



Economic Report on

Africa 2012

Unleashing Africa's Potential
as a Pole of Global Growth



Economic Commission for Africa



African Union

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Economic Commission for Africa

P.O. Box 3001

Addis Ababa, Ethiopia

Tel: +251 11 544-9900

Fax: +251 11 551-4416

E-mail: ecainfo@uneca.org

Web: www.uneca.org

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Acronyms

AERC	African Economic Research Consortium
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
APRM	African Peer Review Mechanism
ATM	Automated Teller Machine
AU	African Union
AUC	African Union Commission
BRIC	Brazil, Russia, India and China
CAADP	Comprehensive Africa Agriculture Development Programme
CEPR	Centre for Economic Policy Research
CFA	African Financial Community
CODESRIA	Council for the Development of Social Science Research in Africa
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
ETF	Exchange-Traded Fund
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FIFA	International Federation of Association Football
FTA	Free Trade Area
FOCAC	Forum on China-Africa Cooperation
G-20	Group of Twenty Finance Ministers and Central Bank Governors
GDP	Gross Domestic Product
GRIPS	National Graduate Institute for Policy Studies
HIV	Human Immunodeficiency Virus
HSRC	Human Sciences Research Council
ICCO	International Cocoa Organization
ICO	International Coffee Organization
ICT	Information and Communication Technology
IDS	Institute of Development Studies
IEA	International Energy Agency

IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMF	International Monetary Fund
IPRCC	International Poverty Reduction Center in China
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MFN	Most Favoured Nation
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OSAA	United Nations Office of the Special Adviser on Africa
OUP	Oxford University Press
PCRD	Post-Conflict Reconstruction and Development
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
REC	Regional Economic Community
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SAR	Special Administrative Region
UN-DESA	United Nations Department of Economic and Social Affairs
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
UNU-WIDER	United Nations University World Institute for Development Economics Research
US	United States
USA	United States of America
WDI	World Development Indicators
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

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Foreword

THE FIRST DECADE of the twenty-first century has been characterized as the “decade of Africa’s economic and political renewal”. The continent achieved remarkable progress in economic growth while at the same time expanding the scope for democratic governance in a large number of countries. Growth in Africa averaged more than 5 per cent a year, and the pattern of growth has been generally consistent. A handful of African countries have registered annual growth rates of 7–11 per cent. More important, the continent demonstrated its resilience through its quick and robust recovery from the shocks of the global economic and financial crisis. The year 2011 was no exception, as growth accelerated in most countries despite the political turmoil in North Africa and continued global economic fragility.

The dynamism of African economies has captured the imagination of the world. Having been written off as “the hopeless continent” for decades, Africa is now being courted by powerful economic actors with a keen interest in its natural resources and untapped market. While the new narrative of “a rising Africa” is warmly welcomed, it must be made clear at the outset that the continent’s new fortunes are not the outcome of good luck; they are the result of years of hard work and better macroeconomic management. Indeed, the economic revival of the continent is attributed to improved economic and political governance, reduction in armed conflicts, increasing foreign capital inflows (especially direct investment) and improvements in the business climate—as well as rising commodity prices.

A positive portrayal of Africa in international circles is encouraging, but the *Economic Report on Africa 2012* presents a more cautious and nuanced analysis of the continent’s growth trajectory. The report situates the story of a rising Africa in a broader context, by pointing out the challenges and opportunities that lie ahead as governments push forward a series of policies to achieve structural transformation in an environment of global uncertainty. The report identifies the key binding constraints for unleashing Africa’s productive capacity and proposes a series of bold measures that governments must implement to position the continent as the next pole of global growth and rebalancing.

Finally, the *Economic Report on Africa 2012* argues that sustaining the growth momentum and taking Africa’s development potential much further depends on strong political leadership with the capacity to mobilize the population around a common national development vision. This must be complemented by an effective institutional framework that delineates the roles and responsibilities of the three drivers of transformational change—the State, the private sector and civil society—for realizing the common vision and for ensuring mutual accountability.

In a refreshing reassessment of the continent’s growth prospects, and echoing the central message of the *Economic Report on Africa 2011* on the developmental State, the report calls for pragmatism, as well as steady and hands-on State guidance. These will lay the

conditions for transformative change through improved governance, long-term development planning and industrial policy, as well as enhanced investment in education, infrastructure, technology, agriculture and climate change mitigation and adaptation, all of which aim to foster access of the poor to productive assets and employment opportunities.



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

It is our hope that this year's report will stimulate lively discussion and debate among policymakers, the private sector, civil society and other stakeholders at the national, regional and continental levels—as well as international development partners and the business community—on how to accelerate Africa's impressive growth performance of the last decade and sustain it over the long term.



Jean Ping
Chairperson
African Union Commission

Overview

THE EXPERIENCE OF the last decade suggests strongly that Africa is likely to make the twenty-first century its own—an experience woven into this document countless times. Essentially, since the beginning of this century, African countries have shown strong economic growth owing to improved economic management, a generally hospitable international environment and rising prices for their commodity and other strategic minerals.

Growth was interrupted when the 2008 global financial crisis—and steep food and fuel prices—hit the continent. Yet Africa quickly recovered and saw its growth resume at pre-crisis rates, a clear indication of the deep restructuring under way for more than a decade. Several prominent international financial organizations and private think tanks, observing this trend, have stressed Africa's potential to be a “global growth pole”—one that, reflecting its own size and rate of growth, boosts growth in other countries, worldwide. The headline “Africa rising”, which appeared on the cover page of *The Economist* news magazine on 3 December 2011, captures the growing optimism about Africa's role in the world.

Still, the continent should not rest on its laurels, as UNECA Executive Secretary, Mr. Abdoulie Janneh, warned in his June 2011 address to the African Union Executive Council in Malabo, Equatorial Guinea. The last decade's impressive growth must be examined in a proper context if Africa is to become a global growth pole, for the fact remains that the sources of Africa's growth have changed very little over the years: agriculture and natural resources

remain the main drivers, and Africa has diversified its economies in little meaningful way. Moreover, job creation has not matched growth and employment needs. It is therefore important to carefully review Africa's development experience in the recent past, analyse the attributes of a global growth pole, consider the steps—or “imperatives”—that Africa must take to become a global growth pole and identify what it has to do to set free its growth potential.

Thus the theme—and title—of the *Economic Report on Africa 2012* is *Unleashing Africa's Potential as a Pole of Global Growth*, examined in five chapters. Chapter 1 presents a review of the developments in the world economy and implications for Africa. Chapter 2 offers an overview of economic, social and human conditions in Africa in 2011 and prospects for 2012. The remaining three chapters focus on how to harness the continent's productive capacity by taking bold measures to ease the binding constraints that still stifle Africa's potential.

Chapter 3—the focus of the growth pole analysis—looks at Africa's growth in the last half century, particularly the drivers of growth in different development strategies. Through the optic of the global growth pole, it proposes several imperatives that Africa must fulfil, including sustained high growth, as well as economic transformation (mainly of infrastructure, human resources and local entrepreneurship). It also discusses options for capitalizing on the opportunities, and for managing the risks, of the emerging multipolar world and the gradual shift

Africa's marginal position in the global economy can be reversed with the right type of political leadership.

in the resource balance from the developed world to Asia and other developing regions.

In more detail, chapter 4 presents how to unleash Africa's productive potential. Emphasizing that Africa's marginal position in the global economy can be reversed with the right type of political leadership committed to mobilizing all sectors of society around a common national development vision and strategy, the chapter suggests the need for two other elements: a capable and pragmatic bureaucracy and a social compact in which the State, the private sector and civil society are mutually accountable for implementing that vision. The chapter then proposes

options for improving political and economic governance, for relaxing constraints from deficits in human capital, infrastructure and local entrepreneurship, for unlocking Africa's agricultural potential, for stepping up regional integration initiatives and for harnessing new partnerships, particularly with the emerging economies of the global South.

Chapter 5 reviews the various resource-mobilizing channels open to Africa given the pressing need to transform itself structurally. It outlines innovative proposals on mechanisms for mobilizing, using and distributing resources for setting a foundation of shared growth and inclusive development. It begins by reviewing past experience as well as new opportunities and challenges facing policymakers in mobilizing and using external resource flows—official and private—for socio-economic structural transformation. The chapter then looks at new financial instruments for mobilizing private savings from international and domestic investors, as well as issues in mobilizing domestic public resources.

Chapter 1: Developments in the world economy and implications for Africa

AFTER A STRONG rebound in 2010, the world economy slowed in 2011 owing to increased risks and uncertainties that are expected to remain in 2012 and beyond. Although the negative effects of the triple crisis of 2007–2009—food, energy and finance—still linger, the euro area sovereign debt crisis has further aggravated structural imbalances in the world economy and cast a doubt on the prospects for sustained growth and a quick recovery.

The depth and complexity of the global crisis have so far defied policy responses from developed-country governments. They kept interest rates low and pursued tight fiscal austerity measures to restore fiscal credibility. Yet long-run structural problems, such as increased income inequality, dysfunctional labour markets and global imbalances in particular, have intensified.

African economies quickly rebounded from the 2008 financial crisis as commodity prices rose and export revenues returned to pre-crisis levels, enabling them to

finance the necessary investments. Turmoil in North Africa and the euro area crisis combined to slow growth in 2011, but despite uncertainties some African countries have grown at double digits, reflecting higher commodity prices and strong domestic demand.

The world economy is entering a critical period full of uncertainties and challenges. In the short term, the euro area crisis might push the global economy into another recession with devastating consequences. High unemployment and rising food and energy prices have already

The world economy is entering a period full of uncertainties and challenges.