4-7-2014

Three African Futures

John Page
Brookings Institution

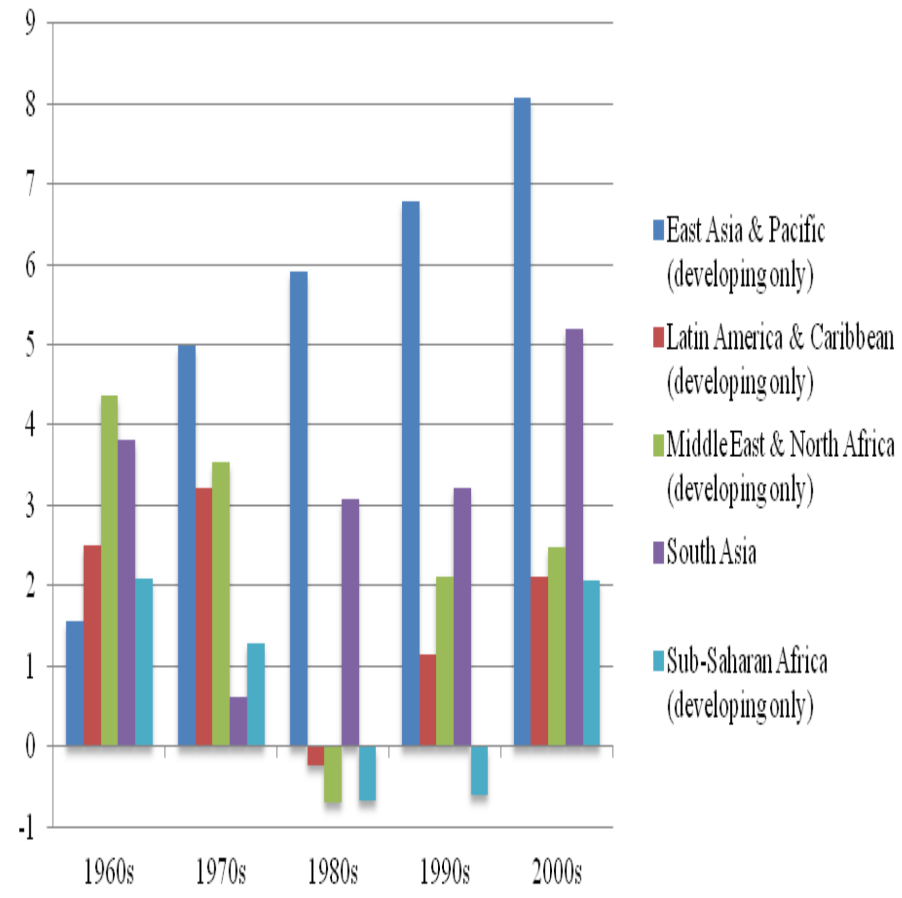
Three African Futures

John Page
The Brookings Institution
University of Nevada at Las Vegas
7 April 2014

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 199Os* (Word Bank and UNDP, 1989)
  - *Adjustment in Africa: Reforms, Results, and the Road Ahead.* (World Bank, 1994)
  - *Can Africa Claim the 21st Century?* (Alan Gelb, 2000)
  - *Africa at a Turning Point?* (John Page, 2008)

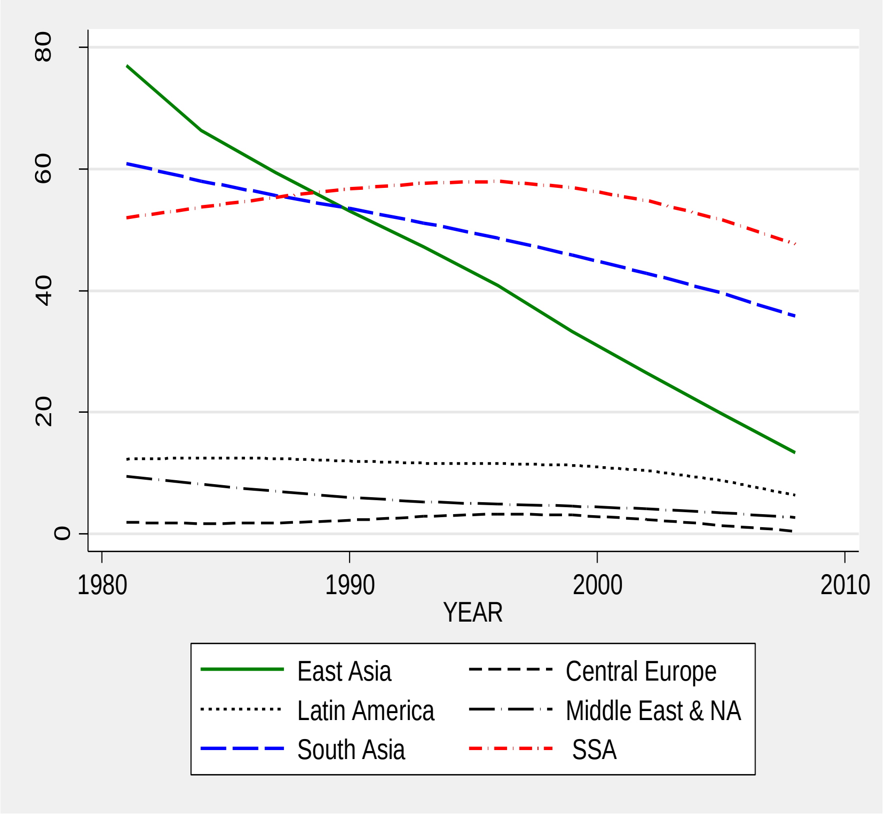
Growth of GDP Per Capita



Some Worrying Signs

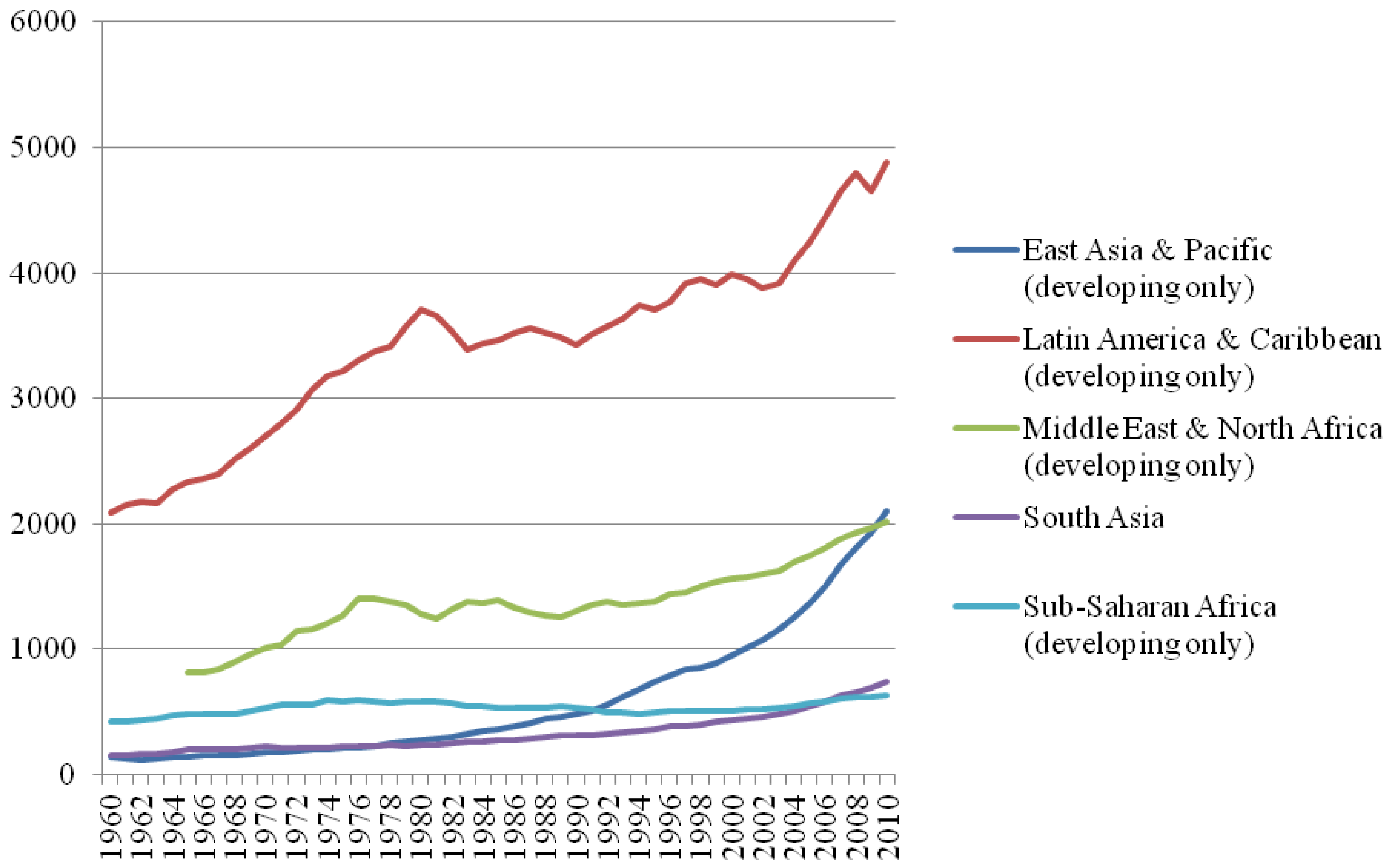
- Growth has been driven by "fewer mistakes" and a commodities boom
- People living on less than $1.25 per day have declined
  - From 58 percent of people in 2000
  - To 48.5 percent in 2010
- But not at the same rate as in other parts of the developing world

Extreme poverty in the developing world



And Africa Remains Very Poor

Real GDP Per Capita in US$ (2000)



Three African Futures

African Spring

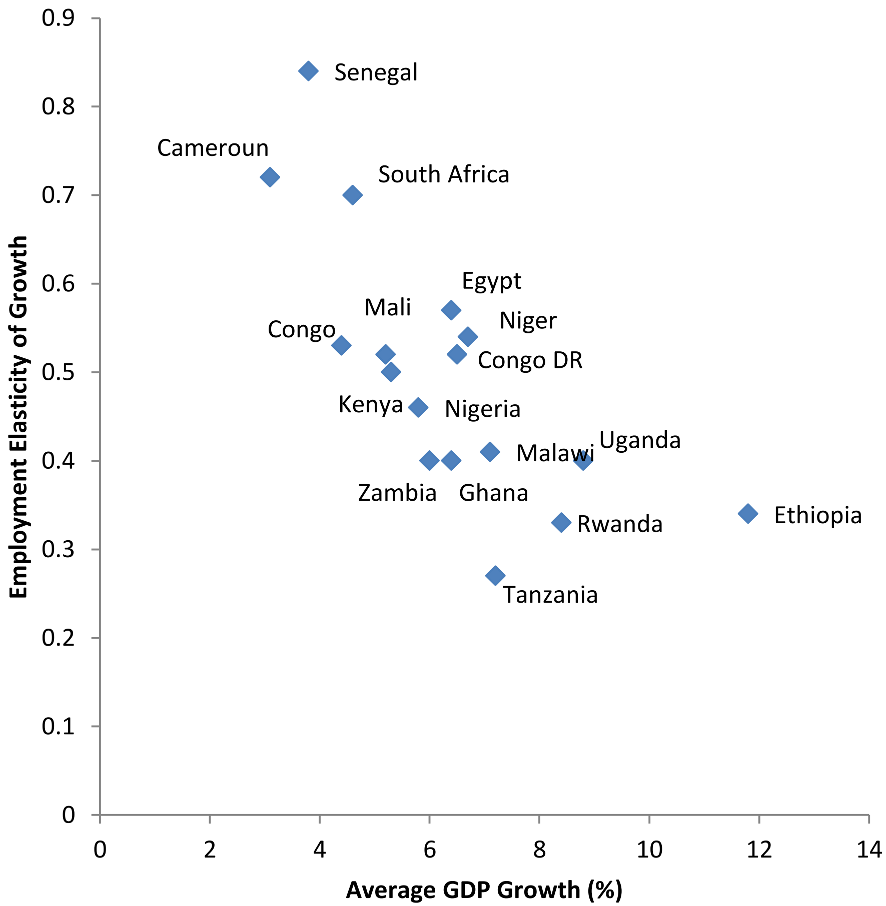
Nigeria Big Time

Leopards and Laggards

African Spring

Too Few Jobs for Too Many Workers

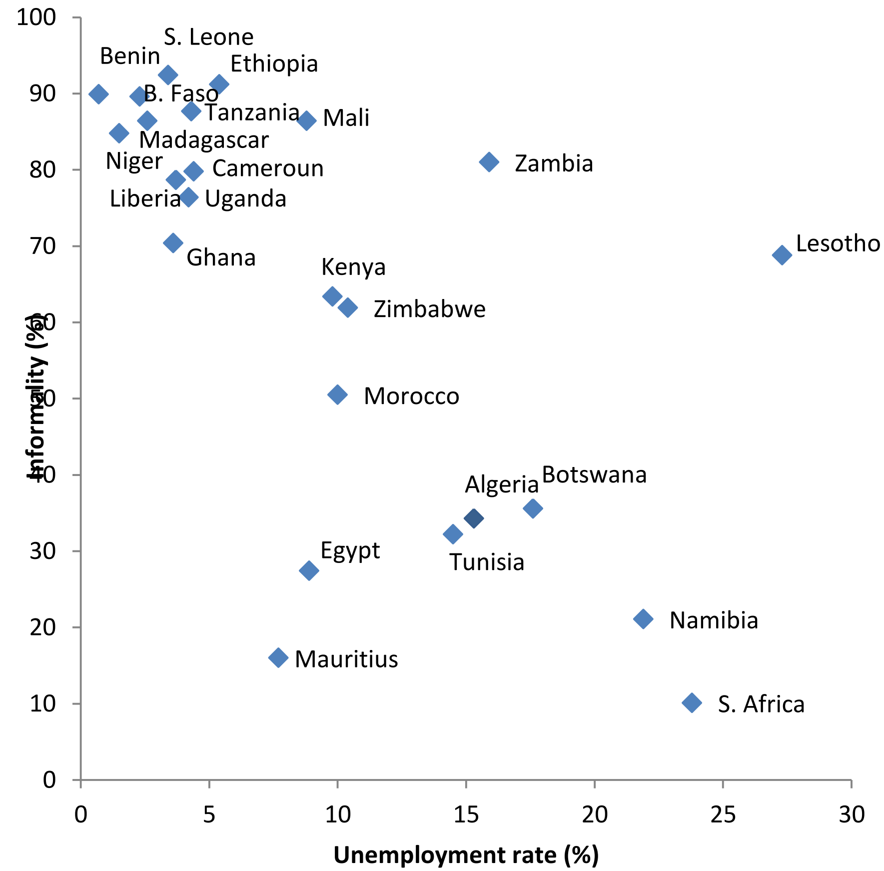
- Africa faces a demographic dividend or threat
  - Rapid labor force growth (10-12 million new entrants)
  - A growing youth bulge
- Africa's fastest growing economies are creating the fewest jobs



African Spring

Too Few Jobs for Too Many Workers

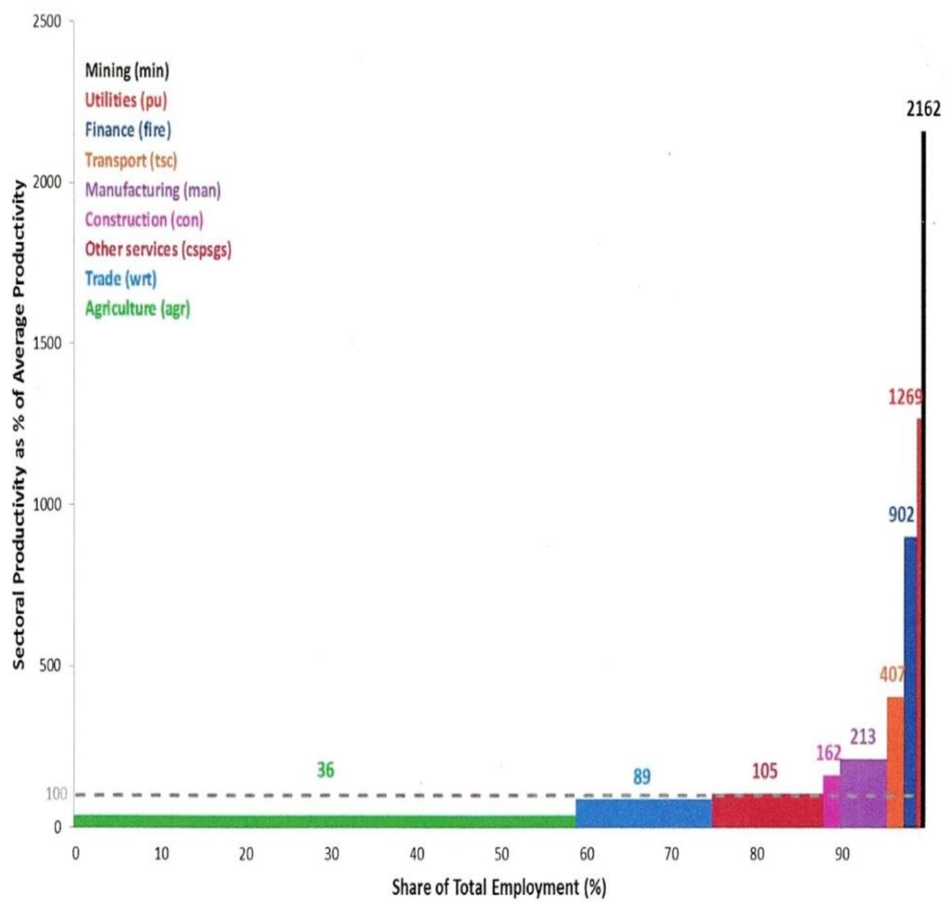
- Countries with low unemployment have large and growing informal sectors (Ethiopia, Ghana, Tanzania)
- In North Africa and Southern Africa informality is lower and unemployment is high
- Both situations are cause for concern



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

	1990-94	1995-99	2000-04	2005-09
Africa LIC	10.2	11.2	11.1	11.8
Africa MIC	14.6	14.5	13.8	15.8
East Asia	24.9	19.9	12.4	16.8
Low Income Countries	10.0	11.5	12.9	15.4
All Developing Countries	13.7	14.5	14.0	16.6

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

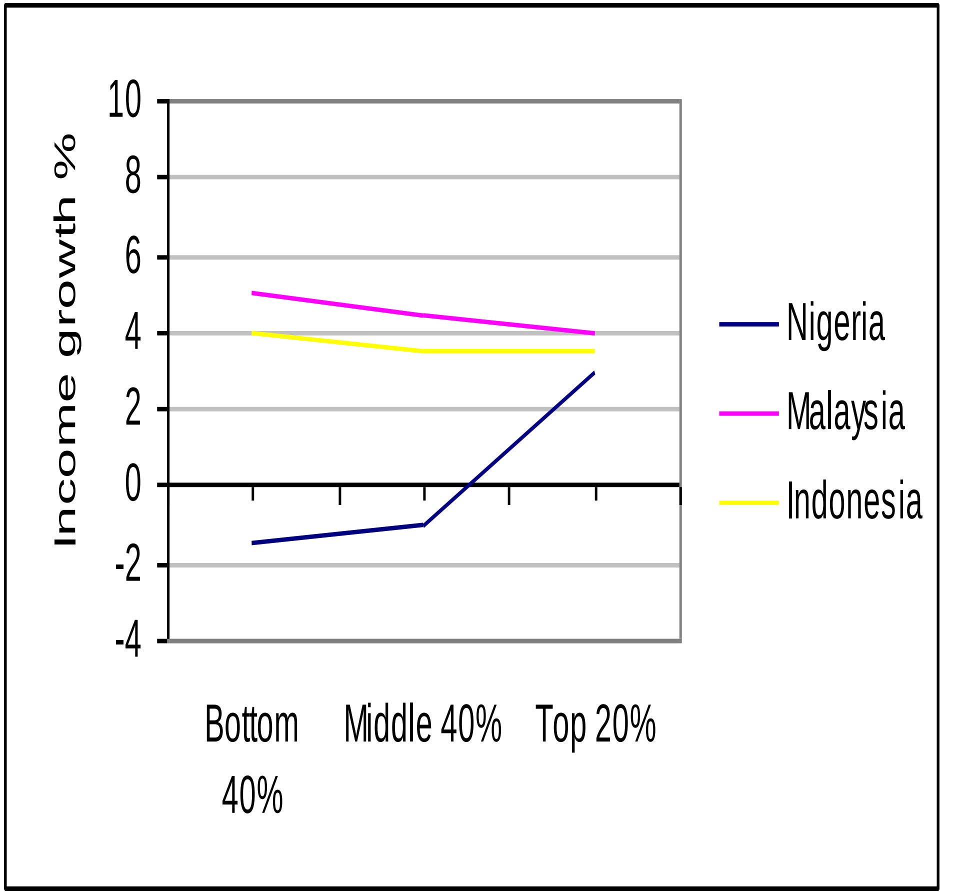
Some Popular Explanations

- 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



Nigeria Big Time

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

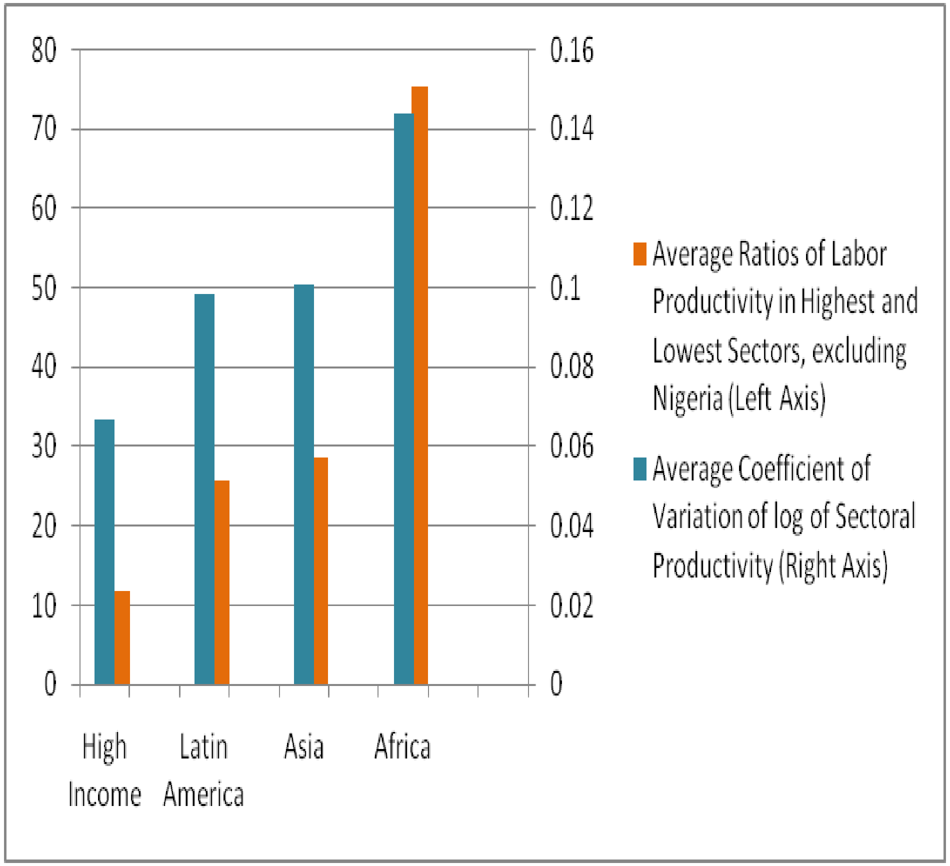
Breaking from the Pack

- 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?

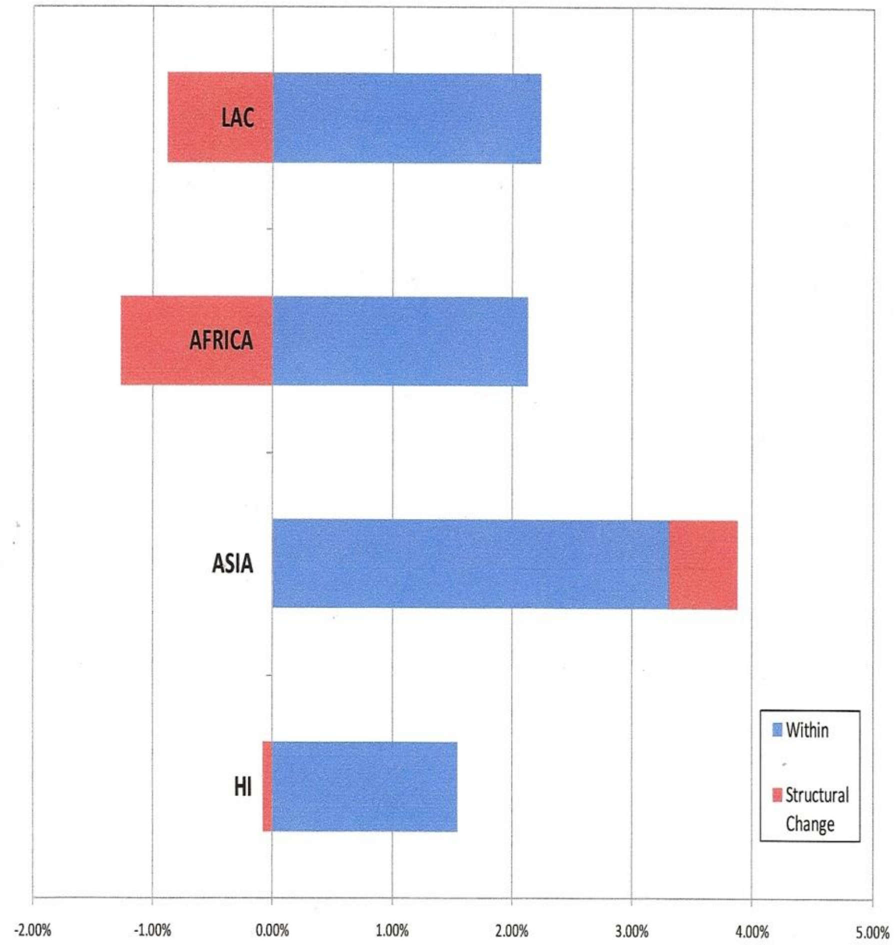
- In countries at low levels of income productivity differences between sectors are large
  - The movement of resources from low productivity to high productivity employment drives growth
  - As incomes rise, productivity differences among sectors (and enterprises) tend to converge
- Africa has the greatest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

	Mfg Exports PC 2005 (US$)	Growth PC Exports 00-05 (%)	Mfg. Value Added PC 2008 (US$)	Share of Mfg in GDP 2008 (%)
Africa Average	39.0	1.65	138.6	9.4
Developing Countries	487.2	10.05	412.9	21.7

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

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

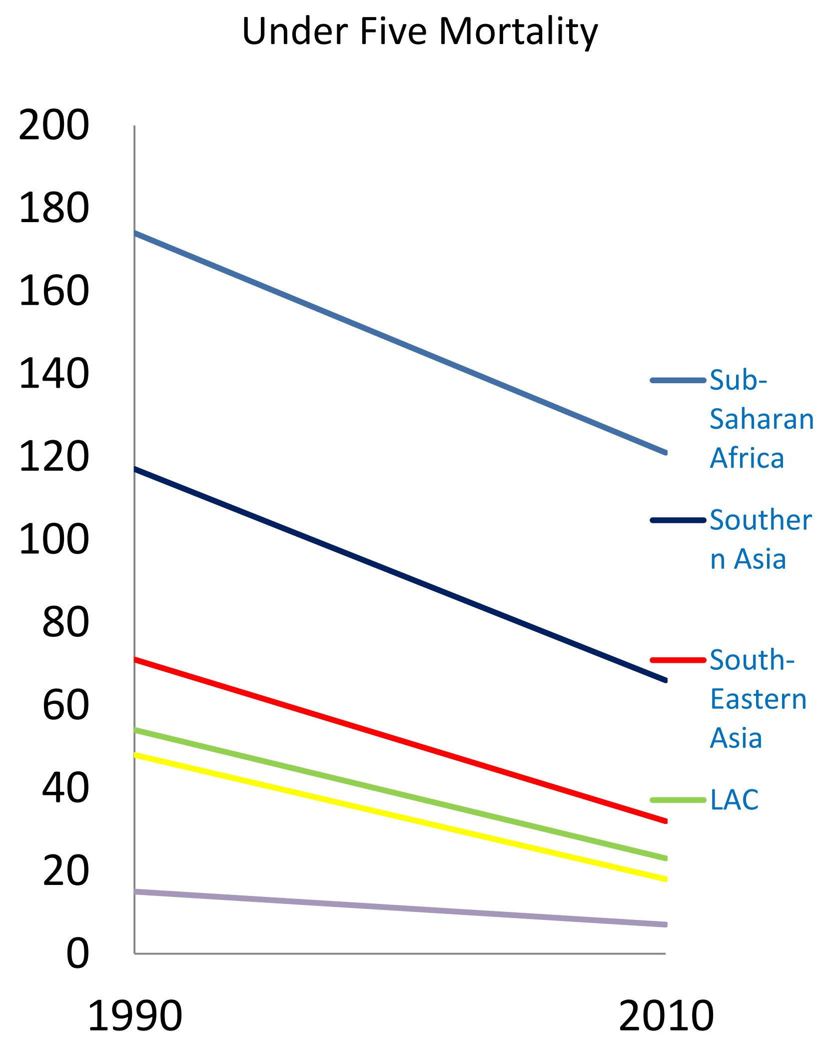
Leopards and Laggards

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

BROOKINGS
GLOBAL
ECONOMY AND
DEVELOPMENT