Three African Futures

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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* (Word 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
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

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<td>All Developing Countries</td>
<td>13.7</td>
<td>14.5</td>
<td>14.0</td>
<td>16.6</td>
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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
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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<tr>
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<th>Mfg Exports PC 2005 (US$)</th>
<th>Growth Exports PC 00-05 (%)</th>
<th>Mfg. Value Added PC 2008 (US$)</th>
<th>Share of Mfg in GDP 2008 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa Average</td>
<td>39.0</td>
<td>1.65</td>
<td>138.6</td>
<td>9.4</td>
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<td>Developing Countries</td>
<td>487.2</td>
<td>10.05</td>
<td>412.9</td>
<td>21.7</td>
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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
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