UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

by

Carlos Lopez

The title "A fork in the road" reminds me September 23rd, in 2003, when Secretary-General Kofi Annan addressing the UN General Assembly used a 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 a revisit of common rules of engagement. Although Annan used the word decisive he obviously was worried about the un-decisiveness that could result from prevailing polarizing views and interpretations.

I had followed these critical developments from my new position leading the UN in Brazil at a time were 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 issues that ranged from the developments goals agenda to aggressive social reforms and inclusive policies. 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 a fork that was becoming twisted and unruly.

A fork in the road does ring a bell, or two! But I honestly do not think it is because Africa, and its leaders, are un-decisive 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 the tone was about the need to not repeat mistakes, prepare for the next 50years 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. A flurry of intra-African initiatives are keeping policy makers busy like never before. 32 countries are engaged in prospective studies. The vast majority of peacekeepers in the continent are from the continent. Most of the economic debates are centered 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 US$ 600 billion; in 2013 it had jumped to US$ 2.2 trillion, representing one of the fastest growth in history. In comparison, it took China 12 years to double GDP per capita, India 17 years, the US and Germany between 30 and 60 years. Structural transformation now dominates the continental discourse of 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 to one direction and one choice, which is the need to use the favorable winds to deal with transformation. That as we had the opportunity to underline in our many interventions points in one direction: industrialization.

In order for Africa to grow *and* transform there is need to have 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 sophisticated.

Most people may not know that Prato, a small town in Italy, was once hailed as that country's textile capital. In the last twenty years a surge of Chinese investment brought to the heart of this European town 50,000 Chinese workers churning out "made in Italy" fashion cloths labeled 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 quite Prato, some accusing this development to be sweatshop export.

Mexico's "maquiladoras" are another phenomenon of contemporary economic patterns. "Maquiladora" is typically defined as a free-trade-zone manufacturing operation 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 neighbor 300,000 jobs were lost to competitors far away in Asia. However recent rising labor costs in Asia have made them competitive again. Exports grew 50% between 2009 and 2012, to attain US$ 196 billion; to compare Africa's total manufacturing exports are just US$ 91 billion, the same as Thailand. What is new in Mexico is that Chinese investors have discovered the catch and are part of the surge of US$ 7.4 billion investment in the "maquiladoras" in 2012. 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 General Motors, 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 use 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, or Sony. They have decided to build a plant in Itú 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 1980's there is a growing trend for enterprises to spread across several countries for the different stages and activities of the production process. It 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 has 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 competing globally. They now can insert into specific segments and sub-sectors of global production processes. The rise and expansion of global value chains is not primarily due to the increasing trade of goods, rather it is focused on technology, finance, investment, and other 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 a second lesson. The requirements for industrial policy development are different today in comparison to 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 innovative multi-sector strategies. Instruments of economic policy have also changed significantly, from an overwhelming reliance on administrative direction to placing greater emphasis on modifying market processes through taxation, subsidies and public expenditure measures, in order to correct market imbalances. In addition, industrial policy development has become more polycentric and more eclectic in its simultaneous pursuit of a variety of objectives rather than being solely centered on just promoting rapid growth.

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 based on the premise of mass production with cheap labor and great absorptive capacity and significant resource savings. Africa as a latecomer will find this niche is occupied and mostly gone, even if its attractiveness could be taken into account.

Indeed the third lesson is that Africa has 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 Burkinabé for 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 WTO, but they are replaced by equal or higher amounts, through a battery of environmental and insurance premiums that blurs the frame. If agriculture must play a fundamental role in the continents structural transformation, given that 60% of the labour force is employed 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 has to use its bargaining position by maximizing the demands for value addition in the commodities it has a dominant position. Africa is home to 12% of the world's oil reserves; the largest renewable energy potential; 40% of world's gold; 80% to 90% of its chromium and platinum; 70% of coltan; 60% of the world's unused arable land; 17 % of the world forests; or 53 % of the world's cocoa produced by two countries –Côte d'Ivoire and Ghana- alone!. 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 & 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 to power potential is an amazing asset. For example, only 5% of Africa's hydropower potential has been exploited.

Third, Africa should focus on its domestic consumption. Africa's rising population growth, growing middle class and rapid urbanization trends will continue to increase demand for consumer goods. Agribusiness holds the key to meet this demand, particularly processed food. The shift from primary production towards modern, integrated agri-business 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, migrants dying in the desert or sea. That means huge attention to the drivers of an integrated model, mostly the small and medium scale enterprises.

Fifth, promoting greater regional integration across Africa is an imperative. The scope for regional integration is still largely untapped due to both tariff and non-tariff barriers to intra-African trade. Africa's transformation will require renewed and bolder efforts.

So what are Africa's chances going forward?

Key drivers for the continents transformation are due to formidable growth; improved economic governance; an export boom and rising commodity prices. 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 achieved universal primary enrolment at rates of above 90 per cent and with one half of African countries having achieved gender parity in primary school enrolment. Health has also seen major gains, with 38 percent decrease in under-five mortality, similarly, maternal mortality rate declining 42 per cent over the MDG period, adult HIV/AIDS prevalence rates also declining from 5.9 per cent in 2001 to 4.9 per cent in 2011.

A new brand of Africa is emerging; one that exudes confidence, attractiveness for investments and that has considerably lowered risk, with investment reaching US$50 billion in 2012.

But, there is a but…Africa still needs to move from 5 to 6 % average growth to the magic 7%!, 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 undermines gains.

Africa, therefore, needs policy tools and economic enablers. The commonality between the investments in Prato, Guanajuato and Itú-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 recipe, its own miracle recipe, if it wants to become one the factory floors of the world. Africa's attractiveness will most likely not be found in producing a 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 or 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 should be in case a fork in the road is evoked: "*There is no passion to be found in playing small and settling for a life that is less than the 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.*"