Three African Futures

John Page
Brookings Institution

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Three African Futures

John Page
The Brookings Institution
University of Nevada at Las Vegas
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The Next Frontier?

- Africa has become the new “frontier market”
  - “Africa is the world’s fastest-growing continent just now.” (The Economist, 2013)
  - More than 5% growth for 15 years
  - A growing middle class

- But predictions of Africa’s imminent economic success have proved wrong on numerous occasions
  - Africa’s Adjustment and Growth in the 1990s (World Bank and UNDP, 1989)
  - Adjustment in Africa: Reforms, Results, and the Road Ahead. (World Bank, 1994)
  - Africa at a Turning Point? (John Page, 2008)
Some Worrying Signs

• Growth has been driven by “fewer mistakes” and a commodities boom
• People living on less than $1.25 per day have declined
  – From 58 percent of people in 2000
  – To 48.5 percent in 2010
• But not at the same rate as in other parts of the developing world

![Extreme poverty in the developing world](chart.png)
And Africa Remains Very Poor

Real GDP Per Capita in US$ (2000)
Three African Futures

African Spring

Nigeria Big Time

Leopards and Laggards
African Spring

Too Few Jobs for Too Many Workers

- Africa faces a demographic dividend or threat
  - Rapid labor force growth (10-12 million new entrants)
  - A growing youth bulge
- Africa’s fastest growing economies are creating the fewest jobs

![Graph showing Employment Elasticity of Growth vs. Average GDP Growth (%) for various African countries.]
African Spring
Too Few Jobs for Too Many Workers

• Countries with low unemployment have large and growing informal sectors (Ethiopia, Ghana, Tanzania)

• In North Africa and Southern Africa informality is lower and unemployment is high

• Both situations are cause for concern
African Spring
“Working Hard, Working Poor”

- Three out of four jobs in sub-Saharan Africa are “vulnerable” (ILO)
- In 2011 81.5 percent of workers were classified as working poor, compared to the world average of 39.1 percent
- Less than 20 percent of Africa’s young workers find places in wage employment.
- The parallels with the Middle East are disturbing
African Spring
Avoiding an African Spring

• The solution to the employment problem cannot be found in employment policies alone
• Domestic private investment has remained the same since 1990’s
• It is well below the levels needed for rapid growth of good jobs
• Boosting private investment is essential

Private Investment as a Share of GDP

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African Spring

Avoiding an African Spring

• Africa is still a high cost place to do business
  – “Indirect costs” lower competitiveness and discourage investment

• Reform regulations and institutions
  – Identify which regulations and institutions constrain investment
  – Engaging the private sector and avoiding capture

• More and better infrastructure
  – Firm level studies in Africa highlight infrastructure as a significant constraint to more investment
  – Africa lags at least 20 percentage points behind the average for low income countries on almost all major infrastructure measures

• Build relevant skills
  – Increase the emphasis on post-primary education
  – Improve quality at all levels
  – Teach the skills needed for the global marketplace
Nigeria Big Time

Natural Resources: A Promise or a Threat?

- Africa has about 30 percent of the world's mineral reserves.
- And much of the continent is still unexplored.
- New discoveries are happening almost daily (Ghana, Kenya, Mozambique, Tanzania, Uganda).
- For a growing number of countries natural resources offer a huge opportunity...but one that is accompanied by considerable risks.

Oil revenues per person in Nigeria increased from US$33 in 1965 to US$325 in 2000, but...

...income per person has remained the same since 1960!
Nigeria Big Time

A Poor Track Record

• Mineral dependent economies in Africa have:
  – Higher poverty rates
  – Greatly income inequality
  – Less spending on health care
  – More child malnutrition
  – Lower literacy and school enrollments

Than non-mineral economies at the same income level.

• Not surprisingly this has become known as the “resource curse”
Nigeria Big Time

Some Popular Explanations

• Dutch disease:
  – resource rich economies produce too few internationally competitive goods

• Volatility:
  – resource rich countries tend to spend when times are good and borrow (and spend) when times are bad

• Bad institutions:
  – resource rich countries with bad institutions typically are poor and remain poor

• Corruption:
  – a natural resource bonanza brings out more rent seekers

• Conflict:
  – higher resource income makes warfare more attractive
Nigeria Big Time

Geology Is Not Destiny

• Because they are the owners of the resource governments must play an active and constructive role in managing natural resources for development
• Avoiding the “resource curse” is about making good public policy choices
• In Africa there is a high potential pay-off to investing resource revenues in future growth and jobs
Avoiding the Resource Curse

• The sequence of choices for governments related to resource extraction can be thought of as a decision chain.
  – Finding the resource
  – Getting a good deal
  – Collecting revenues
  – Save or spend?
  – Where to spend?

• Bad decisions anywhere along the chain can derail development

• Good decision making requires minimum standards of accountability and transparency
Nigeria Big Time

Avoiding the Resource Curse

• Investing in agriculture
  – About two thirds of Africans still depend on agriculture
  – Agricultural yields have stagnated or declined for 40 years.

• Improving competitiveness
  – Trade-related infrastructure
  – Education access and quality

• Leveraging the resource
  – Linking domestic firms to foreign investors
  – Using resource-focused infrastructure for regional development
Leopards and Laggards

Breaking from the Pack

• Unlike Asia, Africa has had few regional “champions” to serve as models of success

• The next 15 years are likely to reveal some “leopards”: countries that grow much faster than the regional average

• The basis for that success will be rapid structural change

• Growth will falter in economies that fail to transform: these will become the “laggards”
Leopards and Laggards
Why Structural Change?

• In countries at low levels of income productivity differences between sectors are large
  – The movement of resources from low productivity to high productivity employment drives growth
  – As incomes rise, productivity differences among sectors (and enterprises) tend to converge

• Africa has the greatest differences in productivity among sectors, and therefore the greatest potential for structural change
Leopards and Laggards

Going Up the Down Escalator

• But in Africa structural change is going in the wrong direction

• An increasing share of the labor force is in lower productivity sectors

• “Growth reducing” structural change is slowing overall growth and employment creation
Leopards and Laggards

Africa Needs Industry

- Industry – including agro industry and tradable services -- is a high productivity sector
- Industry is also employment intensive
- But Africa has “deindustrialized” over the last 40 years

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Leopards and Laggards

Can Africa Break In?

• New entrants to global markets are competing with Asia

• A window of opportunity?
  – Rising costs in Asia
  – Growing domestic demand in Asia
  – Industry no longer need smokestacks

• Leopards will have to master the drivers of industrial location
Leopards and Laggards

What Determines Industrial Location?

• Trade in tasks
  – Technical change has brought about “vertical disintegration” of production
  – A chance for a foothold, but many low wage economies have not attracted task-based production

• Agglomerations
  – Manufacturing and service industries tend to cluster
  – Starting a new industrial agglomeration is a form of collective action problem

• Firm capabilities
  – Capabilities are the tacit knowledge and working practices needed for production and product development
  – High capability firms are those that can compete globally on price and quality
Leopards and Laggards

A Strategy for the Leopards

• Creating an “Export Push”
  – A “whole of government” initiative to promote non-traditional exports
  – Linking trade policy, infrastructure, skills and geography to macroeconomic management

• Spatial industrial policy
  – Special Economic Zones (SEZs): world class infrastructure, skills and institutions
  – Growth corridors: link natural resources and coordinated investments

• Attracting and building capabilities
  – Strengthening policies and institutions for attracting FDI
  – Removing obstacles to the transfer of capabilities in value chain relationships
A New Role for Aid

- Africa is the world’s most aid dependent region
  - Between 10 and 30 percent of national budgets are financed by ODA
- Since the mid-1990s aid donors have focused on human development – with considerable success
- But the failure to create good jobs is a major risk to further progress
A New Role for Aid

• Supporting job creation
  – Investing in agriculture
  – Building infrastructure and skills
  – Strengthening firm capabilities

• Linking aid and trade
  – Improving coherence of trade and aid policies
  – Making “aid for trade” a reality
  – Supporting regional integration

• Avoiding the resource curse
  – Geological information
  – Evening up the sides
  – New approaches to institution building
Which Future?

• By 2030 Africa will have become more diverse in terms of economic performance
• Some economies will industrialize and become leopards
• Some resource rich economies will avoid the resource curse... and some will not
• Those economies that fail to transform – either through industry or natural resources – will become the laggards
• And for the laggards the prospects of an “African Spring” will become very real
So, Which Future?

All of the Above!

Thank You