Africa’s Traps and Challenges: What Can We Learn from East Asia?

Jorge Arbache
Thierry Giordano
Bruno Losch

ABCDE Conference
Seoul, June 22, 2009
Contents

1. Africa’s traps and challenges

2. Lessons from East Asian experiences

3. Policy options
1. The Africa’s two-trap story and its challenges
The growth volatility trap
Growth in Africa is very low...

GDP per capita growth - average 1960-2007

- East Asia & Pacific: 5.44
- South Asia: 2.72
- Middle East & North Africa: 2.06
- Latin America & Caribbean: 1.73
- Sub-Saharan Africa: 0.72
...and highly volatile

GDP per capita growth - coefficient of variation
1960-2007

<table>
<thead>
<tr>
<th>Region</th>
<th>Coefficient of Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; Pacific</td>
<td>0.76</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.99</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>1.38</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>1.68</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3.10</td>
</tr>
</tbody>
</table>
... growth accelerations are followed by growth collapses...

Growth of GDP per capita – 1975-2005

<table>
<thead>
<tr>
<th>GDP growth (%)</th>
<th>GDP per capita ($)</th>
<th>Frequency (%)</th>
<th>Growth rate (%)</th>
<th>GDP per capita ($)</th>
<th>Frequency (%)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.70</td>
<td>2,299</td>
<td>25</td>
<td>3.64</td>
<td>2,598</td>
<td>22</td>
<td>-2.74</td>
</tr>
</tbody>
</table>

Arbache and Page (2007)
During the good times GDP per capita growth is high by international standards (4%).

Growth collapses offset most of the gains from good times (-3%).

Had Africa avoided the greatest contractions of the last three decades it would have grown 1.7% a year, rather than 0.7%, and GDP per capita would be 36% higher.
Growth volatility has asymmetric implications...

**Infant mortality (per 1,000)**

- All times
- Deceleration
- Acceleration

**Life expectancy**

- All times
- Deceleration
- Acceleration

**Investment (% GDP)**

- All times
- Deceleration
- Acceleration

**FDI (% GDP)**

- All times
- Deceleration
- Acceleration
...that reinforce volatility

**Political stability index (-2.5 to 2.5) WBI**

- All times
- Deceleration
- Acceleration

**Polity IV Index (-10 highly autocratic regime to 10 highly democratic regime)**

- All times
- Deceleration
- Acceleration

**Government effectiveness (-2.5 to 2.5) WBI**

- All times
- Deceleration
- Acceleration

**Minor conflict (probability)**

- All times
- Deceleration
- Acceleration
High growth volatility affects incentives and policies...

- Induces short-sighted behavior of politicians and investors as they expect sudden turnarounds

- Shortens the time frame within which policy makers and politicians make decisions
  - Poor policies
  - Poor policy implementation
...and is associated with various factors

- **Internal**
  - Security and political stability
  - Conflicts
  - Governance
  - Low savings and low investments

- **External**
  - Exposure to terms-of-trade shocks
  - FDI
  - Aid -- volatile and procyclical

Arbache and Page (2007)
Avoiding collapses is Africa’s main growth challenge

- Increase average growth rates
- Improve human development and governance indicators
- Improve the business climate
The low-productivity jobs trap
Most jobs in Africa are informal...

Trend towards self-employment...

..and informality

Source: OECD 2009
...and concentrated in agriculture

- On average 60% of the labor force is in agriculture
  - In 22 countries > 70%
  - Only in 11 countries it is < 50%

- This employment structure has hardly changed over time
  - Only a 25% reduction over 45 years

The share of agriculture in employment has hardly changed in Africa
The informal sector is associated with low productivity...

**Labor productivity of informal microenterprises is very low (median)**

- Gelb et al. (2008)

**Productivity of family farms is low**

- Morris et al. (2009)
… and are correlated positively with poverty and negatively with GDP per capita

Source: OECD
Growth is not creating jobs

- Growth observed since mid 1990s was accompanied by falling employment elasticity

- Main drivers of growth are not labor intensive: minerals, oil

**Employment elasticity of growth**

<table>
<thead>
<tr>
<th>Period</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1999</td>
<td>0.82</td>
</tr>
<tr>
<td>1999-2003</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Kapsos (2005)
Africa’s challenges
Africa faces unique challenges which hinder its ability to break out of its traps

- Africa has to deal simultaneously with:
  
  - **Economic transition**: the region remains statistically as if it were at the beginning of the transition process from agriculture to industry and services
  
  - Incomplete **demographic transition** with high population growth rates (2% to 3.2%)
  
  - **Globalization**
  
  - The effects of **climate change**
Economic Transition

- Africa shows:
  - The economic structure remains constant with low levels of economic diversification => primary activities
  - Urbanization without industrialization
  - For a long time to come agriculture will remain the main source of jobs
Demographic Transition

- Africa faces an immense demographic push
  - 720 million people today
  - 1.1 billion in 2025
  - 1.7 billion in 2050

- The demographic pattern is changing rapidly
  - The activity ratio is increasing: 1.2 today vs 1.9 in 2050
  - The labor force increases by 10 million a year
  - Demographic transition is a major opportunity or a major burden in case of insufficient job creation
The labor force is increasing in Africa while it is decreasing in all other regions.
2. What Africa Can Learn from the East Asian Experiences
Although conditions between the regions differ significantly...

- History of the nation states and its consequences for institutions, cohesion and elites

- Different conditions
  - *World order: End of Cold War; new rules of the game (WTO, FTAs, international governance rules, etc)*
  - *Higher international competition (“the fight at the bottom”)*
  - *Size of the domestic markets*
  - *Role of Japan*
  - *Role of diasporas (brain and money)*

*They constrain the room to maneuver*
... there are lessons that Africa can take from East Asia

- Economic growth driven by public policy

<table>
<thead>
<tr>
<th><strong>Strategy</strong></th>
<th><strong>Implementation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>Pragmatism and experimentation</td>
</tr>
<tr>
<td>Prioritization</td>
<td>Gradualism and incrementalism</td>
</tr>
<tr>
<td>Industrial policy</td>
<td>Sequencing</td>
</tr>
<tr>
<td>Creation of human capital</td>
<td></td>
</tr>
<tr>
<td>Getting the fundamentals right</td>
<td></td>
</tr>
<tr>
<td>Active exchange rate policy</td>
<td></td>
</tr>
</tbody>
</table>

27
Critical role of agriculture and rural development

- Increase farm incomes: poverty reduction and rural diversification
- Increase non-farm activities and incomes
- Increase agricultural productivity, connection to markets and infrastructure

Exploiting natural and building comparative advantages

- Provision of public goods, right incentives, PPPs
- Domestic markets as initial opportunities for assets and skills development
- Export-led growth
3. Policy options for breaking out of the traps
Policy options (1): Breaking out of growth volatility

- Rebuilding states: security and political stability
- Managing conflicts
- Government accountability
- Macroeconomic stability
- Economic diversification
- Shared growth
Policy options (2): Breaking out of low-productivity jobs

- Boosting agricultural and rural development
  - Increase agricultural output and productivity
  - Provide for cheap food, lower imports, export capacity
  - Increase farm income $\rightarrow$ development of rural nonfarm $\rightarrow$ sustainable rural economy

- Increase diversification
  - Increase local value added in agribusiness
  - Promote innovation
  - Develop manufacturing
  - Promote domestic and regional markets
  - Provide incentives to export
Thank you