policy framework. Based on the level of development of these parameters in most African countries, intra-African trade and regional value chains (RVCs) are identified as a platform for learning and enabling economies of scale, thereby facilitating Africa's industrialization and eventual entry into GVCs. The pivotal role of services value chains, and the consequent need to enhance trade in services, is an important feature of modern production and trade.

This Report also examines the flurry of trade negotiations and agreements that African countries currently engage in. It notes with concern the role assigned to industrialization in this process. The Report underscores the need for Africa to ensure that its industrialization goal is not compromised by these negotiations and agreements. As a step forward in the quest for industrialization through trade, African countries should audit various agreements they have signed, to take advantage of the embedded flexibilities. This process may entail renegotiating the agreements or seeking waivers

and concessions. However, an enduring strategy is for African countries to develop capacity (to negotiate, implement, comply with obligations and defend rights) to articulate smart choices within the various trade agreements they have signed.

Another important recommendation in this direction is the need for appropriate sequencing if trade is to effectively foster industrialization of the continent. This Report shows clearly that sequencing of trade policy reforms does matter considerably for Africa's industrialization. There is powerful evidence indicating that a Continental Free Trade Area (CFTA) should be put in place before other trade agreements are fully implemented by African countries with the rest of the world.

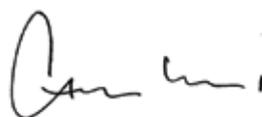
The analysis and findings of this Report are based on an extensive review of issues and 10 country case studies that were directed at gauging the trade policy-making process, especially in relation to industrialization. Selectivity of trade policy as an essential prerequisite for trade-induced industrialization was examined. Coherence between national development strategy and trade policy, on the one hand, and between trade policy and industrial policy, on the other hand, was particularly emphasized.

The need to adopt and strengthen a highly selective trade policy that is based on rigorous empirical analysis and carefully designed to promote efficiency of matured firms, protect budding industry, avoid negative policy externalities and put industrial development over and above other objectives is an important step in the trade-induced

industrialization. The implementation of such policies must be time-bound, have to progress towards the set objectives, and must regularly monitor and evaluate benchmarks.

Trade policy alone is not a panacea for Africa's industrial development, notwithstanding its important place and role in the industrialization process. There are important roles for complementary policies that are coherent with trade and industrial policies. African countries have already committed to implementing action plans under the Action Plan for Boosting Intra-Africa Trade (BIAT), where most of the policies are clearly identified.

Finally, as there is no one-cap-fits-all model, this Report provides a robust framework for African countries to reassess their trade policy with a view to identifying the best route to structural transformation and also tailor trade policy to achieve the desired goals. It is my hope that the African vision, African countries, regional economic communities and other stakeholders will take the message of this Report to the next level in the promotion of trade-induced industrialization.



Carlos Lopes

United Nations Under-Secretary-General
and Executive Secretary of UNECA