Africa’s New Agenda for Economic Transformation

Dr Carlos Lopes
Executive Secretary, United Nations Economic Commission for Africa

Chair: Bob Dewar CMG
Associate Fellow, Africa Programme, Chatham House

10 March 2015

The views expressed in this document are the sole responsibility of the speaker(s) and participants do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions. The published text of speeches and presentations may differ from delivery.
Well, good afternoon everyone. A very warm welcome to Chatham House on this lovely sunny afternoon in March. A particularly warm welcome to London, to Chatham House, to you sir, Dr Carlos Lopes, Executive Secretary of the United Nations Economic Commission for Africa. Dr Lopes has come to deliver a speech on ‘Africa’s New Agenda for Economic Transformation’. Now, today’s event will be on the record. Dr Lopes’ presentation will last approximately 20 minutes, or perhaps a bit more if he would like to do that. And then we’ll have plenty of time for questions, so we’re hoping that the meeting will take approximately one hour.

Dr Carlos Lopes is the Executive Secretary of the Economic Commission for Africa, with the rank of UN Under Secretary-General. He has more than four years of senior leadership experience at the UN that includes serving as Executive Director at the United Nations Institute for Training and Research, Director of the UN System Staff College, Director for Political Affairs in the Executive Office of the Secretary-General – all at the level of Assistant Secretary-General – and UN Resident Coordinator in Zimbabwe, and in Brazil.

He has specialized in development and strategic planning; he’s been an author or editor for over 22 books, and has also taught at various academic institutions. A very distinguished guest, and we are delighted to have you here with us at Chatham House. Over to you, sir.

Thank you very much for that kind introduction, it’s really a pleasure for me to be at Chatham House. We are always talking about the Chatham House Rule; we do not have to abide by the rule today.

The title ‘a fork in the road’ that was used in a conference I attended some months ago at Yale, reminds me of September 23rd 2003, when Secretary-General Kofi Annan, addressing the UN General Assembly, used the dramatic yet soft tone to proclaim: ‘Excellencies, we have come to a fork in the road. This may be a moment no less decisive than 1945 itself, when the United Nations was founded’.

He was conscious that deep divisions among member states, coupled with a multitude of new and more complex challenges, required the revisit of the common rules of engagement. Although Annan used the word ‘decisive’, he obviously was worried about indecisiveness that could result from prevailing polarizing views and interpretations.

I’ve followed this critical development from my new position where I was at the time, leading the UN in Brazil, where a new president – soon to become a legend – was proving how decisive he was. I developed a dialogue with President Lula [da Silva] and his close team around many issues. Little did I know that this experience would be amongst the qualifiers for me to join Kofi Annan’s team two years later to help deal with the fork that was becoming twisted and unruly.

Many still use the very same expression, ‘a fork in the road’, to describe Africa today, but I honestly do not think it is because Africa and its leaders are indecisive about the future ahead. Africa is in the process of making the right choices for itself, even though in some instances they may not be well strategized or well planned. When celebrating its 50th anniversary of pan-African institutional history, the African Union summit of 2013 had a tone that was about the need not to repeat mistakes, prepare for the next 50 years with a vision and agenda that will make sure Africans claim their share of the global fortunes by 2063.
The same boldness is perceived in the elaboration of African-specific goals or in the negotiations of some key partnerships, like the one now with China. A flurry of intra-African initiatives is keeping policy-makers busy like never before. Thirty two countries are engaged in prospective studies; the vast majority of peace-keepers in the continent are now from the continent; most economic debates are focused on domestic resource mobilization, arresting illicit financial flows or better use of investment streams.

The macroeconomic indicators are the best since independence: at the turn of the millennium, Africa’s GDP was $600 billion. In 2013 it had jumped to $2.2 trillion, representing one of the fastest growths in history. In comparison it took China 12 years to double GDP per capita, India 17 years and the US and Germany between 30 and 60 years. Structural transformation is now the dominating discourse by African leaders. That means clear realization of what has not happened, from low agricultural productivity to regressed manufacturing value addition, to limited poverty reduction or lack of jobs; and proper inclusive policies. The ‘fork in the road’ for Africa points towards one direction and one choice, which is the need to use the favourable winds to deal with transformation.

In order for Africa to grow and transform, there needs to be a clear understanding of the times. Africa is not new in the business of transformation, but Africa has nevertheless to innovate in the business of transformation. Lessons from many parts of the world will help Africa avoid mistakes and become more sophisticated.

Most people may not know Prato. Prato is a small town in Italy, once hailed as the country’s textile capital. In the last 20 years a surge of Chinese investments brought to the heart of this European town 50,000 Chinese workers churning out ‘Made in Italy’ fashion clothes, labelled Fendi, Salvatore Ferragamo, all the way to low-cost Zara or Topshop. Their speed, efficiency and high productivity are a force to be reckoned with. This growing community has turned around all the rules of once quiet Prato. Some are accusing this development to be sweatshop-export.

Mexico’s maquiladoras are another phenomenon of contemporary economic markets. Maquiladora is typically defined as a free trade zone, manufacturing operations where factories import material and equipment on a duty-free and tariff-free basis, for assembly, processing or manufacturing, and then export the assembled, processed or manufactured products back to the country from where the raw materials originated. In Tijuana Mexican workers know all about their dependence both ways, from the investment and exports across the border to the US. During the years of recessive demand from the big neighbour 300,000 jobs were lost to competitors far away in Asia; however, recent rising labour costs in Asia have made them competitive again. Exports grew 50 per cent between 2009 and 2012, to attain $196 billion. To compare, Africa’s total manufacturing exports are about $91 billion, the same as Ireland. What is new in Mexico is that Chinese investors have discovered the catch and are part of the surge of investment in the maquiladoras. They are offering for the maquiladoras to pursue their shift to the more lucrative automotive industry. One state to benefit from this investment is Guanajuato, whose growth is set to accelerate considerably. There have been announcements of sourcing expansion by firms such as GM, Ford, Chrysler, Honda, Mazda, Nissan, Audi and Volkswagen.

In China itself, the manufacturing of electronic goods has captured the world’s imagination. Most of the devices and gadgets we used are assembled by Foxconn, the largest operator in the field employing over half-a-million workers. Foxconn is actually the world’s biggest contract electronics manufacturer, with clients such as Apple, Dell, HP, Microsoft and Sony. They have decided to build a plant in Itu, near São Paulo, that will eventually employ 10,000 workers in a half-a-billion dollar investment.
What are the lessons for Africa from these stories? The changing landscape of international trade and investment has completely overhauled our understanding of global value chains. Since the 1980s there is a growing trend for enterprises to spread across several countries, for the different stages and activities of the production process. There is no more any firm that produces any product from A to Z. Production is certainly no longer limited by physical borders. The value of patents and intellectual property is more substantial than the physical goods anyway. Complex and innovative financial systems, capital and venture arrangements, global standards and dispute settlement mechanisms have all contributed to a world where crude protectionism does not work. However, everybody seems to practice smart protectionism, better defined as the ability to make the rules work for you and outsmart the systems to attract investment equity and markets. Previously, countries had to develop strong industrial bases before trading and completing globally. They now can insert into specific segments and subsectors of global production.

The rise and expansion of global value chains is not primarily due to increasing trade of goods, rather it is based on technology, finance, investment and modern services. For example, this can be seen in the comparative advantage exercised by China in Prato, not only because of cheap labour but due to the ability of the Chinese to quickly produce and alter production patterns overnight. The main focus of industrialization in the 21st century is therefore innovation and flexibility.

This leads me to one lesson. The requirements for industrial policy development are different today in comparison to the 1970s. Key changes include the fact that economic policy has become open and comparable like never before. Interested groups want to be part and contribute to the design of a particular segment of production.

This is very different from the 1970s. The industrialization models of import substitution used in Latin America or the Southeast Asia export-driven model are no longer an option for Africa. Particularly the latter was built on the premise of mass production, with cheap labour and great absorptive capacity, and significant resource savings. Africa as a latecomer will find this niche occupied, mostly gone, even if its attractiveness could be taken into account.

Indeed another lesson is that Africa is to fight for a level playing field under adverse weather. The current trade and climate change negotiations are not in its favour. Take the example of agriculture – some of our cotton farmers like Burkinafasso lint, or Egyptian for processed cotton, have made it in terms of productivity but cannot compete with the subsidies of developed countries’ farming. The subsidies are officially gone in the categorizations of the World Trade Organization, but they are replaced by equal or higher amounts through a battery of environment and insurance premiums that blur the frame. If agriculture must play a fundamental role in the continent’s structural transformation; given that 60 per cent of the labour force is in the sector; a mammoth internal effort is needed to increase productivity and take advantage of our enormous reservoir of non-used arable land. However, the external factors are equally pertinent. The international trading system is not helping Africa industrialize, but that is not going to change easily. Africa needs to strategize to confront the reality head on.

First, Africa is to use its bargaining position by maximizing the demand for value addition in the commodities it has a dominant position in. Africa is home to 12 per cent of the world’s oil reserves; the largest renewable energy potential; 40 per cent of the world’s gold; 80–90 per cent of chromium and platinum; 70 per cent of coltan; 60 per cent of the world’s unusable arable land, 17 per cent of the world’s forests, and 53 per cent of the world’s cocoa (produced just by two countries: Côte d’Ivoire and Ghana). Resources such as these should be leveraged.
Second, as a latecomer, Africa is not locked in any technology preferences; it can follow a green and clean energy pathway and leapfrog old carbon-intensive industrial models. The growing awareness of environmental degradation and climate change is giving rise to new research and design priorities like clean energy technologies that could be scaled up rapidly. The continent is well positioned to absorb, adapt and build on the vast quantities of scientific and technical knowledge already available. Its vast hydropower, geothermal, biomass, wind and solar power potential is an amazing asset. For example, only five per cent of Africa’s hydropower potential is explored right now.

Third, Africa should focus on its domestic consumption. Africa’s rising population growth, growing middle class and rapid urbanization will continue to increase demand for consumer goods. Agribusiness holds the key to meet these demands, particularly processed food. The shift from primary production towards modern, integrated agribusiness provides a lucrative opportunity for a large number of smallholder farmers – the majority of which are women – as well as for generating modern jobs for the continent’s youth. Africa cannot continue to import yoghurt or toothpaste.

Fourth, industrialization can and should be inclusive. It should avoid buildings collapsing with sweatshop workers trapped inside and migrants dying in the desert or the sea. That means huge attention to the drivers of an integrated model, mostly small- and medium-scale enterprises.

Fifth and last, promoting greater regional integration across Africa is an imperative. The scope for regional integration is still largely in doubt, due to both tariff and non-tariff barriers to intra-Africa trade and exchanges. Africa’s transformation will require renewed and bolder efforts in this regard.

So what are Africa’s changes going forward? Key drivers for the continent’s transformation are due to formidable growth, improved economic governance, export boom and rising commodity prices until this year. A growing class of new consumers have brought about a rise in domestic demand, spurring increased public spending and private investment. In addition, steady progress is also being made in tackling some key social challenges. Most countries have achieved universal primary enrolment at rates of above 90 per cent, with one-half of African countries having achieved gender parity in primary school enrolment. Health has also seen major gains, with a 38 per cent decrease in under-five mortality; maternal mortality rate declining 42 per cent; and some MDGs [Millennium Development Goals] – such as HIV/AIDS prevalence rates – declining considerably. A new brand of Africa is emerging; one that exudes confidence, attractiveness for investments and that has considerably lowered risk with investments reaching $50 billion in 2012 and projected to reach maybe $80 billion this year.

But there is a ‘but’, Africa still needs to move from a 5–6 per cent average growth to the magic seven, the minimum required to double average incomes in a decade. There is still a long way to go, as poverty remains high, access to social services weak, and pervasive conflict undermining gains. Africa therefore needs policy tools and economic enablers. The commonality between the investments in Prato, Guanajuato and Itu, São Paulo, is that they have attracted the attention of Africa’s number one trading partner: China. The lesson for Africa is that industrialization is a competitive business. The continent needs to find its own miracle recipe if it wants to become one of the factory floors of the world. Africa’s attractiveness will most likely not be found in producing Prada wear, a spare part for Ford or adjusting Apple’s iPhone to the Brazilian market. Africa’s attractiveness will be to challenge that its coffee has to be Starbucks; its cocoa Toblerone; and its coltan Samsung – without any slice of the industrial chain that can also be proudly African. Late President Nelson Mandela captured the spirit of African attitude with this idea of the fork in the road when he said:
‘There is no passion to be found in playing small and settling for a life that is less than one you are capable of living. I could not imagine that the future I was walking towards could compare in any way to the past that I was leaving behind.’

Thank you.