

CONTENTS

PART ONE: AFRICA IN THE WORLD ECONOMY

Chapter 1	The African Economy in 2002	1
Chapter 2	Regional Economic Profiles	47

PART TWO: GLOBALIZATION AND AFRICA'S DEVELOPMENT

Chapter 3	The Process of Globalization	149
Chapter 4	Globalization and Africa's Development Experience	186
Chapter 5	Towards Structural Transformation in Africa	218
Chapter 6	Africa's Responses to Globalization	248
Bibliographical Note		279

PART THREE: ECONOMIC AND SOCIAL STATISTICS ON AFRICA

288

BOXES

1.1	Findings from UNIDO Foreign Direct Investor Perceptions in SSA	23
1.2	Global Public Goods and Monterrey Consensus on Financing for Development	35
1.3	Responding to Conflict and Post-Conflict Situations in Africa	40
1.4	Corruption is a Global Phenomenon	41
1.5	Causes and Cures for Corruption	43
1.6	Strategy and Interventions to promote competitiveness	46
3.1	Three Waves of Globalization	164
3.2	Constructing a Globalization Index	166
4.1	Bridging Ghana's Digital Divide	216
5.1	The Paradox of Africa	219
5.2	Elements of a New Policy Agenda	221
5.3	The Primary of Good Governance	224
5.4	Developing an International Market	227
5.5	Linking Agriculture with Industry—The Experience of Malaysia	230
5.6	Software Outsourcing in India and Egypt	232
5.7	SME Development: Learning from the Asian Tigers	240
5.8	PRSPs, the Private Sector and the State	245
6.1	The Six Stages for Implementation of the African Economic Community	249
6.2	Excerpts from the Sirte Declaration—Towards African Unity	250
6.3	Selected Objectives of the African Union	251
6.4	The New Partnership for Africa's Development – An African Framework for Faster Growth and Development	253
6.5	The G8 – Why We Support NEPAD	255
6.6	The Millennium Project for Africa	256
6.7	The African Growth and Opportunity Act (AGOA)	259
6.8	Trade and Development – The Doha Round	261

TEXT FIGURES

1.1	Africa: Real GDP Growth Rate (%) - 1990-2003	2
1.2	Developing Countries' vis-à-vis Africa: Major Performance Indicators, 2001-2002	4
1.3	Africa: Major Economic Indicators, 1998-2002	5
2.1	Central Africa: Real GDP Growth	48
2.2	Central Africa: Real GDP Growth by Country	49
2.3	Central Africa: Gross Domestic Investment as % of GDP	49
2.4	Central Africa: Inflation and Money Supply Growth	50
2.5	Central Africa: Fiscal Balance as % of GDP	55
2.6	Central Africa: Trade and Current Account Balances as % of GDP	61
2.7	Central Africa: External Debt as % of GDP	63
2.8	East Africa: Real GDP Growth	67
2.9	East Africa: Real GDP Growth by Country	68

2.10	East Africa: Gross Domestic Investment as % of GDP	69
2.11	East Africa: Inflation and Money Supply Growth	69
2.12	East Africa: Fiscal Balance as % of GDP	75
2.13	East Africa: Trade and Current Account Balances as % of GDP	81
2.14	East Africa: External Debt as % of GDP	85
2.15	North Africa: Real GDP Growth	89
2.16	North Africa: Real GDP Growth by Country	90
2.17	North Africa: Gross Domestic Investment as % of GDP	90
2.18	North Africa: Inflation and Money Supply Growth	92
2.19	North Africa: Fiscal Balance as % of GDP	95
2.20	North Africa: Trade and Current Account Balances as % of GDP	102
2.21	North Africa: External Debt as % of GDP	105
2.22	Southern Africa: Real GDP Growth	107
2.23	Southern Africa: Real GDP Growth by Country	108
2.24	Southern Africa: Gross Domestic Investment as % of GDP	108
2.25	Southern Africa: Inflation and Money Supply Growth	110
2.26	Southern Africa: Fiscal Balance as % of GDP	114
2.27	Southern Africa: Trade and Current Account Balances as of GDP	119
2.28	Southern Africa: External Debt as % of GDP	123
2.29	CFA and Non-CFA Zone GDP Growth	126
2.30	West Africa: Real GDP Growth	127
2.31	West Africa: Gross Domestic Investment as % of GDP	128
2.32	West Africa: Inflation and Money Supply Growth	128
2.33	West Africa: Fiscal Balance as % of GDP	135
2.34	West Africa: Trade and Current Account Balances as % of GDP	141
2.35	West Africa: External Debt as % of GDP	145
3.1a	Per Capita GDP Growth Rates: Post-1980 Globalizers	153
3.1b	Per Capita GDP Growth Rates: Non-Globalizers	153
3.2a	Trade Integration, 1960-2000 (Exports plus Imports Volume, Ratio to GDP)	156
3.2b	Trade Integration, 1960-2000 (Exports plus Imports Volume, Ratio to GDP)	156
3.3a	World Trade Composition	158
3.3b	Components of Non-Factor Services Trade	158
3.4	Price Index of Information Processing, 1975-94	159
3.5	Cost of 3-Minute Telephone Call, New York to London	160
3.6	FDI Flows into Africa, Developing Countries and Selected Regions, 1970-2001	162
3.7	Average MFN Tariffs in Industrial Countries	178
3.8	Average Tariffs in Developing Countries	178
4.1	Regional Exports of Goods and Services as Percentage Shares of GDP, 1960-2000	190
4.2	Direct Investment to Africa: Top Five recipients versus the Rest of Africa (1995-2000)	200
4.3	Africa: Net Official Flows	201
4.4	Total Debt and Debt Service: Developing Countries & Africa	210

TEXT TABLES

1.1	Africa: Macroeconomic Indicators, 1998- 2002	1
1.2	Africa's Ten Largest Economies (ATLE), 2002	3
1.3	Africa: Frequency Distribution of Countries According to Real GDP and Real Per Capita GDP Growth Rates, 1998-2002	6
1.4	Real GDP Growth Rates by Sub-Region, 1998-2002	7
1.5	Selected International Economic Indicators, 1998-2002	9
1.6	Selected Commodity Prices Data	10
1.7	Macroeconomic Indicators for ALTE, 1998-2002	13
1.8	Sectoral Growth Rates, 1998-2002	16
1.9	Africa's Cereal Production	17
1.10	Annual Growth of MVA. 1981-2001 and Per Capita MVA 2001	21
1.11	International Tourism Arrivals by Sub-region	24
1.12	Selected African Country Internet Status Summary by October 2002	25
1.13	Crude Oil Production 1994-2002	30
2.1	A Sub-Regional Overview of African Economies	47
2.2	Central Africa: Gross Domestic Product and Export Performances	49
2.3	Central Africa: Macroeconomic Management Indicators	55
2.4	Central Africa: The External Sector	60
2.5	East Africa: Gross Domestic Products and Export Performances	68
2.6	East Africa: Macroeconomic Management Indicators	75
2.7	East Africa: The External Sector	80
2.8	North Africa: Gross Domestic Product and Export Performances	90
2.9	North Africa: Macroeconomic Management Indicators	91
2.10	North Africa: The External Sector	99
2.11	Southern Africa: Gross Domestic Product and Export Performances	108
2.12	Southern Africa: Macroeconomic Management Indicators	109
2.13	Southern Africa: The External Sector	118
2.14	West Africa: Gross Domestic Product and Export Performances	127
2.15	West Africa: Macroeconomic Management Indicators	135
2.16	West Africa: The External Sector	140
3.1	Services Trade, 1975-1995	157
3.2	Globalization Index Ratings in the Year 2002	167
3.3	Comparative Mean Indices, 1980-2000	169
3.4	Reported Antidumping Actions by Members of the GATT/WTO	179
3.5	Number of Existing Regional Integration Schemes	179
4.1	Regional Percentage Shares of World GDP, 1000-1998	188
4.2	Regional Percentage Shares of World Exports, 1870-1998	188
4.3	Regional Percentage Shares of World Exports, 1975-2000	189
4.4	Regional Exports of Goods and Services as Percentage Shares of GDP 1960-2000	189
4.5	Regional Annual Percentage Export Growth, 1961-2000	190
4.6	African Trade by Type of Cargo	191
4.7	African Regions' Average Annual Imports	192

4.8	Emerging Market Economies' Net Capital Flows	199
4.9	Operation Matrix of Exchange Rate Regimes Under Large Capital Inflows	206
4.10	Regional Total Debt Stocks	209
4.11	Regional Total Debt as Percentage Shares of GNI	209
4.12	Number of Internet Users	213
4.13	Mobile Phones per 1,000 People	213
4.14	Personal Computers per 1,000 People	214
4.15	Telephone Main Lines per 10,000 People	214
4.16	Royalty and License Fees, Receipts	215
4.17	Royalty and License Fees, Payments	215

PART ONE

Overview

The *African Development Report 2003* reviews Africa's current socio-economic performance and prospects, and examines in-depth the issue of globalization and development in the continent. Part I of the Report covers two chapters. The first chapter, on "The African Economy in 2002", presents and assesses the continent's economic performance as well as prospects for the medium-term. The second chapter analyses the regional economic profiles, including their recent economic trends, policy developments, privatization, and growth outlook.

Real GDP growth in 2002 was estimated at 2.8 percent, marginally below the 3.5 percent growth rate recorded in 2001. Two powerful factors—the mixed external environment and worsened domestic economic conditions, determined performance in 2002. The momentum of recovery in the industrial countries in the early part of 2002 (engineered in part by the U.S. spending in the aftermath of the September 11 terrorist attacks) fizzled out in the later part of the year. The prices of Africa's major export commodities remained depressed in the year. Also the lingering effects of the September 11 on African economies, especially on the tourism sector in North Africa, affected performance. Although oil prices remained high in 2002, the reduced OPEC quota (designed to shore up prices) reduced the volume and value of exports. Deterioration in economic fundamentals as well as drought in the East and Southern Africa (linked to the El Nino phenomenon) contributed to the dampening of growth.

Africa's real GDP growth in 2002 again reflected performance in the ten largest economies, whose growth slumped from 3.0 percent in 2001 to 2.2 percent in 2002. The number of countries with negative growth rate remained at 5 in 2002, with no change from 2001. An interesting feature of 2002 is that while the number of countries with 3-5 percent growth rate increased from 8 in 2001 to 14 in 2002, the number of countries with growth rate in excess of 5 percent declined from 21 in 2001 to 14 in 2002. This is a worrying feature of Africa's growth that seems to be stabilizing around the 3-4 percent range. The median African country now grows at about 3-5 percent, while an increasing number of countries also fall within the 0-3 percent range. Overall, the median African country's real per capita growth rate falls within 1.5-5 percent range, with a declining number of countries (12 in 2002 relative to 21 in 1999 and 18 in 2001) having a negative growth rate. Sectorally, growth in agriculture, the industrial sector, and services recorded declines in 2002 relative to their 2001 levels. Unlike in 2001 when the agricultural sector recorded growth rate of 5.2 percent, in 2002 it grew by only 3.7 percent; the industrial sector grew by 2.7 percent, down from 3.4 percent recorded in 2001; while the services sector was marginally down from 3.3 percent in 2001 to 3.1 percent in 2002.

In 2002, Central Africa at 5.5 percent recorded the highest economic growth rate among the five sub-regions of Africa, up from 3.4 percent in 2001. Southern Africa followed this at 3.4 percent in 2002, slightly up from 2.9 percent in 2001. East Africa had a growth rate of 2.8 percent in 2002,

significantly down from 5.0 percent recorded in 2001. North Africa grew at 2.5 percent in 2002 from 3.5 percent the previous year while West Africa experienced a decline in growth in 2002 to 1.7 percent from 3.4 percent recorded in 2001.

In 2003, the African economy is forecast to grow by 3.3 percent, following expected faster growth in Europe, higher primary commodity export prices, and moderate oil prices. Greater prospects await 2003 as non-oil exporters are expected to see a significant improvement in performance, as commodity markets firm and prices stabilize or even moderately increase in real terms. As in the previous year, these forecasts are based on assumptions of improved weather and hence good agricultural performance as well as improved political and policy stance.

Aside from the non-policy factors impacting on performance, the medium term prospects will, in the final analysis, depend on the deepening of policy reforms in the region. These policies will go beyond political governance and institutional reforms, to broad economic agenda—structural, and sound micro- and macro-economic policy stance. Initiating and sustaining sound economic outcomes depend critically on the policy choices and the commitment of the political leadership to pursue growth-enhancing reforms as exemplified by the experiences of many better-managed African economies in the last two decades. As the African Union (AU) makes important strides in institutionalizing the NEPAD, especially the peer pressure mechanism on good political and economic governance, African countries would come under increasing pressure to deepen and sustain reforms. Complementing these domestic reform measures would be some positive developments in the international community. In particular, there is need to deliver on promises with respect to global actions to provide global public goods, ensure increased ODA flows to the poorest countries, provide market access for the exports of these poor countries, and address several of the systemic defects of the international institutions of governance.

PART TWO

Overview

The theme of the 2003 ADR, *Globalization and Africa's Development*, is important because globalization is one of the titanic forces driving structural change in the world economies. Unleashed by the forces of technology, liberalization and instantaneous communications, globalization is redefining the bases of the competitiveness of nations and firms, and also throwing up new challenges for nations large and small. Globalization has, in its wake, amplified global market forces, making them increasingly important in the daily lives of virtually all the world's people. It has led to greater economic, political, and cultural interdependence among the nations of the world. It would indeed become difficult to find any corner of the world that is not affected in one way or other by this sweeping development. The phenomenon, which accelerated in the last decade of the 20th century — and which is likely to be a defining characteristic of the 21st century — is perhaps one of the most potent forces for change that mankind has witnessed.

Chapter 3 of the Report focuses on *The Process of Globalization*. It shows that economists see globalization as the growing interdependence and interconnectedness of the modern world, encapsulating the increasing ease of movement of goods, services, capital, people and information across national borders, which is rapidly creating a single global economy. Globalization is also reflected in the spread of global norms and values, including the worldwide acknowledgement of democracy as a political imperative and the proliferation of global agreements and treaties, including international environmental and human rights. The Chapter shows that globalization is multifaceted, having many important dimensions – economic, and social, political and environmental, cultural and religious – which affect everybody in some way. Globalization is a harbinger of both good and bad tidings. Whilst it can offer opportunities for developing nations to leapfrog across some of the ladders in the traditional development trajectory, it may also bring with it a deepening of external dependence and vulnerability. Historically, true globalization began in the nineteenth century with the unleashing of the economic forces of trade, migration, and capital flows, with Britain's 19th century free trade leadership, as the critical impetus to the process. The literature generally distinguishes three waves of globalization: the first wave covering the period 1870 to 1914; the second wave covering the period 1950 to 1980; and the third wave covering the period of 1980 to the present. The latest wave of globalization is remarkable because a large group of developing countries – the new/post-1980 'globalizers' – broke into global markets. Other developing countries became increasingly marginalized in the world economy and suffered declining incomes and rising poverty. Furthermore, international migration and capital movements that declined during the second wave of globalization again became substantial. The most encouraging development in the third wave of globalization is that some developing countries, accounting for about three billion persons, have succeeded for the first time in harnessing their labor abundance to give them a competitive advantage in labor-intensive manufactures and services. In terms of broad measurement, globalization can be disaggregated into economic integration, political integration, and social integration. The main drivers of globalization today include rapid changes in communications and information technology, reduction in transportation costs, the growth of the neo-liberal economic management (especially economic liberalization), institutional architecture (especially through the works of multilateral institutions such as the UN, the World Bank, IMF, regional development banks, GATT/WTO which had given rise to economic reforms, Uruguay Round/Doha development agenda, etc), and the emergence of new regionalism across the globe.

Chapter 4 examines the issue of *Globalization and Africa's Development Experience*. In 1950, Africa delivered a tenth of world exports. Since then the share has declined to only 2.7 percent in 2000. The value of Africa's imports also declined from 2.8 percent of the world total in 1985 to a low of 1.8 percent in 1996, rising marginally to 2 percent in the year 2000. These figures greatly contrast with those posted by other regions. Asia and North

America each accounted for nearly a fifth of world exports and imports over the period with Europe accounting for almost half of total world exports and imports. The loss of market shares by Africa for its major commodity exports over the last three decades is estimated to have caused annual revenue losses of about \$11 billion in current (1996) prices. Also, Africa did not attract a large share of private capital during the 1990s, with an average 8 percent share of total private capital and only an average 3 percent share of FDI. Much of this investment is concentrated, geographically and sectorally, in a few countries and in extractive natural resources such as oil and solid minerals. External debt continues to be one of the major obstacles to the development efforts of the Africa. Africa's total debt as a share of the total debt of developing countries has seen a steady fall from a peak of about 16 percent in 1995 to about 12 percent in 2002. Yet, Africa, in spite Enhanced HIPC Initiative, remains the most indebted continent relative to its gross national income, and this undoubtedly makes policy making there more difficult. In addition, Africa, together with South Asia, is one of the least connected regions on the globe. Connectedness has the potential to make important contributions to improving economic growth performance in Africa, but that it is also, clearly, only one aspect of a much wider set of challenges to be addressed by the public authorities and the private sector.

Chapter 5 discusses *Towards Structural Transformation in Africa*. The Chapter emphasizes that Africa, more than any other region of the world, faces the danger of being left behind by the rapid changes being brought about by the forces of globalization. Developing Africa in the context of globalization, therefore, requires a coherent business plan. This should seek to minimize the risks of globalization while maximizing its benefits. To be effective, such a plan must be comprehensive and involve consistent and coherent strategies at three major levels: Domestic strategy, anchored on building the institutions and enabling environment for a private sector-led, competitive market economy. More fundamentally, such a domestic strategy must be guided by the ideology of aggressive outward or export-orientation, using open regionalism as a building block; Regional strategy, driven by the need to enlarge markets and to exploit complementarities, economies of scale and synergies in provision of regional public goods -- infrastructure, security/defense and collective regional institutions as agencies of restraint -- so that domestic reforms and policies can be locked in for credibility. Such a regional strategy must also involve defining and mainstreaming regional best practices in political and economic governance, and exert collective peer pressures on erring countries to conform to the regional 'convergence criteria'; and Global strategy, aimed at addressing many of the asymmetrical power relations and inequities in globalization, creating a level playing field, redesigning the global financial architecture, improving access to Africa's exports, removal of subsidies on agricultural products in industrial countries, increase concessional resources to African countries, provision of global public goods, and strengthening the programs and institutions for preferential and differential treatments to Africa.

Chapter 6 discusses *Africa's Responses to Globalization*. This Chapter examines the *collective* policy responses that African nations have taken to address the challenges posed by globalization. It also considers some of the initiatives that have been taken at the global level to help reverse Africa's downward spiral into global marginality. Africa's long-running development challenges and its marginalization in the world economy have not arisen for a lack of attempts or strategies to deal with the continent's crisis. The responses have been at various levels, including national policies, regional integration experiments (African Union and its precursors, including the African Economic Community, and NEPAD), and numerous bilateral and multilateral initiatives (including EU-ACP Agreement, AGOA, EBA, The Doha Round and its predecessor Uruguay Round, and the Enhanced HIPC Initiative). The Chapter also discusses the framework for a new African and global agenda to reverse Africa's marginalization. Finally, the role of the African Development Bank Group in financing and promoting external resource inflows is described, including the enhancement of development effectiveness, financing operations, debt relief, private sector development, promotion of capital inflows and other sources of capital mobilization for Africa's development and greater integration into the global economy.