



ECONOMIC DIVERSIFICATION  
IN AFRICA:

# WHAT CAN GULF STATES LEARN FROM AFRICAN COUNTRIES?

AUTHOR

*Cristina D'Alessandro*

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# **Economic Diversification in Africa:**

## **What can Gulf States Learn from African countries?**

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## 1. Introduction

Qatar's real gross domestic product (GDP) is steadily growing and this trend is expected to continue in the short term: the International Monetary Fund (IMF) growth projections for the country expect 6.5% and 7.7% growth respectively for 2014 and 2015 (IMF, 2014). Even if the share of hydrocarbons as a percentage of a nominal GDP is still high (54.4% in 2013 and 50.1% in 2014, the oil and gas sector is decreasing in the economy (with estimations of 46.4% for 2015 and 42.8% for 2016), while all the other economic sectors are growing – especially the construction and service sectors – whereas the agricultural sector is the one sector in which growth is less important (Qatar National Bank: 2014). The diversification of the economy is expected to continue and Qatar's economic growth should continue, despite the fact that the importance of oil and gas is estimated to drop. The real GDP growth is projected to progressively accelerate from 6.8% in 2014 to 7.8% in 2016 (Ibid: 1).

This trend is the result of a diversification strategy, supported by the political will of the government, aligned with subsequent economic activities. Even if it does not have a unique agreed definition, diversification is defined here as a strategy and a related set of policies, willing to reduce the dependence of a country on a too limited number of export commodities and the risks that this over-reliance could engender. Consequently, “a country may attain three linked objectives through diversification: stabilizing earnings, expanding revenues and retaining or increasing value-added” (Hvidt. 2013: 5). Usually understood as the diversification of exports and production, it may also be a diversification of, for instance, endowments, diverting investment to infrastructure, education and some other institutions (Gill et al: 2014).

This paper is then concerned with Qatar's diversification, by specifically looking at the learning and opportunities that Africa can offer to non-energy sectors in Qatar and, more in particular, investigating foreign direct investment (FDI). The paper includes seven sections. Following this introduction and a presentation of Qatar's economic diversification strategy and learning from resource-rich economies, the third section investigates economic diversification in Africa, with a special insight into what Qatar could learn from African countries. The fourth section concentrates on FDI in Africa and investment opportunities in non-energy sectors around the continent. The

following section reports the misperceptions and improvements of socio-economic conditions in Africa, which is useful to properly assess risks and opportunities. These last two sections show that Qatar may invest in non-energy sectors in African countries, accompanied by a series of advantages and limited risks. This investment strategy would not only have financial benefits, but would greatly help the Gulf country to diversify its economy. Section six is concerned with the presence of the private sector and African state-owned institutions related to FDI in non-energy sectors, providing key information about the stakeholders with whom Qatar would be confronted while investing in Africa. The seventh and last section summarizes some lessons that Qatar may learn from African countries, as well as the contribution of these economies to Qatar's diversification in the immediate and long term. Policy recommendations are presented just before the concluding remarks.

## **2. Qatar Economic Diversification Strategy and Learning from Resource-Rich Economies**

The Qatar National Vision 2030 calls for a suitable economic diversification, focusing on industrial and service development, as well as on the expansion of economic activities in which Qatar has a competitive advantage from a technical and human point of view. The focus is explicitly on innovation, infrastructure and initiatives that could enhance the role of the private sector (General Secretariat for Development Planning: 2008).

The Qatar National Development Strategy 2011 – 2016 (QNDS) gives greater insight into the strategy and measures to build a Qatari diversified economy and, in so doing, enhancing the role of the private sector and maintaining its competitiveness. The document emphasizes that it is a long-term process; it has to be embedded in the educational system and duly supported by policies and regulations; as well as incentives. Building the necessary capacity will, in fact, be a challenge, but a necessary step to develop new product lines and markets. The QNDS points out that the core of the problem is an underdeveloped private sector (with only 5% of Qataris working in the private sector and 2% managing and investing in their own businesses) and, more especially, the limited number and limitations of small and medium enterprises. For this reason, the role of the government is recognized as a key factor in the document. “[T]he government, for its part, will endeavor to boost small businesses through changes to procurement and outsourcing rules that

will reduce onerous transaction costs. One problem in Qatar today is the heavy working capital requirements needed to meet bidding bond regulations. These requirements are particularly difficult for small companies to meet” – (Qatar General Secretariat for Development Planning, 2011: 99). Transaction costs are too onerous, due to weak procurement procedures and outsourcing rules. A focus on research and development, innovation and information, as well as communication technologies should not only be strongly highlighted in official documents, but it should also be confirmed by the support and role that the Qatar Foundation, the Qatar National Research Fund (QNRF), and the Supreme Council of Information and Communication Technology (ictQATAR) are playing in implementing the national diversification strategy. These institutions provide both financial and strategic support for the establishment of various initiatives in the realm of education and innovation – i.e. Education City.

A figure on the diversification of outputs contained in the QNDS, obtained using IMF data, shows that the most challenging sectors are manufacturing and trade and hospitality, accounting respectively for 5% and 6% or less in the share of GDP in 2009 (Ibid: 94). However, the manufacturing sector has been growing rapidly in recent years, accounting for 10% of the country’s aggregate output in 2013 (Bank Audi, 2014: 5). These insights explain, among other factors, why the national strategy underlines the benefits of the regional integration of Qatar with the Gulf Cooperation Council (GCC) countries. Harmonizing regulations and laws, lowering tariffs and reductions in formal trade barriers, as well as cross-border infrastructure will certainly have beneficial effects on investment and trade, as well as on broad economic development. This is what is expected from the future, according to official documents, such as the QNDS. Three examples are specifically quoted, namely a regional high-speed rail network, connecting Qatar, Bahrain and Saudi Arabia; a modern 1 400 km fiber optic network, established by a consortium, including the British Vodafone and three Gulf telecoms; and a regional power grid, connecting the GCC countries and established by the GCC Interconnection Authority to enhance energy trading.

### **2.1. Challenges and Paths for Qatar Diversification: Regional Competitiveness and Urban Development**

As tourism is considered a key sector by the Qatari authorities but, at the same time and despite the efforts made, as a weak sector on average in the GDP, it is also a suitable example to point out



transversal challenges to diversification, as well as opportunities for Qatar diversification. Developing the hospitality sector includes massive investments in sport, especially football, with the forthcoming 2022 FIFA World Cup in Qatar. Qatar also bought the French team, Paris Saint Germain and has sponsored the FC Barcelona since 2010. Beyond football, Qatar is investing in other sporting events, such as the Qatar Cycling Tour, the Qatar Open Tennis Championship, Qatar Horse Racing Abroad (Qatar Prix de l'Arc de Triomphe at Longchamp, France), and the Qatar motorcycle Grand Prix (Srour-Gandon, 2013). Qatar is also determined to become a regional hub for cultural and medical tourism, with a number of museums and cultural initiatives, as well as the Sidra Medical and Research Centre, who are keen on attracting patients from the Gulf but also from South Eastern Asian countries (Belkaïd: 2011).

Nevertheless, this part of the QNDS raises some doubts and concerns, as Qatar does not seem to offer tourists anything more than neighboring countries do and does not seem to have the potential to attract more tourists in future, despite the investments. Tourism is also, in fact, linked and dependent on image and perceptions. "The existing knowledge of travel risk perception has to be considered, especially for Middle Eastern countries. Although Qatar has attempted to follow the UAE success with tourism, the secularity in terms of tourism activities seems to have been limited. Tourism development in places such as Dubai and Abu Dhabi, which places the UAE as a more mature tourism destination in the region, makes it harder for Qatar to stand out and the question remains to be answered: what could Qatar offer to tourists that cannot be found in Dubai and Abu Dhabi?" (Morakabati, Beavis & Fletcher 2014: 431). One area that Qatar is starting to consider seriously is the promotion of medical and business tourism, given the establishment of medical centers and Doha becoming an important place for business. However, it still needs to compete with Dubai and Abu Dhabi – the most established regional hubs in the region.

In order to strongly support this national project, Qatari investment in tourism infrastructure (hotels, restaurants, the airline industry and leisure parks) at every level from local to international, will exceed USD20 million by 2022 (Srour-Gandon 2013) and will be crucial for diversification. Qatar has also complemented this effort with real estate development. The Pearl, an artificial island a few kilometers away from downtown Doha, once completed, will house 35 000 residents and/or tourists in 18 000 housing units, but it will include also restaurants, a marina and

shopping centers. More ambitious, but in line with the same goal, is the project of a new city, Lusail City, which should be completed by 2019 at an estimated cost of USD5 billion. Within 35 km<sup>2</sup>, the city should house 200 000 residents and 80 000 tourists in 22 hotels. The city will have a 22-kilometer tramway line, a railway line, water taxis, several sport and religious facilities (34 mosques are being planned), among which the Lusail Iconic Stadium where the final game of the 2022 FIFA World Cup will take place (Belkaïd: 2011).

These plans, which seem to be only real estate investments and projects to address the housing problem in a small-size country with a surface of about 11 500 km<sup>2</sup>, are in reality urban planning, development and management initiatives, confirming that Qatar is implementing its diversification strategy, using urban planning and, more especially new urban forms, as a tool to achieve its long-term goal, knowing that the economic development of a country is tightly linked to successful urban planning, in line with national development plans. This seems a very smart and fruitful strategy, as regions that underwent effective diversification (such as the 'Ruhr area' in Germany), are urban and they were able to do it by focusing on service and high technology industries, requiring efficient urban planning to support these activities.

Therefore, participatory and effective urban planning helps and supports national aspirations of economic diversification, taking properly into account the challenges, but more especially the shortage of land in the Qatari context and putting in place new and creative solutions. This applies to tourism and leisure, but also to other activities that could play an important role in economic diversification in Qatar – notably agriculture and manufacturing. For the industrial sector, for instance, ongoing talks related to two new industrial areas that are supposed to be realized in the short term in Mesaieed and in the western outskirts of Doha respectively, will have to be duly planned and integrated with the Doha Master Plan in order to be successful.

This regeneration Master Plan aims at bringing families back into the historic center of Doha, creating a new safe, well-served and thriving center. The western style downtown, nevertheless draws references from Islamic patterns and organic morphology. The Master Plan creates mixed-use and densely planned neighborhoods, with homes with easy access to services and amenities.

Revitalized public spaces are key for the vision of the plan, with new squares and a contemporary architecture drawing lessons from the past.

## **2.2. Economic Diversification in GCC Countries: Commonalities and Learning Opportunities**

As the case of Qatar confirms, “industrialization” and “diversification” are strongly associated in literature, assuming that, despite their differences, industrial development is a main avenue of economic and export diversification. Although this paper asserts that diversification cannot be reduced to manufacturing alone, as the service sector deserves increasing attention, given its growing role in today and tomorrow knowledge societies, it also emphasizes that, historically from the 1970s, GCC countries strongly invested in developing the manufacturing sector and agriculture in the case of Saudi Arabia, although it was not successful for the most part. For resource-rich economies, including GCC countries, diversification also includes a shift from oil-based manufacturing to import substitution industries, but this can be a subsequent step, taking place when diversification has already started. Following an Economic and Social Commission for Western Asia (ESCWA) study, ESCWA, 2001, the actual measures, partially or fully implemented by the GCC countries to diversify their respective economies are based on the reduction of the direct role of the public sector as an agent of economic growth, as well as on the development of:

1. physical and social infrastructure;
2. capital-intensive industries, utilizing the countries’ comparative advantage in hydrocarbon resources;
3. other manufacturing industries (especially construction materials, electrical products, textiles and clothing, and furniture); and
4. other productive sectors and services (agriculture, trade, banking and financial services, aviation, real estate, and tourism).

Despite the variety of strategies and histories of diversification among the GCC countries, (Oman, for example concentrated its efforts on service and tourism, while other GCC countries gave priority to banking, aviation and manufacturing) – Martin Hvidt (2013: 13 – 14) – summarizing a

variety of views and insights, states that diversification of GCC economies remains limited and that the manufacturing sector's performance is weak. "Data shows, however, that the countries remain in a position where the oil sector continues to dominate the economy, and that few of the industries and services established would survive in a post-oil era. So the GCC states continue to be in the situation where they sell their hydrocarbons on the world market and use the proceeds to import almost all of their living requirements and large parts of their labor force. Viewed in this manner, the diversification strategy has largely failed" (Ibid: 16). Hydrocarbons also ensure political security, military needs and global influence.

Is diversification therefore a sustainable path for resource-rich countries? Are countries endowed with extractives "condemned" to a certain degree of dependence on their exploitation? May they really be competitive in other sectors and really catch up with their delay accumulated over the decades that they were concentrating on oil, as well as gas extraction and exports? European, Asian and African resource-rich countries may offer useful insights and experiences to attempt to answer this question, especially keeping in mind the peculiar Qatari situation.

### **2.3. Diversification of Resource-rich Countries: Strategies, Successes, Failures and Learning from Europe, Asia, Oceania and America**

Chile is an example of successful economic diversification. This success is illustrated by the growth of export industries (notably wine, fruit, salmon, etc.). These positive and sizable results are certainly due to a variety of factors, but some of them must be mentioned, as they could allow thinking of possible comparisons with other regions. In Chile, the collaboration between government (or public agencies) and private companies focused on areas contributing to diversify growth, such as human resources, infrastructure and innovation. Chile and also Norway have very diverse historical paths, physical and climatic conditions as well as institutional and geopolitical situations. Nevertheless, both countries underline the key role of institution building (an effective justice system for instance, and a functioning civil service in general), to foster private sector development and thus diversify the economy. Chile also shows the importance of ad hoc policies supporting diversification, such as industrial policies, encouraging the industrial sector, fiscal policies, etc. (Havro, Santiso: 2008).

Although Chile's economic diversification is a complex and non-linear process, the country's total export of trade services has been growing from USD4 billion in 2000 to USD13 billion in 2012. The agricultural production index also grew from 100 in 2005 to 113 in 2012. More especially exports of wine and fish increased during 2011 to 2013, while the export of all commodities decreased from USD81,455 million to USD77,367 million over the same period<sup>1</sup>. These figures testify to the efforts made by Chile to develop alternative economic sectors (competitive agricultural products and services) to diversify from over-reliance on natural resources.

Even though Chile is one of the fastest growing economies in Latin America, poverty and high inequality rates are still challenges that the country has to face. Norway and Australia are also resource-based economies that were able to achieve modern levels of development via natural resource governance by diversification into new products and industries. Analyses based on these two case studies emphasize the role of enabling sectors and industries, such as the capital goods industry, directed towards domestic markets, business services (especially finance, transport and marketing), research/knowledge, as well as ICT. Beneficiation and value addition also play a very important role in promoting economic diversification and industrialization, primarily in economies geared towards resource exploitation and exportation. "The continuous development of enabling sectors created a strong knowledge base distributed in various parts of the economy and society. This knowledge base could be exploited to improve productivity in old resource based industries and to develop new industries. These enabling sectors were themselves developed in interaction with resource-based industries and often driven by the demand from these industries. This dynamic interactive relationship between natural resource industries and enabling sectors is regarded as the core aspect of the successful economic development of Australia and Norway. It is this historical development which makes it reasonable to regard the countries today as 'resource based knowledge economies'" (Ville, Wicken: 2012: 37).

A particular Australian example, the Hunter Region (Hunter Valley Research 2011), in New South Wales, north of Sydney, demonstrates that the provision of appropriate regional infrastructure, as well as education and innovation are important, not only to diversify the economy, but also to

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<sup>1</sup> Source : <https://data.un.org/CountryProfile.aspx?crName=CHILE>

maintain the achieved diversification and comparative/competitive advantages of the region over time. Infrastructure investments contribute to increasing the productivity of the workforce, as well as invested capital, attracting foreign direct investments and businesses. The high-speed rail and the Hunter Expressway are significant projects, which are expected to reduce travelling times and opening new employment opportunities. The Newcastle University City Campus Project is expected to have a positive impact, not only on the City of Newcastle, but also on the Hunter Region. The intensified Asian competition is, in fact, a risk that has to be taken into account for the future and may produce, among other effects, a shortage of highly skilled workers. For this reason, increasing human capital, investment in the knowledge and educational sectors, as well as in key infrastructure services will enhance diversification and minimize the impact of future factors of risks.

Resource-rich Eurasian economies (especially Russia, Azerbaijan, Kazakhstan, Turkmenistan, Ukraine and Uzbekistan) diversified their economies and made progress towards development (being either middle or high-income countries), by investing in institutions and education. Integrating into global markets via foreign trade and investment, is especially key for the region. Eurasian countries did it by capitalizing on their respective comparative advantages (natural capital), although trade-flow could still be improved, particularly with regard to Western European countries. Food and beverages, textiles and basic metals are growing sectors in Eurasian countries. A World Bank study on Eurasian countries (Gill et al: 2014) shows that economic diversification policies (to diversify export compositions or production profiles) were unsuccessful, but that countries, better integrated into the global economy, increased income and improved development outcomes, while regional integration may yield more benefits in future, taking advantage of economies of scale. The report proposes that these countries should invest more in infrastructure, but even more urgently in human capital, especially in education. Sound macro-economic policies and building capable economic institutions should particularly be aimed at, keeping the long-term fiscal deficit close to zero and creating the environment for enterprises to become more productive. Furthermore, diversified asset portfolios are certainly long-term initiatives, but they ensure structural transformation. The report explicitly states that “diversified assets will bring about a more sustainable dynamism in Eurasia’s economies, generate fewer

stresses in its societies, and make governments more appreciated by their citizens. They might even help Eurasian countries make a few miracles of their own” (Ibid: 38).

While more developed countries, as it has been shown, see “intangible” assets as the most promising road for sustaining, securing and increasing economic diversification in the long term (including countries that first invested in industrialization in the past at the beginning of their diversification), developing countries in Central Asia and sub-Saharan Africa consider the fact that industrial diversification has a central role in their development strategy (UNIDO: 2012). Industrial diversification is, in fact, more labor intensive than extractive industries and the trading of manufactured goods is certainly more stable than that of commodities. Nevertheless, industrial diversification in resource-rich countries can be more or less successful, depending on how efficient investment is. Investment in industrial diversification is, in fact, considered as a complement to the resource sector. In this case, the rent has to be productively utilized, while corruption, poor governance and conflict are major risks for countries endowed with important natural resources wealth.

Are these developing countries not really ready to diversify their economies? Are they opting for a middle-of-the road solution? Is this efficient and sustainable? Or is this a way to advertise a diversified and ultimately more stable and reliable economy to external investors, but keeping the extractive sector more or less at the core of the economic system? Many resource-rich economies, especially in developing or less developed countries, rely, in fact, on their natural resources as an important economic sector, primarily for export receipts and government revenue. Industrial transformation, taking place in different forms in developing countries, could be the first step in a long-term diversification strategy, including making use of this income to invest in improved education and knowledge management, improved infrastructure, technology and innovation, as well as in better regulation of private enterprise. In this case, economic diversification could be a gradual process, built into the long-term national agenda, such as in the case of China. Properly implemented, with collaboration and partnerships between various stakeholders ensuring financing and monitoring, this kind of approach could improve economic performance – stabilizing the economy, boosting employment and increasing productivity.

Regional integration is also a crucial component of a successful diversification strategy, as it enhances trade, allows policy harmonization between neighboring countries in key sectors, as well as cooperation, which is also beneficial for low and middle-income neighboring countries with more diversified economies.

In the end, the literature on the subject emphasizes that economic diversification contributes to modernization or development or conflict prevention, depending on the efficiency of the strategy, the conditions of the country and the will of the political leadership. Does diversification have to be the driver of development or is development supposed to produce diversification? By diversifying asset portfolios, a country can strike a greater balance between commodities, built capital and economic institutions, as well as ensure as far as possible that natural resources remain an important and sustainable asset for future generations.

### **3. Economic Diversification in Africa: Common Points Between Qatar and Key Learning**

#### **3.1. Economic Diversification Issues in African Countries**

Diversification experiences started across the African continent in the immediate post-independence period, in an attempt to break with traditional colonial models of development. Most African countries embarked upon industrial development during the 1960s and the 1970s, in order to diversify their economies and reduce their risk dependency on primary commodities due to the fluctuation in prices. The process was encouraged at the time by the increase in the prices of these commodities exported by African countries (including agricultural unprocessed products, such as cocoa and coffee), providing the necessary funding to invest in industrialization. It was based on import-substitution models, willing to produce the consumer goods, for which African countries had always relied on imports, locally.

Despite these sound premises and the rapid increase in employment and productivity in the manufacturing sector, most of these diversification strategies implemented across the African continent failed, as they emphasized macro-economic imbalances and income inequalities. The high volatility of growth has, in fact, implications on fiscal policies and fiscal planning, deepening vertical and horizontal inequalities, which were further eroding political, economic and corporate



governance. Increased public debt, engendered by heavy state investments and involvement in diversification, as well as a lower local demand manufactured products, did not support industrial development as planned. Furthermore, shortcomings in financial resources and home markets, combined with technological dependence and poor infrastructural levels handicapped industrial development.

If the failure is linked to a variety of reasons, definitely including the consequences of choices made, but also independent factors, such as the debt crisis and the emphasis on macro-economic stabilization, in relation to the structural adjustment programs, which contributed to hamper the effort of industrialization, some policy weaknesses also have to be underlined, such as that “the rigidity of trade and industrial policies [...] favored the development of commodity prices behavior and did not encourage innovation and creativity on the part of local enterprises. Indeed, most African countries opted for tariff protection policies [...]. These policies did not take into account the specific needs for diversification and the need to introduce a certain level of competition in order to encourage investments and improve competitiveness of local enterprises” (Hammouda, Karingi et al 2006: 18). Required import substitution strategies, which were supposed to facilitate enterprises to overcome their productivity differential via protection, did not produce the expected results, as enterprises took advantage of the protection offered by the lack of openness, rarely investing in modernizing their production capacity. This failure is also certainly related to the weakness of internal African markets, which were unable to provide significant markets to local enterprises.

With the change in priorities and strategies in the 1980s and 1990s, following the widespread debt crisis from the early 1980s and the advent of reform linked to structural adjustment programs, industrial development and diversification were not a priority anymore. In fact, African countries concentrated on foreign trade liberalization and disengagement of the state to promote private sector development and improve economic competitiveness. The diversification paradigm was replaced by the specialization paradigm, based on comparative advantages, supported by the structural adjustment paradigm. However, these new strategies did not solve the problems accumulated over decades, but rather produced negative effects on the health and education sector, while their debt broke into political and social conflict across the continent.

There has recently been renewed attention to, and debate on diversification in Africa, linked to structural transformation of African economies, by improving their competitiveness and their integration on both regional and global markets. Economic diversification is nowadays linked to the necessary renewal of trade and industrial policies. Insight gained from African economies demonstrates that new activities and capacities can be set in place via linkages with natural resource activities – but this diversification strategy is relatively short term. To this extent, the African Economic Outlook 2013 proposes two possible mechanisms, namely linkages of natural resource production with adjacent activities or diversification into adjacent natural resource activities (AfDB, OECD, UNDP, UNECA 2013: 26).

Failures and challenges of past and present experiences of economic diversification across the continent propose some key learning points for Qatar to avoid the mistakes and weaknesses in the strategies and initiatives that have already proved to be problematic for other resource-rich countries. First of all, as Qatar has already properly foreseen, governmental support to the private sector (and especially to small and medium enterprises (SMEs) is crucial, as the private sector is at the core of any attempt towards diversification. The private sector may also be developed via a direct support to public-private partnerships (PPPs) and capacity-building initiatives specifically targeting capacity gaps. Partnerships with donors and trading partners also contribute to making it stronger.

Failures of the first African post-independence experiences with economic diversification were related to the lack of effectiveness of investment decisions made within the diversification framework (Hammouda, Karingi et al: 2006). The utilization of resources was inefficient and coupled with ineffective resource mobilization, which made its consequences even more dramatic. Qatar could be confronted with this risk and has to pay particular attention to put in place diversification strategies for which appropriate resources have been secured. To this extent, lessons from African countries advise Qatar to ensure complementarity between different interlinking activities, maximizing the chances of success and reducing funding needs and time. In order to achieve results.

As shown by numerous African countries, policies are also crucial to achieve the successful economic diversification of an economy, especially with regard to industrial and trade policies, but also tax policies, such as the non-resource tax effort that proved to have positive effects on diversification. Trade policies, including trade facilitation, have, for instance, to sustain regional integration as a cornerstone of any diversification strategy (OECD/UN: 2011). This is particularly true for GCC countries, where similar strategies of diversification and economies, over-reliant on extractives until relatively recently, might have negative consequences on neighboring countries (challenging regional security and widening regional economic disparities), if regional integration does not properly guarantee coordination mechanisms between the countries in the Gulf region.

At another level, Africa shows yet another commonality with GCC countries and, especially Qatar, in that diversification and industrialization are commensurate to urban clusters and development. City attractiveness is proportionate to country appeal for foreign investors. Johannesburg, Cape Town, Nairobi and Lagos mirror the attractiveness and diversification of the countries in which they are located (Ernst & Young: 2014). Key urban clusters for investment are emerging in Africa. More than 70% of respondents interviewed by Ernst and Young stressed the significance of an urban approach to their investment strategy in Africa (Ernst & Young: 2014). As at the national level, infrastructure development is the most crucial factor in the eyes of foreign investors to assess the attractiveness of a given African city. Also, as confirmed by the case of Ethiopia, building economically productive and well-governed cities is a crucial step towards structural transformation via industrialization (UN-HABITAT: 2014).

At the same time, in a global society, innovation is an urban issue. As innovation is at the center of any long-term diversification attempt, it has to be properly and strongly encouraged via research & development, technology transfer and any other possible strategy (university partnerships, virtual learning, etc.).

### **3.2. Examples and Insights on Economic Diversification from African Countries**

African countries made highly diversified choices and chose different strategies to diversify their economies. Here follow a few insights into some countries at various levels of diversification, but sharing a common starting point of overreliance on a reduced number of natural resources

(mostly, but not exclusively, oil), despite their distinctive economic patterns and political governance histories, shaping very dissimilar situations.

**Angola** made efforts to develop non-oil sectors to create jobs and reduce inequalities and, even if the economy is not diversified yet, the country is making progress. The Angolan government is promoting industrialization, increasing internal production and diversifying the economy. The Strategy for the Reindustrialization of Angola has been pursued since 2005, when the government started giving incentives to attract foreign investments in agriculture, transportation infrastructure, energy, water, telecommunications and tourism. The strategy supports the establishment of three industrial pillars and the implementation has focused on measures for the horizontal development of industries and support mechanisms, in order to set up and develop new enterprises. “The government’s efforts already appear to be yielding results as the substantial proportion of the heavy investment in infrastructure development [is] being channeled [in]to construction, social housing and transportation links between rural areas and the cities, [which] has led to a significant reduction of the share of oil sector contribution to GDP from 57.9% in 2008 to 47.0% in 2011” (AfDB, OECD, UNDP, UNECA, 2013: 92). Services, for example, accounted for 4% of annual growth in 2001, while they reached 11% in 2012. Similarly, agriculture went from 6.3% in 1999 to 10.1% in 2013 (data.worldbank.org). Nevertheless, some problems and weaknesses still have to be taken care of going forward to properly diversify the Angolan economy, such as the fact that infrastructure and human capital development are primary goals, in conjunction with addressing problems related to rapid urbanization in Luanda and other large cities, as well as lowering the cost of doing business in the country. Strategies to promote entrepreneurship and SME development are also among the top priorities of government. Infrastructure development was done in partnership with various and very diverse partners, such as the Chinese Government, the World Bank, as well as Chinese parastatal businesses and Western companies (OECD/UN 2011: 56).

Like Angola, **Mozambique** is a post-war country. Despite a GDP growth of over 7% in the last three years (data.worldbank.org), Mozambique remains mainly an extractive economy, relying on the export of raw materials (gold, coal and gas) and producing a “jobless growth” with widening social inequalities (Hofmann: 2013). Economic diversification is hampered by weak human capital, poor

infrastructure and a discouraging business environment. The National Development Strategy, approved in 2014, specifically focuses on developing human capital and investing in infrastructure, but the country does not have a diversification strategy yet. Fiscal and institutional reforms aim at improving the governance of natural resources, especially in the emerging gas sector. Is the government really determined to, and capable of achieving diversification? Public investment in infrastructure will contribute to creating an enabling environment for the private sector to provide at least part of the needed investments to develop tourism, agriculture and manufacturing. Nevertheless, indirect measures are likely to be insufficient to drive diversification efficiently.

**Ghana** is also a resource-rich country with a high GDP growth since the 1990s, but economic transformation is still limited. The Industrial Policy and the Industrial Sector Support Programme, based on new oil and gas discoveries, could be an effective diversification strategy, helping to develop Ghana's private sector. It is, in fact, a comprehensive and sound policy, coordinated by the Ministry of Trade and Industry, but obtained through major stakeholder participation. It acknowledges, in fact, the lack of adequately trained manpower for specialized areas, such as oil and gas production and capital goods manufacturing. Policy prescriptions, however, include the fact that government will supply specialized technical training and provide incentives for investment. Nevertheless, the high cost of labor and stringent labor regulations, expensive electricity<sup>2</sup> and raw materials, difficult access and the high cost of finance, constrain diversification. Ghana's "enclave industry" could be changing with the emergence of manufacturing and services for the mining industry. Backward linkages could, in fact, be increasingly enhanced by human capital and technological capacity related to equipment and ensuring a reliable energy supply. Current forward linkages are equally limited, but some value addition of the gold and diamonds extracted opens the way to further improvements. Furthermore, agro-processing is hampered by a declining agricultural sector: namely land tenure issues in conjunction with unsuccessful strategic choices penalize commercial agriculture. Diversification into non-traditional crops for export

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<sup>2</sup> To the high cost of electricity (and linked to it) has to be added the major challenges of the increasing electricity shortage, which was especially severe in 2015 and causing a 33% reduction in electricity supply to mining and industry around the country (Kotze: 2015).

purposes (bananas, mangos, pineapples) is, however, slowly driving agricultural transformation (AfDB, OECD, UNDP, UNECA 2013: 129-130).

In a very different way, **Botswana** is widely known as an African success story for good governance of natural resources that avoided the “resource curse” and the “Dutch disease”, despite being the world’s leading diamond producer, accounting for about 70% of government export earnings. Botswana has also put in place laudable and appropriate policies, strategies and incentives to foster diversification since 1968, when the Industrial Development Act was promulgated<sup>3</sup>. “The most recent strategy, which stands out as the most comprehensive, is the Economic Diversification Drive (EDD) initiative. The short-term strategy of the EDD initiative is to use administrative interventions to use local procurement and government-preference margins, so as to promote the development of local companies, while the long-term strategy is to develop a vibrant and globally competitive private sector, independent of government support and protection. The master action plan has six notable thematic areas: i) Sectoral Development and Linkages; ii) Investment and Finance; iii) Research, Innovation, Technology Development and Transfer; iv) Export Development and Promotion; v) Entrepreneurship Development; and vi) Quality Control, Standards and Production” (Ibid: 96 –97). The EDD then continued the process started with the Industrial Development Act, showing that a successful diversification strategy is based on a continuous, progressive and coherent policy process, adapted to the specific conditions and resources of the country. Government strategy specifically targets the forward linkages emanating from the diamond sector, including a number of specific measures, developing the local diamond cutting and polishing industries and strict penalties to ensure joint public-private initiatives in these industries. The effectiveness of this strategy is certainly linked to state capacities and to functioning institutions and governance systems. It also proves the need for, and the key role of leadership determination and strong engagement with diversification, while properly governing the natural resource wealth.

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<sup>3</sup> The Act establishes an Industrial Licensing Authority to supervise industrial development and regulates industrial licenses.

Following the fall in oil prices, **Nigeria** committed itself to diversification. The government also established an enabling environment for private sector development. The recent improvement appears in the World Bank Doing Business in Nigeria, in which the ranking of the country went from 175 in 2014 to 170 in 2015<sup>4</sup>. These efforts were devoted to agricultural growth, services, industry and telecoms. These efforts were also judged as effective by the African Development Bank (AfDB) Country Director, Ousmane Doré, as he recently argued that Nigerian growth was increasingly driven by non-oil sectors and, more specifically, agriculture and services (Africa Research Bulletin 2015). This assessment is supported by statistics namely, while in 2001 fuel accounted for 99.66% of the export product share and food products for 0.01%, in 2012 the share of fuel decreased to 84.04% and food products increased to 3.4%<sup>5</sup>. Despite these efforts, the productivity of the agriculture sector is low due to a lack of modernization and the fact that the share of the manufacturing sector in the GDP declined over the past three decades (AfDB, OECD, UNDP, UNECA 2013: 163). In Nigeria, as in many other African countries, in order to move forward diversification, reforms need to improve technology, skills acquisition and access to finance, but they should also properly address the infrastructure gap and improve the business and investment environment. High spatial inequalities between the different Nigerian states still constitute a major problem for the country, also hampering diversification. The concentration of oil production in a small southern area, the Niger Delta, creates sizeable disparities in terms of natural resources' availability, revenue, industrial opportunities and environmental challenges, for instance, among the different Nigerian states.

Like Nigeria, **Gabon** benefited from the blessing of oil, allowing strong GDP growth, almost quadrupling during the last two decades (Africa Research Bulletin 2010), with oil rents accounting for 42.4% of the GDP in 2014 (<http://data.worldbank.org>). Despite these positive figures, food insecurity, widespread poverty, the majority of the working population being employed by the public sector and declining oil production, hamper development. The wealth coming from oil is not producing development results. There is definitely no unique reason for this, but it is more likely

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<sup>4</sup> Source : <http://www.doingbusiness.org/data/exploreeconomies/nigeria>

<sup>5</sup> Source : <http://wits.worldbank.org/CountryProfile/Country/NGA/Year/2012/TradeFlow/Export/Partner/WLD/Product/all-groups>

due to a mix of revenue mismanagement; a lack of political will and strategic vision; and effective policy tools. Consequently, the need for economic diversification is evident and strong. Major recent investments in forest products, such as palm oil<sup>6</sup> and developing the agricultural sector, have been made recently, but private sector development remains a top priority, slowing down the process, in conjunction with improving governance. Government took proactive measures to encourage industrialization, via industrial policy including the creation of special economic zones (SEZs), especially focusing on the petrochemical and metallurgical industries, but also on adding value to forestry products via timber processing plants. The focus on infrastructure, health and education with the implementation of policies to improve education (especially vocational training) and to encourage greater access to healthcare, is certainly contributing to sustaining diversification. According to government policies, investments of Chinese companies are aimed at diversifying the economy, while improving infrastructure. The long-term goal is to stop selling raw primary resources, but rather to add value to all of them, so as to diversify the economy and create employment. The success of this strategy does not only depend on government's capacity to develop the appropriate human skills and infrastructure, but also on local and foreign private sector investments. To this extent, Gabonese authorities need to improve the economic and institutional environment.

**Mauritius** is an example of a country successfully diversifying its economy, via manufacturing and the service sector, so as to become a middle-income country. In the 1990s, the manufacturing industry was mainly limited to sugar and textiles. A successful transformation of the economy has taken place, renewing the sugar industry, as Mauritius is, in fact, one of the leading world exporters of sugarcane, with 17 different types of special sugars, supplying more than 120 000 tons to 40 countries around the globe – according to the Mauritius Sugar Syndicate (<http://http://mauritiusugar.mu>). A new path, centered on real estate, tourism and the financial sector, was also promoted. Targeted policy measures (such as the Integrated Resort Scheme and the Real Estate Scheme) proved successful to support this choice and, as a result, FDI in the real estate

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<sup>6</sup> Olam International, a Singapore-listed agricultural trader is, for example, investing USD788 million, via a joint venture with the Gabonese Government, in the national palm oil production (Sotunde 2012). Other substantial investments come from the Belgian SIAT.



sector increased from 23.5% in 2006 to 60.8% in 2012, as a proportion of total FDI (AfDB, OECD, UNDP, UNECA 2013: 153).

**Namibia's** example confirms that, improving infrastructure, institutions and expertise in a particular manufacturing industry (meat production), enhances diversification. The manufacturing sector is mainly limited to food and beverages, but also to mineral beneficiation. It is a sector that has been constantly growing since the 1990s, which respectively accounted for 5.6% and 6.1% of the GDP in 2011 (AfDB, OECD, UNDP, UNEC, 2013: 159). Nevertheless, the Namibian economy is still dependent upon its mining sector, as the agriculture sector is still not efficient and the service sector is not sufficiently developed.

**South Africa** is the second largest and the most diversified economy in Africa. To the well-established manufacturing base established since the beginning of the 20th century, new manufacturing sectors have been added recently. Tourism has also been an important component for the country's economic development, contributing to improved infrastructure. Government support to diversification was very strong and very decisive – especially in adopting an industrial policy framework to encourage sectors, such as agro-processing; plastics; chemicals and pharmaceuticals; clothing and textiles; and tourism. South Africa is a very competitive country, enjoying the positive effects of its well-diversified economy, such as a performing financial sector, easily accessible to the private sector and consequently an engine of innovation and growth. The financial service group, Sanlam's global success and its annual profit that tripled in a decade (Ernst & Young: 70 –71) are paradigmatic of this effectiveness and dynamism. "Initiatives taken in new fields, such as automobiles, have proved to be successful. The same applies to the emphasis given to supporting diversified economic growth in neighboring countries that have strong ties to South Africa's economy<sup>7</sup>, and to exploring the way in which international linkages such as with Brazil, India and China could help promote diversified economic growth" (OECD/UN 2011: 30). Private sector companies, multinationals and parastatals played a major role in South Africa's diversification, having strong links with global corporations, but also with African firms, such as

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<sup>7</sup> A diversification trend in the region helps single countries to diversify more successfully, while benefiting from policy coherence and sector-specific integration in given sectors, supporting regional commercial ties.

Nestlé, DHL, SKY, Sanlam, Coca Cola, Saco and British American Tobacco are good examples in the different sectors. The economic growth nevertheless has to be supported in future by building adequate capacities for the education sector, as South Africa may be confronted to severe skills shortages.

As shown by the examples above, the situations, the specific challenges and the choices made by the leadership are very different, but a few common difficulties make economic diversification a longer and/or a more difficult process in African countries:

1. Insufficient and low-quality infrastructure, requiring to be developed according to changing needs.
2. Skills development: African countries generally need workers equipped with better professional skills, as a result of higher quality educational systems and enhanced vocational and professional training capacities – especially related to technology and communications.
3. Government efforts linked to leadership commitment and determination to diversify: ad hoc policies are an important part of government action.
4. Supporting private sector development with the right policies and incentives pertaining to investment and improving the business environment, as well as the overall governance climate in the country.

As financing issues and strategies are at the core of these challenges, as well as of the overall process of diversification in African countries and, considering the development deficit by which Africa is confronted, FDI is strategic to successfully address the difficulties mentioned above, as well as the other specific challenges that African countries have to confront.

#### **4. FDI and Diversification in Africa: Opening New Opportunities in Non-Energy Sectors**

The relationship between FDI and diversification is certainly complex, because they are linked to other interrelated factors influencing the relationship. Nevertheless, data and trends on FDI show that they boost diversification and, at the same time, a diversified economy is a more stable and reliable environment in which foreign investors are more keen to invest. There is then a virtuous cycle connecting FDI and economic diversification in Africa, where financing for development is a key issue for the next decades, intertwined with industrialization, structural transformation and, in the end, diversification of economies' over-reliance on natural resources, especially extractives.

In fact, global investment trends show an increase in FDI, as global FDI inflows were USD1.45 trillion. The United Nations Conference on Trade and Development (UNCTAD) prospects for 2014, 2015 and 2016, are respectively USD1.6, 1.7, and 1.8 trillion, with developing and transition economies maintaining their leading role. Data also indicates that Africa is less dependent on extractive industry investment, as the share of the extractive industry in the value of greenfield projects is rapidly decreasing, with manufacturing and services making up most of the value of announced projects in Africa, with respectively USD13,851 million and USD34,010 million, compared to USD5,735 million for the extractive industry in 2013 (UNCTAD: 2014a). From a global perspective, the participation of the private sector will be crucial and will have to increase to duly complement public investment and overseas development assistance (ODA). To increase private investment will require leadership efforts at global level, but also policy coherence at national level. In Africa, as in other developing countries around the globe, investments will be specifically targeting infrastructure, food security, climate change mitigation and adaptation, health and education, within the sustainable development goals (SDGs) framework.

In the general rise of FDI inflows in Africa, South Africa experienced high growth, rewarding its effective diversification, while Nigeria's decreasing FDI levels from USD1030.06 million in the fourth quarter of 2014 to USD723.49 million in the first quarter of 2015<sup>8</sup>, is a consequence of the retreat of transnational corporations from the oil sector in the country. Nevertheless, Nigeria

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<sup>8</sup> Source: [www.tradingeconomics.com/nigeria/foreign-direct-investment](http://www.tradingeconomics.com/nigeria/foreign-direct-investment)

remains among the top recipient countries of FDI inflows to Africa. Flows to Kenya and Ethiopia are also rising – in both cases industrial development is attracting Asian capital. While in countries like Ghana, Gabon, Cote d'Ivoire and Mozambique, transnational corporations are attracted by oil and gas production, their investments may certainly contribute to sustaining diversification and may be encouraged by the more or less accomplished diversification strategies that are ongoing in these countries. Total inward FDI stocks in Mozambique and Ghana, for example, were respectively USD13.3 billion in 2012 and USD7.1 billion in 2011 (UNCTAD: 2014a). The UNCTAD World Investment Report 2014, points out clearly that investment in Africa is attracted by consumer-oriented industries (especially food, information technology, tourism, finance and retail, as well as infrastructure development (driven by transport and information and communication technology). Foreign transnational corporations are also investing in R&D in agriculture (Ibid: 38 – 39).

These positive trends are a consequence of the institutional reforms that were taking place in most African countries during the past decades, as well as of the sound macro-economic policies formulated and implemented (such as monetary policies). Decisions on FDI location in sub-Saharan Africa are, in fact, strongly influenced by political-economic considerations (Bartels, Alladina, Lederer: 2009) and driven by location-specific advantages (UNCTAD: 2014b).

FDI friendly policies, coupled with high rates of return on investments offered by African countries, compared to Asia and other developing regions, in fact encouraged investors. An abundance of arable land and forestry resources, the impressive and rapid growth of the telecommunications industry (especially mobile phone subscriptions) and large energy infrastructure deficits are potential sources of profitable investment opportunities (UNECA: 2014) that foreign investors easily identified.

The UNCTAD report also documents that intra-regional FDI is rising and forms part of regional integration strategies supported by African leadership. Furthermore, intra-African investments concentrate on manufacturing and services, while the extractive industries play only a marginal role. Intra-regional FDI assists African firms to become more competitive and possibly increase their scale of operations. The South African SABMiller, one of the most prominent African transnational corporations, expanded regionally first, before developing its international

competitiveness (UNCTAD: 2014a). The promotion of domestic entrepreneurship is, in fact, not only consistent, but also complementary to policies aimed at attracting FDI. African countries tend to offer generous incentives to foreign investors, so as to enhance the country's attractiveness, hoping to increase FDI, while penalizing local investors. These incentives, in fact, proved to be counterproductive – not succeeding in increasing FDI, nor helping to support private sector development. The cost, benefits, efficiency and fairness of these incentives (including tax holidays and rebates to foreign firms, income tax exemptions, investment allowances and exemptions from customs duty, as well as exemption from value-added tax), should be carefully assessed by African countries (UNCTAD: 2014b). The consistency of these incentives with policies promoting diversification should also be taken into account, as these incentives tend to attract foreign firms to the natural resource sector.

Also, FDI linkages to national African economies may be questioned, not only in the short term, but also for their long-term effects (Besada: 2006), as they do not contribute sufficiently to building the required technological capacities that the continent needs. FDI promoting technological transfer, as well as skills, knowledge and research (including policy research), is certainly a fruitful path for the future that could certainly sustain diversification strategies and policies. As, in fact, an UNCTAD publication, specifically devoted to investment in Africa: states: “The absence of diversified national economies, marked by weak industrial bases, coupled with low levels of competitiveness, constrain the African continent to receiving FDI inflows predominantly in extractive industries that have weak linkages with the rest of the economy” (UNCTAD: 2014b: 37 – 38).

Table 1 below lists some opportunities of underdeveloped industrial sectors in which FDI could be suitable and successful, as there are the potential and a national will to expand these sectors. Furthermore, infrastructure is an area in which African countries offer a wide range of opportunities, commensurate to the existing needs.

**Table 1: Industrial opportunities in underdeveloped sectors for FDI in selected African countries**

South Africa	Namibia	Ghana	Botswana	Mozambique	Angola	Nigeria	Mauritius
Food and beverages	Food and beverages	Food and beverages	Food and beverages	Food and beverages	Food and beverages	New technologies	Sugar industry
Chemicals	Apparel	Textiles	Textiles	Textiles	Textiles	Chemical	Textiles
Apparel		Wood products	New technologies			Food and beverages	New technologies
motor vehicles		Mining industry				Tobacco products	
Textiles						Textiles	
Electrical machinery							
Paper products							
Furniture							
Wood products							
Machinery and equipment							

*Sources: AfDB, OECD, UNDP, UNECA 2013; UNIDO 2012.*

## 5. Misperceptions and Improvements: Why it is Time to Invest in African Non-Energy Sectors

Despite the positive trend of recent FDI increases in Africa, the situation could be even better and offer more room for improvement by countering misperceptions and inaccurate views. Negative perceptions of Africa in general and African markets in particular, considered as overly risky, actually hamper investment in the continent (Darley: 2012; Besada: 2006). Despite the positive recent trends and some changes of perceptions, investors may still be concerned by political and economic risks in a given country or region. as perceptions of poor governance and incessantly threatened stability may be a serious threat. These views have been changing lately, as Africa's perceived attractiveness has improved. According to Ernst & Young Africa was the second most attractive market after North America in 2014, compared to 2011 when the continent was ranked

eight among ten global regions (Ernst & Young, 2014). This attractiveness may be explained by Africa's sustained growth rates and by growing structural weaknesses in other emerging markets.

Africa is generally perceived as the most conflict-ridden continent. Certainly, illicit financial flows in Africa not only affect domestic resource mobilization and encourage corruption, but they also fuel conflict and instability, by affecting state capacity functioning (UNECA: 2015). Nevertheless, if conflict was a widespread reality in Africa in the past, this is no longer the case, because there were more conflicts in Asia than in Africa in recent years – the average number of conflicts per year was 11 in Africa and 14 in Asia over the period 2006 to 2012 (UNECA: 2014:2). In addition, armed conflict around the continent has been diminishing since the 1990s. To this, one has to add the rising number of democratic countries, with free elections, in the last decades. According to the Freedom House Index, the average of countries rated free in sub-Saharan Africa increased from 6% in 1983 to 20% in 2013, while the number of partially free countries<sup>9</sup> increased slightly from 35% to 39% over the same three decades<sup>10</sup>.

Also, from a human development perspective, the situation undeniably improved since the beginning of the new millennium, as shown, to some extent, by the results and progress made towards achieving the Millennium Development Goals (MDGs), despite initial unfavorable internal conditions. The Human Development Index constantly increased over the past three decades, with 1.5% annual growth, while 15 African countries are currently considered to have medium to very high human development<sup>11</sup>. These advancements will improve labor productivity and competitiveness.

Despite the challenges still existing, there were also important improvements in achieving regional integration in Africa and this trend has a major chance of continuing, as accelerating regional integration is among the key strategic initiatives of the Agenda 2063 (AUC: 2014), which all African Union member countries adopted during the African Union Summit in January 2015 and are starting to implement. Regional economic integration and improving regional value chains (Ernst &

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<sup>9</sup> Partly free countries had annual scores on levels of political rights and civil liberties of between 2.51 and 5.5.

<sup>10</sup> Source: [www.freedomhouse.org](http://www.freedomhouse.org)

<sup>11</sup> Source : <http://hdr.undp.org/en/2014-report>

Young, 2014) are having positive effects on increasing intra-African trade, which is creating opportunities for industrialization, but also for agriculture (where CAADP is also having positive implications, including at regional level) and services.

Furthermore, contrary to common perceptions, the business and regulatory environment is improving in many African countries, so that Africa is a prized global frontier market, with Nigeria, Kenya, Angola, Ghana, Tanzania and Ethiopia among the top global frontier markets (UNECA: 2014). Financial inflows to Africa were increasing as a result of these improvements. Not only did FDI grow, but remittances<sup>12</sup>, portfolio investments and ODA grew over the past years, which is a vote of confidence and proof that Africa offers great financial opportunities and may be trusted as a secure place in which to confidently invest money. New FDI projects in the service sector are increasing. The tertiary sector, in conjunction with manufacturing and infrastructure-related projects, represents the bulk of FDI, while investments in the extractive sector are constantly decreasing (from USD7,479 million in 2012 to USD3,795 million in 2013) (UNCTAD: 2014a). Ernst & Young points out the same trend, underlining the fact that FDI in the consumer-focused services and manufacturing sectors are increasing, led by the growth in the technology and telecommunications domain, while FDI in the extractive industries is steadily decreasing (Ernst & Young, 2014).

Continental trends hide enormous national differences. In order to evaluate opportunities in non-energy sectors in African countries, in line with the ongoing economic diversification and structural transformation processes, a simultaneous overview of political, economic and social development factors is required. Table 2 represents an attempt to this extent, only considering five indexes and rankings in these domains, namely South Africa, Ghana, Namibia and Botswana are the top ranking countries in sub-Saharan Africa, coming across most frequently in the various indices, confirming that they offer more stable and reliable conditions.

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<sup>12</sup> Remittances, for example, grew from USD8.9 billion in 1990 to USD 62.4 billion in 2012 (UNCTAD: 2014b).



**Table 2: Top-ranked sub-Saharan African countries regarding their level of economic, political and social development**

Freedom House Index 2015	Human Development Index 2014	Doing Business Index 2014	Africa attractiveness survey 2014	Country with at least one emerging city
Ghana	Mauritius	Namibia	South Africa	Ethiopia
South Africa	Seychelles	Zambia	Kenya	Kenya
Namibia	Botswana	Ghana	Ghana	South Africa
Benin	Gabon	Botswana	Mozambique	
Senegal	South Africa	South Africa	Uganda	
Botswana	Cape Verde	Rwanda	Tanzania	
Lesotho	Namibia	Mauritius	Zambia	
	Ghana			

Sources: <https://freedomhouse.org/>; <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>; UNECA: 2014; Ernst & Young: 2014; <http://www.atkearney.fr/research-studies/global-cities-index>

## 6. Private Sector Presence and African State-Owned Institutions Related to FDI in Non-Energy Sectors: the Case of South Africa

African countries offer a wide range of opportunities (not only limited for investment) in non-energy sectors, with risks that are generally not that high (Africa Research Bulletin 2010; UNCTAD: 2014a; AfDB, OECD, UNDP, UNECA: 2013; UNECA: 2014; Ernst & Young: 2014). This reality is reflected by a wide and highly diversified private sector presence, captured by data on FDI inflows, as well as by the existence and development of African state-owned institutions, specifically dealing with FDI, to channel them into the desired industrialization, diversification and transformation strategies.

All these stakeholders cannot be mapped out and the mechanisms and interaction behind their presence and functioning cannot be fully studied in this context. The choice made in this paper is to consequently focus on the case of South Africa, the most diversified and advanced African economy, as underlined above, in order to present some insights and allow lessons that could be transposed to other African countries, as well as in Qatar, paying attention to adapting strategies to specific contexts.

Agriculture represents a very promising sector in Africa. Some multinationals are using comparative African advantages in this domain to invest in R&D in agriculture, including in places like South Africa. In 2013, the American company DuPont, in fact, gained the majority stake in the seed company Pannar, in order to establish a hub in South Africa with a USD6.2 million investment by 2017, in order to develop new seed technologies, specifically targeting Southern African needs in the agricultural field.

Considering the rapid way in which new technologies are spreading around the continent and the potential that Africa has in this domain, technology firms are also investing in innovation in South Africa. Google created a start-up hub in South Africa, as part of a strategy to invest in innovation in Africa (UNCTAD: 2014a). Umbono by Google, based in Cape Town, forms part of the wider strategy (Google for Entrepreneurs) to assist entrepreneurs in securing funding, work space, technological solutions and visibility.

Retail is also a promising sector in the country. The American company, Walmart, the world's largest retailer, invested USD2.4 billion to acquire the majority stake in the South African consumer goods retailer, Massmart Holdings, trusting the high rates of returns on investment in South Africa (UNECA: 2014).

Despite the high level of infrastructure development in South Africa, compared to the rest of Africa, infrastructure is the main attraction for FDI in the country, confirming that there is potential, even and especially in highly developed sectors, in which investors seem to have more trust. Renewable energy sources are also attracting massive investments. The South African Renewable Energy Independent Power Producer Programme (REIPPP), which is supposed to produce 3922MW of capacity, includes investors from the United States, Europe, China and India.

FDI in the industrial sector is plethora and highly diverse. Procter & Gamble (detergents); the Coca Cola Company; Nampak (packaging); Tiger Brands (a large variety of packaged goods from baby care products to food and beverages); British American Tobacco; SKF (bearings, seals, and lubrication systems); BMW; General Motors; Volkswagen; and Daimler-Chrysler are only a few examples (Ernst and Young: 2014).

These successful and growing experiences in the industrial sector were made possible by the existence and efforts made by the Southern African Industrial Development Corporation, a state-owned development finance institution that has been active for more than 60 years, promoting the national industrial strategy, as well as investment in industrial development zones, as well as facilitating beneficiation projects supporting manufacturing activities. As part of its mandate, the corporation offers a wide range of financial options in the non-traditional South African sectors, such as chemicals, media, motion pictures and franchising. In fact, the South African government offers a wide range of investment incentives and industrial financing schemes to encourage multinationals to invest in the country, including the Film and Television Production Incentives and the Manufacturing Competitiveness Enhancement Programme. Other South African state-owned institutions, encouraging industrialization and economic diversification, are the South African Bureau of Standards (SABS), the Council for Scientific and Industrial Research (CSIR) and the African Renaissance Fund of the South African Foreign Ministry.

All the examples quoted above indicate that investors in South Africa come from all over the globe and the country does not give preference to any partner. The “China African Development (CAD) Fund, for example, has set up a representative office in South Africa, becoming the hub for the southern region. More generally, China’s investments in other countries in the region help develop new opportunities for the South African economy and help South Africa to form linkages with other emerging economies. Indeed, new diplomatic initiatives such as those vis-à-vis China, India and Brazil have established new partnerships with great potential in addition to South Africa’s long-standing economic relationships. South Africa has placed great emphasis on an expanding relationship with these countries. Through the India-Brazil-South Africa (IBSA) trilateral dialogue process, South Africa takes advantage of its South-South partnership to boost trade, tourism, agriculture, science and technology and a host of other economic areas” (OECD/UN 2011: 38). “While IBSA was launched in June 2003 to push for the countries’ attempts to get into the Security Council, attention has shifted over time towards development and economic reform. The most recent IBSA gathering has revealed strong commitment to issues related to the fields of technology and renewable energy” (Agarwal, Besada & White 2010: 351).

## **7. Lessons Learned from African Countries: Immediate and Long-Term Contributions to Qatar's Diversification**

The South African example and, more generally, what was previously said on the opportunities offered by the African continent to foreign investors, but also to external stakeholders who are willing to partner in various ways with African stakeholders, serve to underline some lessons that Qatar can learn from African countries. Experiences of diversification around the continent may contribute to refining a future industrialization and diversification strategy for Qatar, benefiting from African mistakes or success stories, but also pointing out opportunities that Qatar could use in Africa. Here are a few main points:

- Many African countries assert that, for resource-rich countries, over-reliant on extractives, the use of commodities for industrialization is an excellent starting point to undertake a limited diversification at the beginning. Certainly, diversification cannot stop at transformation of natural resources, but this is a good way to start, without taking too much risk and without too costly strategies, setting in place new economic sectors.
- Diversification is based on increased productivity, so it requires building capacities for the private sector. This requires a government effort, but it can also be done with the participation of foreign investors.
- To develop a diversified private sector, requires developing investment capacities in a given country. In Africa, present and future efforts in this direction could include sovereign wealth funds and private equity funds, which are still too limited around the continent (Turkish: 2011). New innovative sources of domestic resource mobilization, including the use of remittances, are being established in Africa.
- Diversification also involves institutional and government capacities, including policy capacities and, more especially fiscal and industrial policy capacity, in order to encourage diversification with the right tools and to create the relevant state-owned institutions supporting the process.

- Infrastructure, even when greatly developed, has to be updated to meet the needs of new economic sectors being created or developed. Infrastructure capacities are then at the core of diversification efforts.
- African examples, such as Ethiopia and South Africa, confirm that there are close links between urbanization and industrialization, meaning that diversification has to be based on careful and knowledgeable urban development and planning to be successful. Cities have to be economically productive, in line with national diversification priorities, environmentally sustainable and well governed.
- Knowledge/training/education constitutes a vital support base for any diversification strategy, which aims to be successful. Human skills and capital have to be proportional and adapted to the sectors and needs that a given country intends to push via diversification.

In the short term, African countries offer Qatar major investment potential in sectors assisting with Qatar's diversification. If supported by the necessary knowledge of African socio-economic realities, investment opportunities in Africa are plethora and highly diversified. With its experience in the field, Qatar could support African countries to create sovereign wealth funds and private equities, developing partnerships with African countries offering important return rates on investment, stability and security. Qatar could also pass a law similar to the AGOA, facilitating economic partnerships that are mutually beneficial to Qatar and African countries that are willing to sign the agreement. With its strong R&D (including policy research) capabilities, Qatar can also finance and support, in various ways, African think-and-do tanks promoting mutually beneficial economic diversification strategies, using the natural resources of the country as a starting point.

In the long term, Africa is a continent in which Qatar could use and develop a soft power, not only based on diplomatic and geopolitical ties with "natural" allies, but also strongly supported by economic and financial relations, serving its own interests and widening its global visibility and role. Africa may be a pioneering example in many fields for Qatar, with long-term benefits. Nevertheless, one of the main prerequisites for this to happen is to develop in Qatar a deep, diversified and constantly updated scientific knowledge on the various African realities, allowing selection and acting with awareness and understanding of advantages and risks.

## 8. Policy Recommendations and Concluding Remarks

Diversification of GCC economies still remains limited, despite consciousness and effort. In a global era, diversification is not an option but a necessity, as rapid social changes and economic and financial risks impose a capacity to adapt and react, with economic diversification as the basis. If GCC economies are still not sufficiently diversified, this is certainly due to the effects of over-reliance on extractives, but it is also linked to the weak performance of the manufacturing sector.

Although measuring diversification is not an uncontroversial issue, Qatar seems less advanced in the diversification trajectory than other Gulf countries (Hvidt 2013). Nevertheless, Qatar is committed to a slow but clear diversification trajectory and it is confronted by challenges that are similar to those that African countries face. Here are some policy recommendations, based on the specific Qatari situation, but also inspired by African and other successful examples around the world:

- Comparative and competitive advantages are key for success in the economic sectors, as is indicated by resource-poor countries, such as Singapore. The choice of sectors to put of the diversification process at the core to serve as a driver is key. The industrial sector in Qatar is promising, but it deserves an industrial policy and several interrelated measures (similar to those that have been taken in South Africa) to encourage private sector development (especially SMEs).
- Human capital limitations are a central problem for Qatar. Human resources and inputs, such as education and training, have to be developed by ad hoc policies. Domains that are priorities for private sector development have to be prioritized.
- If state-led intervention policies are fundamental for economic diversification, PPP projects are also important and have to be duly encouraged and sustained by policies and financial mechanisms, assisting private actors to get involved and grow. (African examples may inspire success stories.)
- Qatar is already investing in a number of African countries and will definitely enhance its footprint in Africa, as non-energy investment opportunities are plethora around the

continent, but partnerships and collaborations could be more numerous. These could be at company level, but also between states. The AGOA model proved to be successful and the IBSA produced important results.

In the end, diversification is a matter of determination and commitment, led by state will and followed by the support of other stakeholders involved. Qatar needs to continue and to refine measures and policies, as African countries may offer opportunities, but also inspiring examples, success stories and useful ideas.

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