Economic Transformation for Africa’s Development

By
UN Economic Commission for Africa
Macroeconomic Policy Division

C-10 Meeting April, 2013
Washington D.C.
Contents

Introduction 3

Rationale for promoting economic and structural transformation in Africa 4

Why has Africa not transformed? 5

Opportunities for Economic Transformation 5

Realizing the transformation agenda 6

Conclusions 13

References 14
Introduction

Africa’s recent economic performance has sparked renewed optimism about the continent’s development prospects. The discourse has shifted from Africa as a hopeless continent to Africa as an emerging pole of growth and as a vibrant frontier market. But to what extent has the continent’s growth acceleration been associated with job creation, or diversified and integrated economic structures that are resilient to external shocks? This paper evaluates how Africa can build on its recent economic successes to achieve a more inclusive and sustainable development trajectory through structural and economic transformation. To this end, the paper identifies the key elements of economic transformation, explains why it is central to Africa’s development process and explores the opportunities for and the key drivers of a successful transformation agenda.

Key elements of economic transformation

Economic transformation is associated with a fundamental change in the structure of the economy and its drivers of growth and development. It necessarily involves: a reallocation of resources from less productive to more productive sectors and activities; an increase in the relative contribution of manufacturing to GDP; a declining share of agricultural employment to total employment; a shift in economic activity from rural to urban areas; the rise of a modern industrial and service economy; a demographic transition from high rates of births and deaths (common in underdeveloped and rural areas) to low rates of births and deaths (associated with better health standards in developed and urban areas); and a rise in urbanization.

The elements enumerated above must however be placed in proper context. In the classic sense, the urbanisation associated with economic transformation results from an increased level of structural transformation which leads to a migration of labour from the rural primary agricultural sector to an urban secondary industrial sector and the tertiary service sector.

Africa’s urbanization experience can be described as urbanization gone wrong, having originated from forces other than the ones described above. It is characterized by a proliferation of slums in urban areas due to the inability of urban infrastructure to cope with the influx of rural migrants. Furthermore, a sustainable transformation process should not co-exist with high levels of inequality and poor quality of social services since human capital development, and social inclusion are central to a successful transformation agenda. Moreover, the transformation agenda must effectively utilize Africa’s youthful population. Finally, a transformed economy must be resilient to climate-related hazards.

Thus, an effective transformation agenda must also comprise: the transformation of rural areas into vibrant hubs of agri-business and industrial activity; the translation of Africa’s youth bulge into a demographic dividend; access to social services that meet minimum standards of quality regardless of location; reduced inequality – spatial and gender; and progression towards an inclusive green growth trajectory.
Rationale for promoting economic and structural transformation in Africa

Why transform?

Africa has experienced unprecedented growth over the past decade and has been remarkably resilient to the global economic crisis. The continent ranked the second fastest growing region of the world after East Asia (UNECA, 2012). Between 2000 and 2009, eleven African countries grew at an annual rate of 7 percent or more, which is considered sufficient to double their economies in ten years. At US$2 trillion, Africa's collective GDP today is roughly equal to Brazil's or Russia's. Despite the sovereign debt crisis in Europe and the subdued growth in North America and China, Africa's medium-term growth prospects, projected at 4.8 percent in 2013 and 5.1 percent in 2014, remain strong. The business climate in the continent has also improved and there is a nascent and growing middle class. In 2010, the latter was estimated at 355 million people or 34% of the total population. Social indicators have also improved as evidenced by significant achievements in primary enrollment, gender parity in education, decreasing maternal and infant mortality rates, reduced prevalence and incidence rates of HIV/AIDS, improvements in governance and less violent democratic transitions.

However, careful assessment of the economies in the region reveals the following characteristics: besides agriculture, most economies are driven by natural resource and or primary commodities; the manufacturing sector remains embryonic, limiting the potential employment gains from the processing of primary commodities; agricultural productivity remains low at 56 per cent of he global average and characterized by limited application of modern technologies (AfDB 2011); the rural sector is highly underdeveloped setting in motion a massive rural-urban drift that has transformed urban areas into a haven for slum dwellers; birth and death rates are high; HIV prevalence rates maternal and child deaths are the highest globally; and social protection programmes are undeveloped and underfunded thereby heightening the vulnerability of the aged, the disabled as well as the unemployed and underemployed labor force.

In effect, Africa's growth can be described as largely non-inclusive because of its limited contribution to job creation and overall improvement to people's living standards (UNECA 2011). Indeed despite a decline in the absolute number of poor people and a 5 percentage points decline in poverty rate between 2005 and 2008, the continent is home to the world's highest proportion of poor people, with a poverty rate of 47.5 percent in 2008 (based on the $1.25 a day poverty benchmark).

Thus, Africa needs to transform its economies to create wealth, reduce poverty, minimize inequalities, strengthen productive capacities, enhance social conditions of its people and achieve sustainable development. Economic transformation will ensure that Africa makes optimal use of its natural resources which are exhaustible. Furthermore, to the extent that structural transformation promotes industrial development it broadens the drivers of growth and promotes resilience to commodity price shocks.
Why has Africa not transformed?

Africa’s capacity to design and implement a successful transformation agenda has been undermined by internal and external factors. While some of these factors are currently being addressed, others persist. Internal factors include poor economic management capacities typified by macro-economic instability, poor planning design and implementation capacities, weak institutional and individual capacities, limited investments in social and economic infrastructure, limited investment in technology and R&D and political instability.

External factors include: limited policy space due in part to conditionalities imposed by the Bretton Woods organizations and development partners that overstate the importance of market led approaches to development; barriers to trade that undermine export revenues and constrain exports of manufactured goods; the disproportionate concentration of ODA in the social sectors as opposed to the productive sectors of agriculture and industry; and the concentration of FDI in extractive mineral and gas sectors of the economy with limited investments in value addition. Furthermore, in recent years climate change has emerged as a threat to development through its destructive impact on infrastructure and livelihoods.

In sum, Africa’s industrialization strategies have not transformed its economies. The seeds of its woes were sown during the colonial period but the problem worsened after independence with the failure of often externally generated industrial policies: first, import substitution policies under which African countries decided to industrialize, then structural adjustment programmes, which forced African countries to de-industrialize.

More recently, the structure of the global system has made it practically impossible for Africa to benefit from globalization or move up the value chain, which requires Africa to influence the global agenda in its favour (ECA, 2013).

Collectively the challenges identified above have contributed to the low level of economic diversification, the continued dominance of the agriculture and mining in GDP and inadequate financial resources for sustainable development.

Opportunities for Economic Transformation

Notwithstanding the challenges enumerated above, the current domestic and global dynamics provide a window of opportunity for the continent’s transformation agenda. Improved macroeconomic management and increased demand for primary commodities have enhanced the conditions for private sector investment and expanded the fiscal space for public sector spending on programmes that support Africa’s transformation agenda. Windfall gains from the commodity export boom can be reinvested in developing the industrial sector. The shift in the global economic balance of power to the south (i.e., Brazil, India and China) coupled with the readiness of such countries to invest in Africa’s economic sectors, provide additional opportunities for the continent to strengthen South-South cooperation in support of its transformation agenda.
Realizing the transformation agenda

Lessons from emerging countries

Experience shows that economic transformation does not derive from a single model, although it requires vision, flexibility and hard-work. Indeed, the examples of Brazil, China, India and South Korea show that there are multiple paths to economic transformation and progress.

Brazil has the second biggest industrial sector in the Americas. Accounting for 28.5 percent of GDP, the country’s diverse industries range from automobiles, steel and petrochemicals to computers, aircraft, and consumer durables. Brazil’s experience highlights the role that macro-economic stability, economic diversification - through manufacturing and service growth - and targeted interventions to address poverty can play in expanding the middle class and promoting economic growth and the accumulation of reserves. Following decades of military dictatorship in the 1960s and 1970s, and a spiral of hyper-inflation in the 1980s, Brazil’s economic transformation was underpinned by innovative approaches that included: prudent macro-economic policies aimed at taming hyper-inflation; economic diversification underpinned by a competitive manufacturing sector; investment in education; targeted subsidies to the poor and; the development of a strong internal market through the nurturing of a vibrant middle class which now accounts for 50% of the population (i.e., 95 million people) compared to 30% at the beginning of the 1990s. This strong internal market is among the factors behind Brazil’s resilience in the aftermath of the 2008 financial crisis. With approximately $200 billion in reserves after years of trade deficits, it has the fiscal space to respond to the needs of those adversely affected by the crisis. The proportion of the population below the national poverty line declined by approximately 10 percentage points over a 4 year period (from 2005 to 2009) (CIA Factbook, February 2013). Inequality has also eased on account of targeted expenditures on the poor (Bank of New York Mellon Corporation, 2009; IMF, 2012). Unemployment fell from 10.5 to 5.2 percent between 2002 and 2011 and the volume of credit (as a percentage of GDP) rose from 21.3 to 45.3 percent over the same period. It is instructive to note that Brazil’s manufacturing success has benefitted directly and indirectly from government support. The state has partial ownership of the oil processing and passenger jet aircraft industries and it also supports the textile and machinery industries through export subsidies and low interest loans (Experts in Brazilian Business). In March 2013, the Brazilian trade Minister unveiled a plan to stimulate manufacturing growth through payroll tax exemptions and a $16.72 billion investment plan to spur industrial technology innovation and raise the efficiency and competitiveness of Brazilian industry. The government has also imposed trade barriers on dozens of imported products to protect local industry (Mercosur Press, April, 2013).

China’s economic transformation success illustrates the important role that a developmental state and agro-based industrialization can play in accelerating growth and development. The country’s experience has been incremental and experimental, largely financed through domestic savings and guided by the communist party (World Bank, 1993). The period (1978-83) emphasized agriculture. Procurement prices for major crops were raised and subsidies provided to cushion the impact on consumers. The period (1984-88) marked a transition from state controlled prices to a market-based economy; by 1988 only 30% of retail prices were made at plan prices. The development of Rural Township and Village Enterprises (TVEs) contributed to diversification of industrial ownership away from StateOwned enterprises and the absorption of labor released by the agricultural reforms. During the period 1989-1990, plan prices were adjusted to market levels and trade and payments reforms were accelerated resulting in progressive devaluations and the establishment of foreign exchange centers. The post 1991
period was characterized by social sector reforms in areas such as health and housing. The country has in a matter of two decades become the largest exporter of manufactured goods on record.

However, China’s experience has also been characterized by various bottlenecks such as structural economic imbalances in the coastal regions and the hinterland which has contributed to the rural-urban divide, high levels of inequality and persistence of extreme poverty, which still affects 170 million people. This demonstrates that economic transformation is a dynamic process—it will not be complete if it is not inclusive, creating economic opportunities for the majority of the population.

India’s transformation success has been driven by agricultural development and anchored by strong democratic institutions. It is the world’s largest democracy and once one of its poorest. Adoption of modern technologies in agriculture (the green revolution) helped the country eliminate famine, overcome its low rate of growth, which never exceeded 2%, to growth rates of up to 10% in recent years. Some of the leading global companies are Indian owned. Growth and innovative safety nets have lifted millions out of poverty.

Above all, the elimination of the Licence Raj system, which subjected the private sector to a heavy regimen of licenses and controls, resulted in unprecedented growth and economic stability. The new industrial policy enabled foreign firms to enter India and encouraged Indian conglomerates to expand abroad. Development in India is significant in that rampant poverty, the caste system, and ethnic and religious strife have not prevented the emergence of a middle class. This is partly due to improved access to good education and healthcare and partly to incentives for innovation.

South Korea’s experience underscores the role of the developmental state in nurturing industrialization through active support to the private sector. The country is currently the 13th largest economy in the world with a per capita income of $16,684 in 2012. In 2010, it became the first former aid recipient to become a member of OECD’s Development Assistance Committee (DAC).

The fundamentals of S. Korea’s successful market economy were laid by the authoritarian regimes of presidents Park Chung-hee (1963 – 1979) and Chun Doo-hwan (1980 – 1988), both retired generals. Since the 1960s the country has adopted a state-led industrialization policy involving, strategic planning, government guidance of domestic economic actors, and a selective approach to foreign direct investment and imports (Bertelsmann Stiftung, 2012).

Investment in education, the establishment of Free Economic Zones (FEZ) and the formation of large conglomerates with the support of the state have been key to South Korea’s industrial success. With limited natural resources, industrial competitiveness and innovation in S. Korea have been driven largely by its pool of skilled workforce particularly in the areas of science and technology. The average South Korean family spends $1000 per month on after-class tuition, 56 per cent of young S. Koreans have a university degree and the overall literacy rate is 98.7 percent (The Star Online, November 2010).

The government’s decision to transform from light to heavy industry in the 1980s gave birth to the country’s automotive, engineering, chemicals and electronics sectors, paving the way for South Korea to break into the global market with now established brand names such as Hyundai and Samsung. It is instructive to note that both firms are the products of a deliberate government sponsored scheme to nurture the growth of family-owned industrial conglomerates known as “chaebols”.
An unintended consequence of chaebols however, has been high industrial and market concentration, a phenomenon which has crowded out small-scale enterprises. In an effort to tackle this issue the state introduced regulatory reforms to improve competition to levels consistent with global standards.

Industrial promotion has been supported by a managed float exchange rate regime aimed at minimizing exchange rate volatility and improving the competitiveness of export prices. And as part of a fiscal stimulus package, monetary policies have focused less on inflation targeting and more on targeting growth.

South Korea however faces challenges of: widening inequality - the top 10 percent of households now earn 4.7 times more than the bottom 10 percent; a rising proportion of temporary workers, second only to Spain among OECD countries and; a sizeable informal sector the largest among OECD countries (Bertelsmann Stiftung, 2012).

The experiences of Brazil, India, China and South Korea suggest that invariably, economic transformation and social development are inextricably linked and mutually reinforcing. In all cases, human development was vital for success. Furthermore, their experiences reveal that economic transformation is unlikely to be achieved exclusively through the unfettered actions of the market. It requires: visionary leadership and a capable developmental state; value chains that link raw material producers to end users; a healthy and well educated population; access to technology; access to local, regional and global markets; and a robust and sustainable financing architecture that draws on domestic as well as external sources.

But China’s environmental challenges are instructive; it tells us that a sustainable transformation agenda must ultimately be driven by inclusive green growth initiatives. And though not discussed in this paper, the “Arab Spring” experience also points to the need to balance economic prosperity with political inclusion. Thus, it is imperative that to ensure sustainability, a transformation agenda must be resilient to the threats posed by climate change, anchored by democratic principles and continually energized by a vibrant civil society that engages and enforces accountability of the state.

Although the strategies described above may not be successfully transplanted into Africa, they present some beneficial lessons for promoting economic transformation in Africa.

**Vision: Nurture a democratic developmental state to facilitate the process**

The emerging consensus is that a developmental state is central to the process of accelerated economic growth and transformation of any country. A developmental state is defined as a “state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal” (UNECA, 2011). The central role of the State in the economic success of the Asian tigers and the state’s role in reviving the economies of mainly Western countries, following the global economic crisis, reaffirms the important role that it can play in the transformation process. These experiences have also reinforced the view that the invisible hand of the markets alone cannot orchestrate economic transformation. The experience of the Asian tigers suggests that
strengthening the capacities of firms including through investments in research and development (R&D), skills development and infrastructure development are instrumental for development. Also important is ensuring overall macro-stability and a regulatory regime conducive to private sector investment.

It is instructive to note that transformation has not always been associated with western style democracies as demonstrated by the experience of China. However, some might argue that a transformation process that is inclusive and democratic enough to ensure buy-in by a broad spectrum of stakeholders is vital for sustainability. Overall, the effectiveness of the state in shaping the transformation agenda hinges on the appropriateness of its vision and the level of its capacity for prudent management of the economy. A survey of thirty-five African countries on good governance, suggests slight progress, since 2005, in rule of law and the observance of human rights. In addition, economic management and efficiency of the tax system have also improved. However, access to and quality of service delivery remains unsatisfactory and accountability is also weak (UNECA, 2009). Thus, for African states to play a constructive role in the transformation process they must continue to strengthen their institutions of governance and economic management.

**Adopt and implement coherent development plans**

To be effective African governments need to put in place comprehensive development frameworks that steer social and economic policies towards achieving the objectives of the transformation agenda. This will require strengthening institutional and individual capacities for the design, implementation and monitoring of planning frameworks that are coherent and aligned with development priorities. Development frameworks must contain credible incentive and sanction mechanisms that reward good performance and penalize failure. (ECA and AUC, 2011; ERA 2011).

**People: Develop human capital**

Improving the health and education of the population is vital for enhancing the human capacities for implementation of the transformation agenda. Women and youth constitute an important component of Africa’s population and hence, improving the human capital of Africa will require targeted efforts to unleash the capacities of both groups.

The youth account for a substantial proportion of the African population (18% in 2012) and this share is expected to rise to 28% by 2040 however, job opportunities are low as evidenced by high youth unemployment rates particularly in North Africa. The recent “Arab Spring” experience of North Africa underscores the importance of transforming Africa’s youth bulge into a demographic dividend including through improving their access to education, health and decent jobs. The relatively lower youth employment rates in the rest of Africa are deceptive since they mask high levels of informal sector employment which is characterized by low wages and poor conditions of service. The absence of social insurance programmes in Africa, excluding the North, implies that the youth have no option but to work even in the most undesirable conditions. Appropriately designed and improved alignment of the curricula of formal education systems and vocational skills programmes with labor market priorities can play an important role in improving the employability of the youth thus allowing governments to realize the demographic dividend (R. Sogunro, 2012). In parallel, economic diversification and processing of raw material can increase job opportunities along the spectrum of the value chain.
Addressing gender inequalities in access to social services and lowering barriers to women’s participation in productive activities are essential to empowering women and drawing on their contribution to the transformation process.

**The private sector: Develop an indigenous entrepreneurial class**

A dynamic indigenous entrepreneurial class is vital for implementing the transformation agenda. The private sector should be provided incentives to invest in agri-business and related ventures that promote value addition. A strong and efficient domestic production platform creates opportunities and incentives for foreign investment and facilitates partnerships with foreign investors. However, minimizing risk perceptions and transactions costs are critical to private sector development. To this end, a developmental state must at minimum uphold the rule of law, establish credible mechanisms to safeguard property rights improve access to basic infrastructure, particularly energy, and minimize administrative costs of doing business.

**Address infrastructure constraints and bottlenecks**

Infrastructure deficits have adverse effects on both economic and social development. Weak health and educational infrastructure and limited access to water and sanitation undermine the human capital of societies thereby limiting their capacity to be productive members of society and to contribute to the transformation agenda. Correspondingly weak economic infrastructure, particularly unreliable access to energy and poor transport and communication systems, raise the cost of doing business and undermine global competitiveness. Infrastructure development is therefore vital for private sector and human capital development, both of which are inextricably linked. Industrial and development policies in Africa should prioritize strategic investments in infrastructure and avoid “enclave” infrastructure projects and programmes aimed only at satisfying the needs of commodity producers. Governments should use windfall gains from commodity exports to leverage infrastructure financing (ECA and AUC, 2013 (ERA 2013)).

**Industrialization and value chain development**

Value chains linking raw material producers to end users can play a vital role in the promoting value addition to agricultural and other primary commodities. However, in reality, African firms are often located at the lower end of the global value chain; they sell primary commodities with little or no investments in the transformation process. Local content measures facilitate value chain development by strengthening linkages with local suppliers. But to be effective, local content measures must be complemented by measures that strengthen the competitiveness of local suppliers. Such measures include skills development and upgrading, adoption and adaptation of appropriate technologies and access to capital.

**Market Access: Promote Global and intra-regional trade**

African countries should design and implement appropriate industrial policies aimed at facilitating their progressive movement up the global value chain. This will require that all African countries reduce the shares of food and agricultural raw materials in total merchandise exports. Correspondingly it will also necessitate a gradual shift away from imports of final consumer goods and towards imports of industrial intermediate inputs and components. In the initial stage, local and regional markets are a convenient
entry point in value chain development since these markets tend to be less demanding in terms of entry barriers thereby allowing local firms to build the necessary production capabilities required by more demanding global chains.

In reality however several African countries do not have a functioning industrial policy. And, the share of intra-African trade is extremely low compared to other major regions, stagnating around 10-12% with no major progress registered over the last decade. Over the period 2004-2006 intra-African exports represented 8.7% of the region’s total exports and 9.6% of total imports (UNCTAD 2009c; UNECA 2010a). Thus, developing functional industrial policies and deepening intra-regional trade including through the implementation of the proposed Continental Free Trade Area will be strategic. Indeed, it is projected that the full removal of tariff barriers accompanied by adoption of measures to ease trade within the continent will bring the share of industrial commodities in intra-African trade to about 70% (UNECA 2013).

**Promoting innovation and technology transfer for structural transformation and value addition**

Although Africa has performed relatively well in terms of technology transfer in a number of areas such as royalties and import of capital goods, it lags behind on areas related to new and emerging knowledge. This has contributed to an industrial base that is weak and largely dependent on imported technology which is often to appropriate to local conditions.

Technology is recognized as one of the key drivers for accelerated growth and economic transformation through its impact on productivity and incomes. For African economies, technological advancement and innovation can provide a platform for diversification and a shift from reliance on agriculture and exports of raw materials to manufacturing. Some of the challenges that Africa faces include lack of adequate domestic and institutional policies in setting the general direction for the development acquisition, adaptation, use and diffusion of new and emerging technologies. Related to this is limited human and financial resources and inadequate infrastructure for technology advancement. These challenges can be addressed through quality education, skills development and entrepreneurship training and by encouraging joint ventures and industrial alliances between domestic and foreign firms. The promotion of international science and technology cooperation agreements between African countries and leading or emerging technology exporters would also be useful.

**Inclusive green growth:**

Africa must adopt an inclusive green growth approach to transformation that takes into account their level of development, is incremental, and selectively builds on the continent’s green growth resources and potential. Given the high upfront costs associated with greening their economies, suspending investments in oil exploration and hydro electric dams for instance, may not be a feasible option for Africa at this stage especially given the continent’s substantial energy needs.

Africa’s contribution to Green House Gas emissions is minimal hence adaptation to climate change is the key challenge, at least in the short term. Accordingly, financial support to Africa for adaptation, and to a lesser extent mitigation, is vital to ensure adequate response to the challenges of climate change. According to the United Nations Framework Convention on Climate Change (UNFCCC) global adaptation cost estimate, total adaptation costs by 2030 could amount to $49-171 billion per annum
globally, of which $27-66 billion would accrue in developing countries. The World Bank estimates the costs for adaptation to climate change in Africa to be roughly $18 billion (at 2005 prices). Thus, increased financing is required to enable African countries take concrete actions to minimize their vulnerability to climate change and enhance their resilience (IPCC, 2007). However, the funds created to assist developing countries respond to the climate change challenge are not only inadequate, relative to the needs of such countries, but are skewed in favor of mitigation. In 2010, roughly 62% of Fast Start Finance was allocated for mitigation, 25% for adaptation and 13% for the Reducing Emissions from Deforestation and Forest Degradation in Developing Countries programme (REDD+). If this pattern continues, only $7.8 billion of the pledged $30 billion may go to adaptation. Furthermore, notwithstanding the commitment to ensure that climate financing is new and additional, between $2.8 and $7 billion (out of the 29.2 billion pledged) of the fast-start finance is “new” and less than $3 billion is actually “additional.” (ACPC, 2011).

Although climate mainstreaming in Africa, has gained momentum in recent years, climate is still, unfortunately, infrequently integrated into development policy and investment decision making. To date, 31 of the 33 African Least Developed Countries (LDCs) have submitted National Adaptation Programme of Actions (NAPAs) to the UNFCCC secretariat. The NAPA communicates a nation’s priority activities aimed at addressing the urgent and immediate climate adaptation-related needs and concerns. Ethiopia’s Climate Resilient Green Economy initiative (CRGE) initiative provides a good example of how adaptation strategies can be embedded into national policies. It seeks to i) limit emissions, ii) increase productivity and iii) resource efficiency.

Climate change presents threats as well as opportunities for the pursuit of inclusive green growth initiatives. China for example is making significant investments in solar energy and is currently the leading producer of solar panels. These investments are a potential source of employment. Other job creating opportunities include: retrofitting buildings to respond to the threat of climate change; developing mass transit systems; developing energy-efficient automobiles; investing in wind power and cellulosic biomass fuels (PERI June, 2008). Policymakers need to identify their comparative strengths in green development as the basis for designing and capitalize on green jobs initiatives as part of their transformation agenda.

**Strategic Partnerships and Financing for Economic Transformation**

Africa’s partnerships must be informed by its strategic objective of achieving structural transformation in the shortest possible time. This will require that external partnerships, which have traditionally revolve around ODA, FDI and international trade, are oriented and aligned with Africa’s transformation priorities. It will also require according greater importance to partnerships with the Diaspora and domestic stakeholders particularly the local private sector.

Traditional trade partners have largely dominated (accounting for 62 per cent of Africa’s trade) and reinforced Africa’s primary commodity trade patterns. Furthermore, the concentration of FDI in a few countries and sectors (i.e., the extractive sectors) has contributed to locking the continent into a primary export production trajectory thus undermining opportunities for value addition and increased export earnings (ECA and AUC, 2011). North Africa and petroleum-exporting African countries dominate all FDI receipts, with Angola, Egypt, Libya and Nigeria receiving the four largest flows of FDI in 2010 (UNCTAD Stat 2011).
Moreover, ODA has also been disproportionately focused on the social sector at the expense of directly productive sectors such as infrastructure and agriculture and manufacturing. This has denied the continent of the critical resource-intensive investments required to spur economic transformation.

But emerging partners provide an opportunity to better align ODA, FDI and global trade with Africa’s economic transformation priorities. Trade with non-traditional partners is growing and led by China (38%), India (14%), Korea (7.2%), Brazil (7.1%), and Turkey (6.5%). These emerging partners offer scope for strengthening Africa’s manufacturing exports. For instance, manufactured exports to emerging partners (except China) rose from 14.3% to 34.4% between 2000 and 2009. In addition, foreign direct investment from emerging partners to Africa tends to be less concentrated in oil-exporting countries than that of traditional partners. Between 2000 and 2010, 85% of FDI from OECD countries went to oil-exporting countries, compared to 75% for emerging partners.

These shares are still however insufficient to achieve the required level of industrialization in Africa. Leveraging export diversification with emerging partners will not happen by chance. It will require deliberate policies and strategies engineered by a developmental state. It will also require that African state adopt common positions on key issues and speak with one voice to leverage their negotiations with partners. Guiding FDI towards new sectors such as manufacturing requires the adoption of strategic incentives and policies that both encourage and obligate foreign investors to use domestic inputs and to partner with local firms in the pursuit of their goals. Deliberate efforts to pursue joint ventures with Southern firms can promote knowledge diffusion for the benefit of local entrepreneurs (ECA and AUC, 2011). Vigilance in curbing illicit financial flows from Africa, which are primarily linked to FDI in extractive and mining industries, will increase FDI revenues to the state (ECA 2013).

Africa’s transformation must be underpinned by increased ownership of its development agenda and strengthened accountability to its citizenry. The capacity of the continent to finance an increasing share of the transformation bill through domestic resource mobilization will be critical in this context. This will require a paradigm shift from a donor-centered view of development financing to a greater commitment to domestic resource mobilization underpinned by enhanced accountability to tax payers. In addition, deepening financial markets, and lowering lending risks including through the establishment of credit rating institutions will facilitate financial intermediation, mobilize savings and promote investment by lowering lending rates.

**Conclusions**

Economic transformation and human development are inextricably linked. Transformation provides the resources for sustaining investment in human development. In turn, a successful transformation agenda requires a productive healthy and skilled labor force. By diversifying the sources of growth transformation promotes inclusiveness, minimizes inequality and optimizes the use of natural resources. Appropriately designed and implemented transformation programmes can enhance economic sustainability, reduce inequality, promote inclusive growth and increase employment opportunities.
References


CIA Factbook, February 2013


Merco Press, South Atlantic News Agency, April 4, 2013


