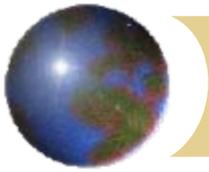


*Africa's Traps and
Challenges:
What Can We Learn from
East Asia?*

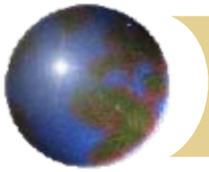
**Jorge Arbache
Thierry Giordano
Bruno Losch**

**ABCDE Conference
Seoul, June 22, 2009**

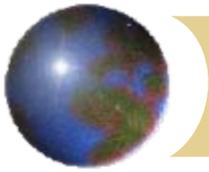


Contents

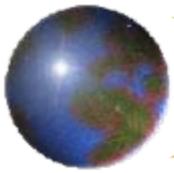
1. Africa's traps and challenges
2. Lessons from East Asian experiences
3. Policy options



1. The Africa's two-trap story and its challenges

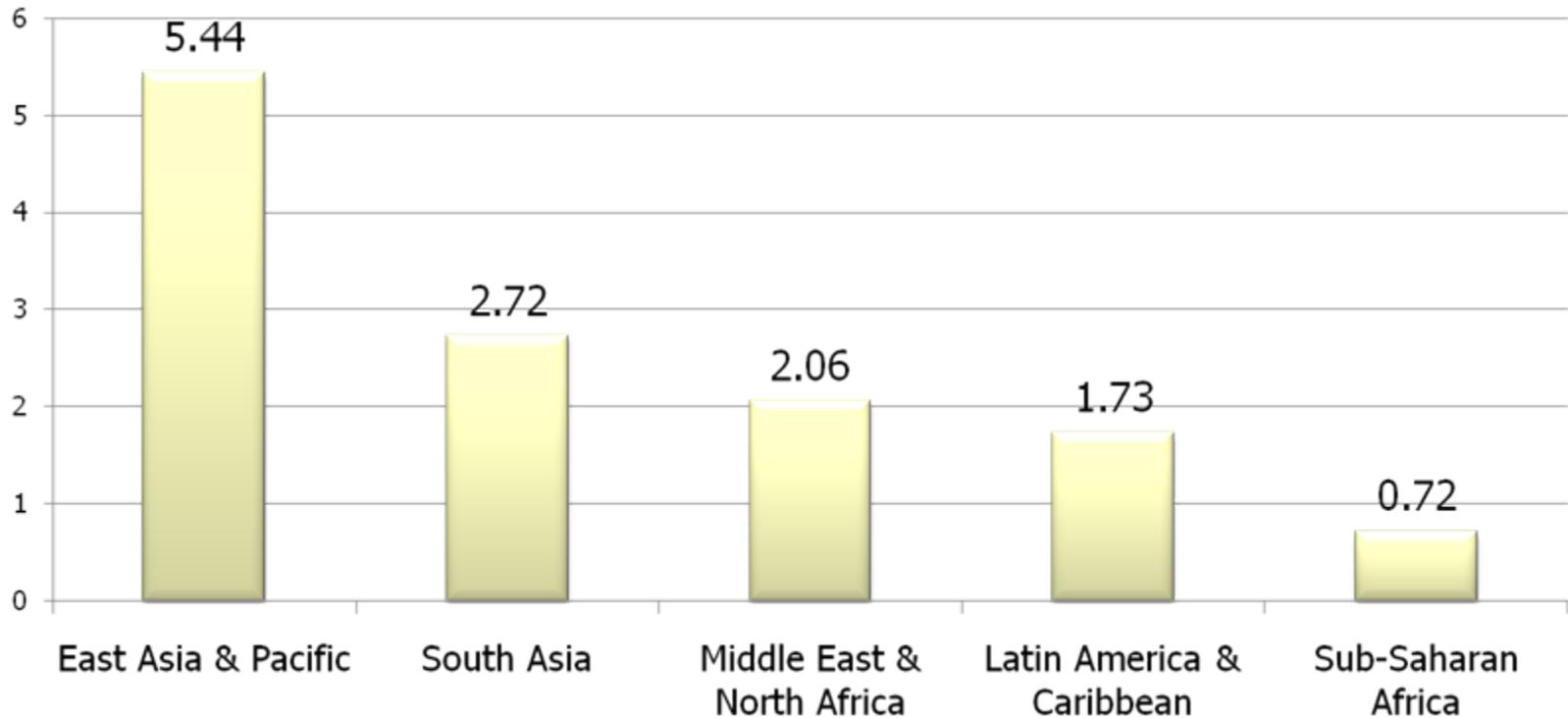


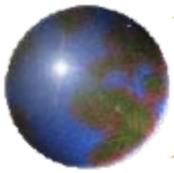
The growth volatility trap



Growth in Africa is very low...

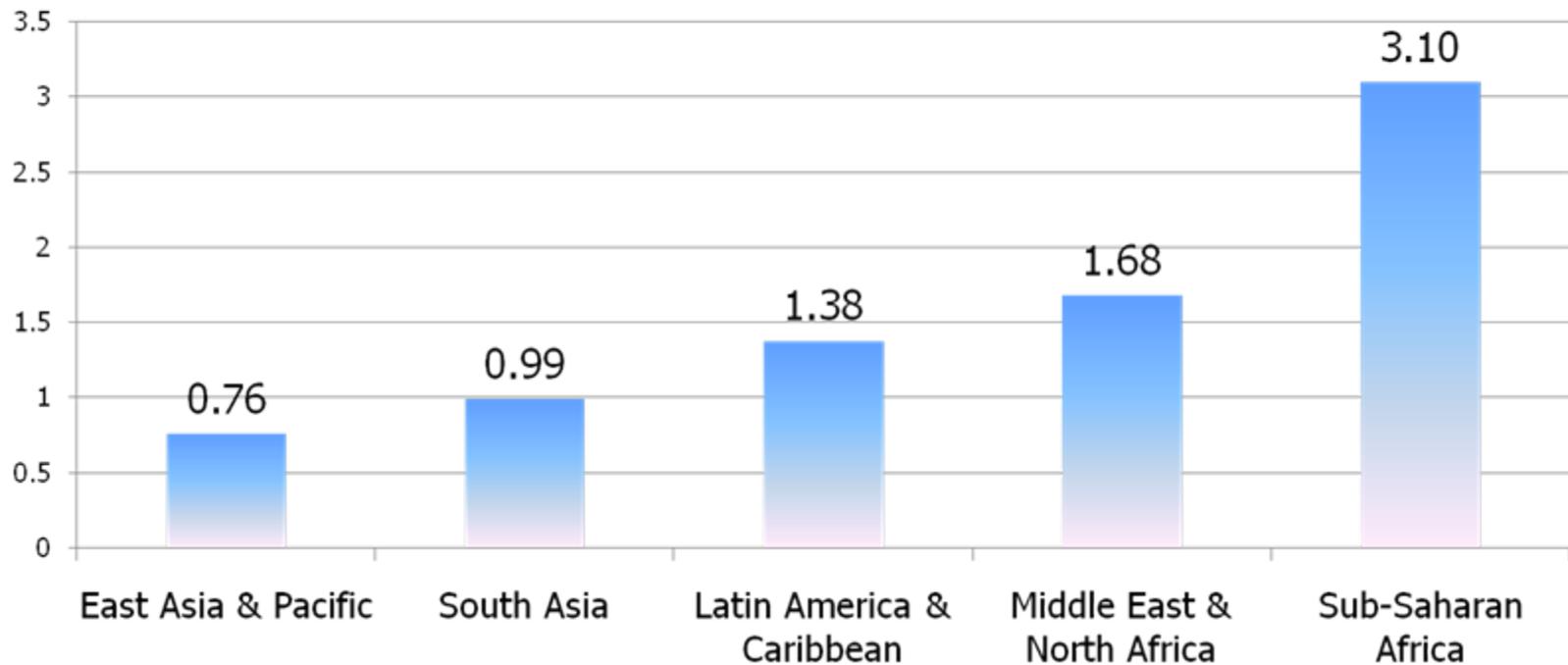
GDP per capita growth - average 1960-2007

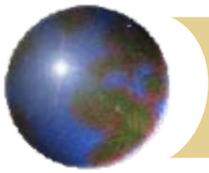




...and highly volatile

**GDP per capita growth - coefficient of variation
1960-2007**



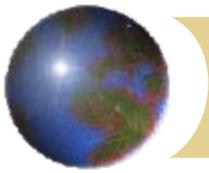


... growth accelerations are followed by growth collapses...

Growth of GDP per capita – 1975-2005

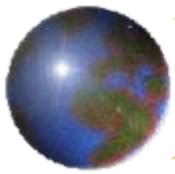
GDP		During growth acceleration			During growth deceleration		
GDP growth (%)	GDP per capita (\$)	Frequency (%)	Growth rate (%)	GDP per capita (\$)	Frequency (%)	Growth rate (%)	GDP per capita (\$)
0.70	2,299	25	3.64	2,598	22	-2.74	1,794

Arbache and Page (2007)



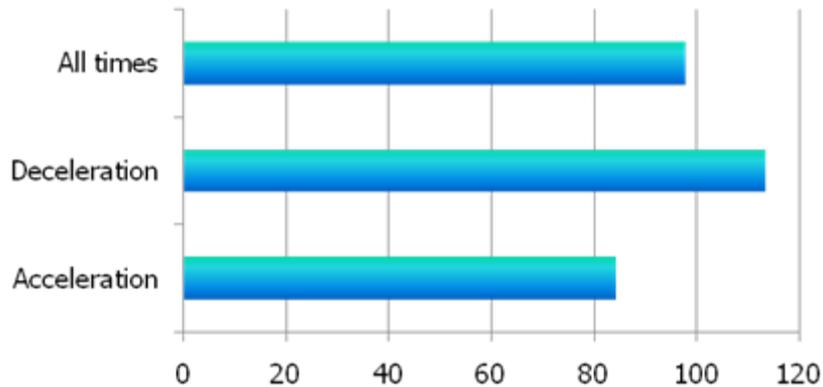
...that reduce average growth

- 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

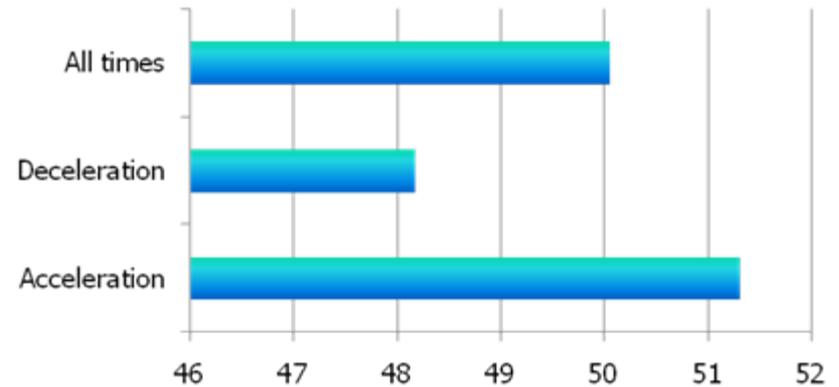


Growth volatility has asymmetric implications...

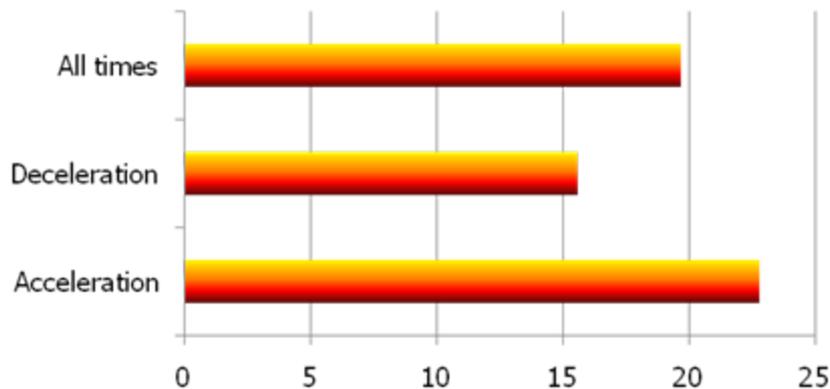
Infant mortality (per 1,000)



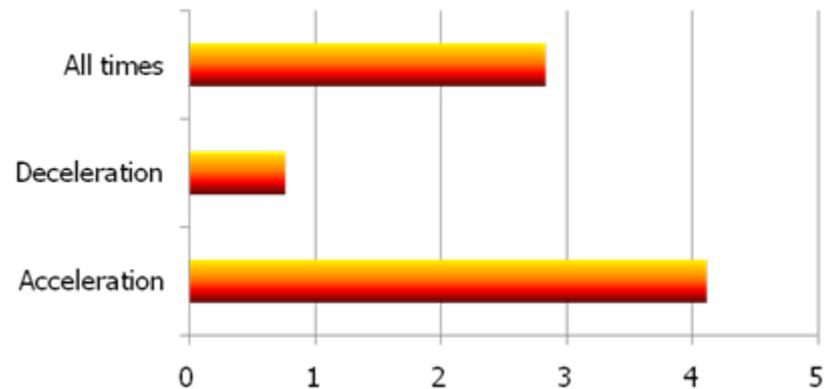
Life expectancy

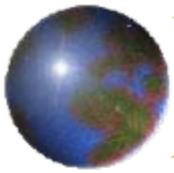


Investment (% GDP)



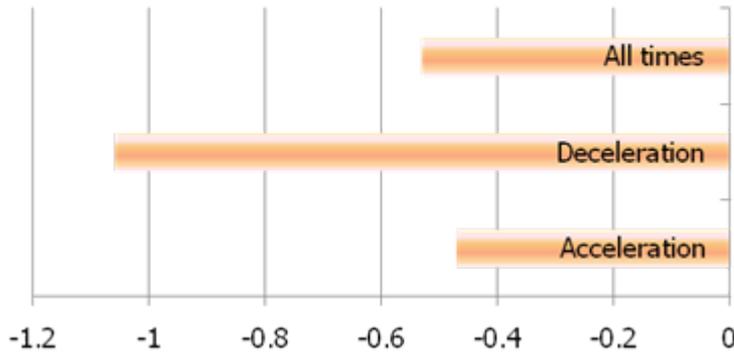
FDI (% GDP)



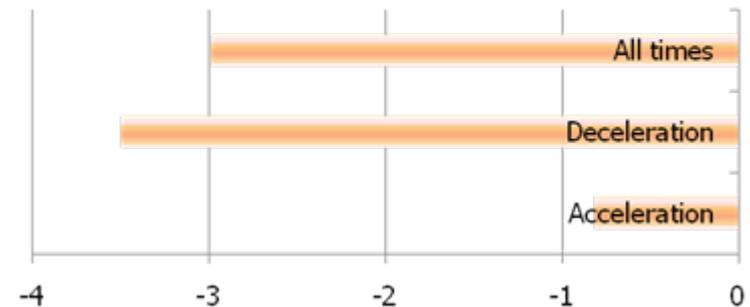


...that reinforce volatility

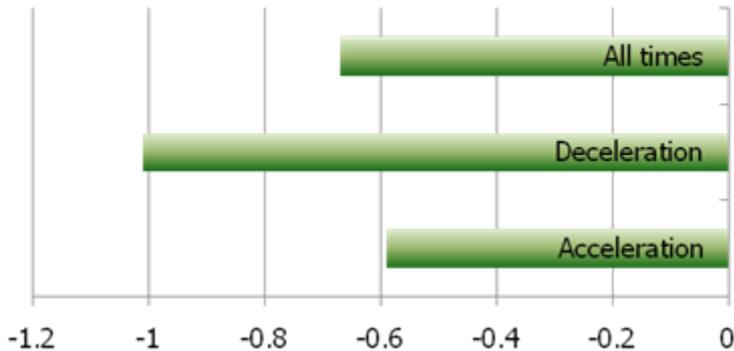
Political stability index (-2.5 to 2.5) WBI



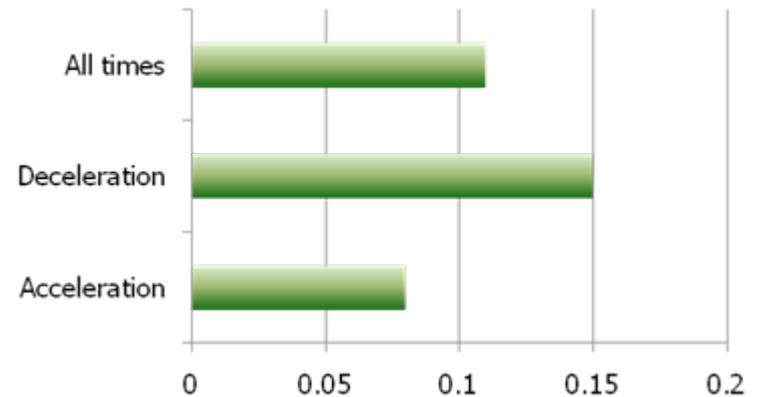
Polity IV Index (-10 highly autocratic regime to 10 highly democratic regime)

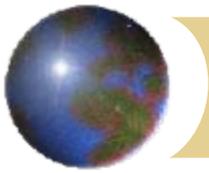


Government effectiveness (-2.5 to 2.5) WBI



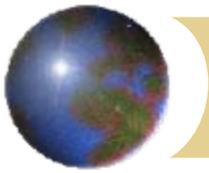
Minor conflict (probability)





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*



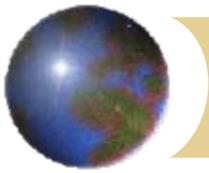
...and is associated with various factors

● Internal

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

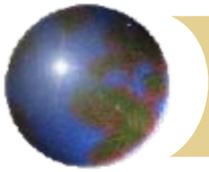
● External

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

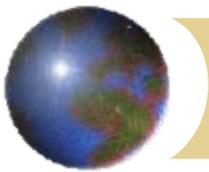


Avoiding collapses is Africa's main growth challenge

- Increase average growth rates
- Improve human development and governance indicators
- Improve the business climate



The low-productivity jobs trap

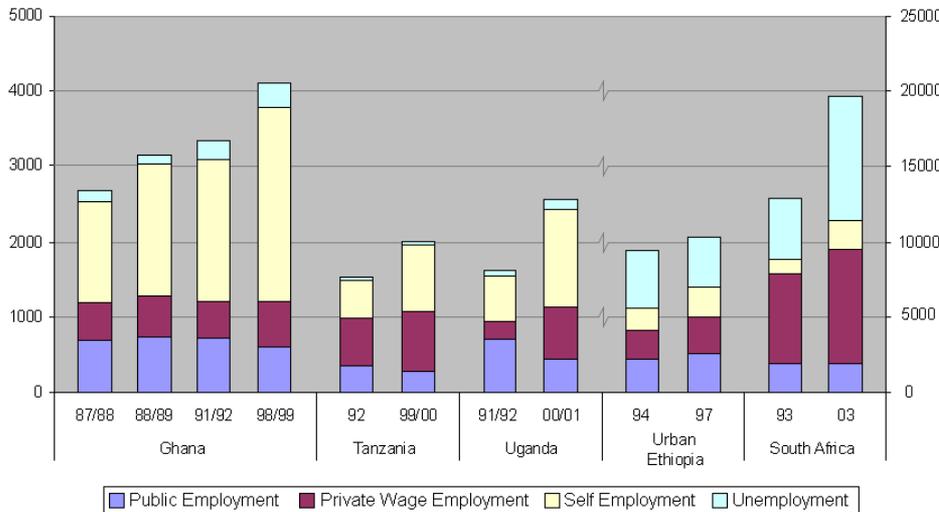


Most jobs in Africa are informal...

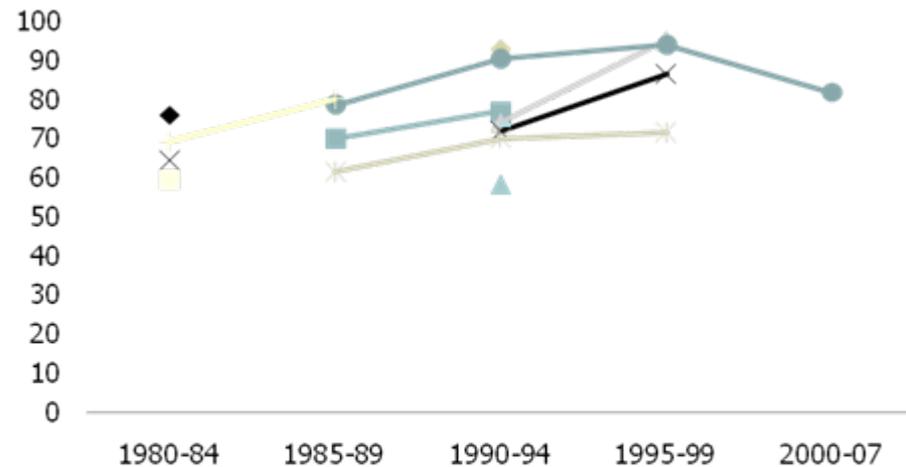
Trend towards self-employment...

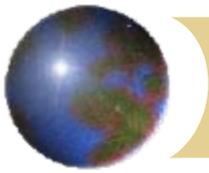
...and informality

Employment composition (1,000)



Share of informal employment in total non-agricultural employment (%)





...and concentrated in agriculture

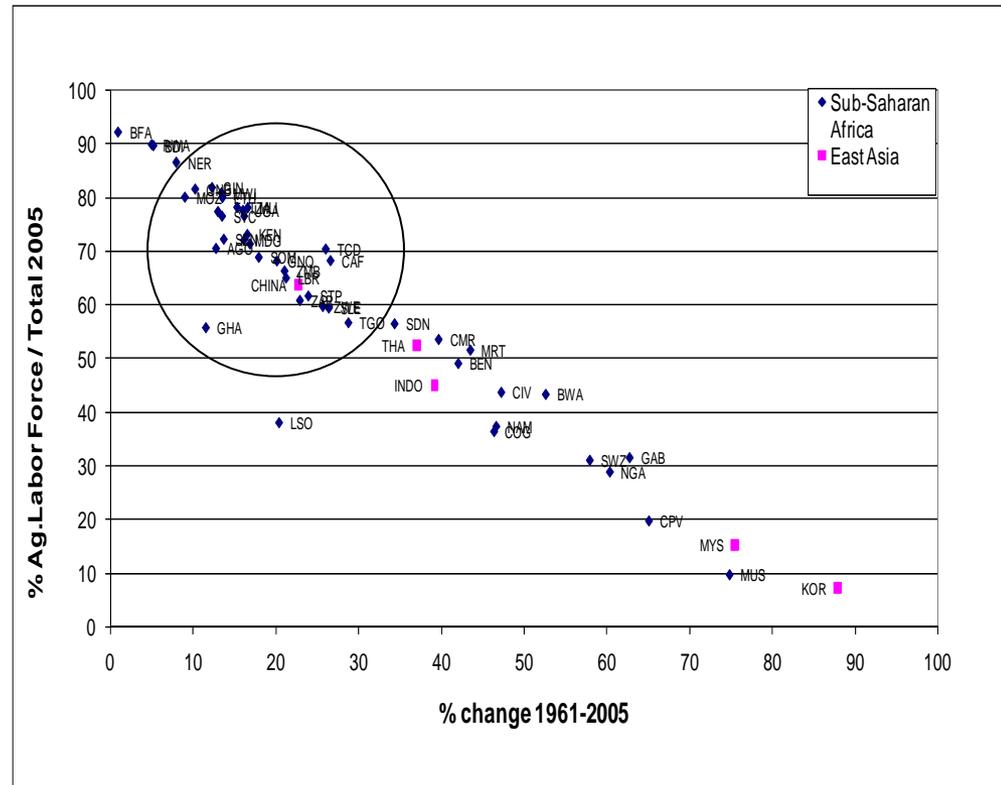
- On average 60% of the labor force is in agriculture

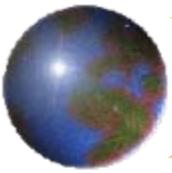
- *In 22 countries > 70%*
- *Only in 11 countries it is < 50%*

- This employment structure has hardly changed overtime

- *Only a 25% reduction over 45 years*

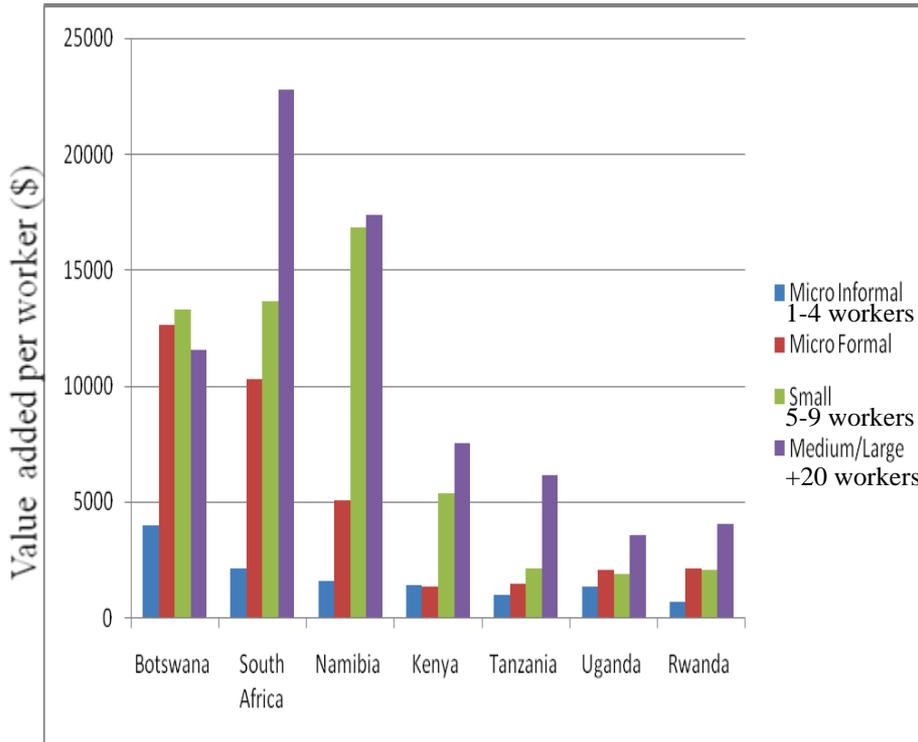
The share of agriculture in employment has hardly changed in Africa





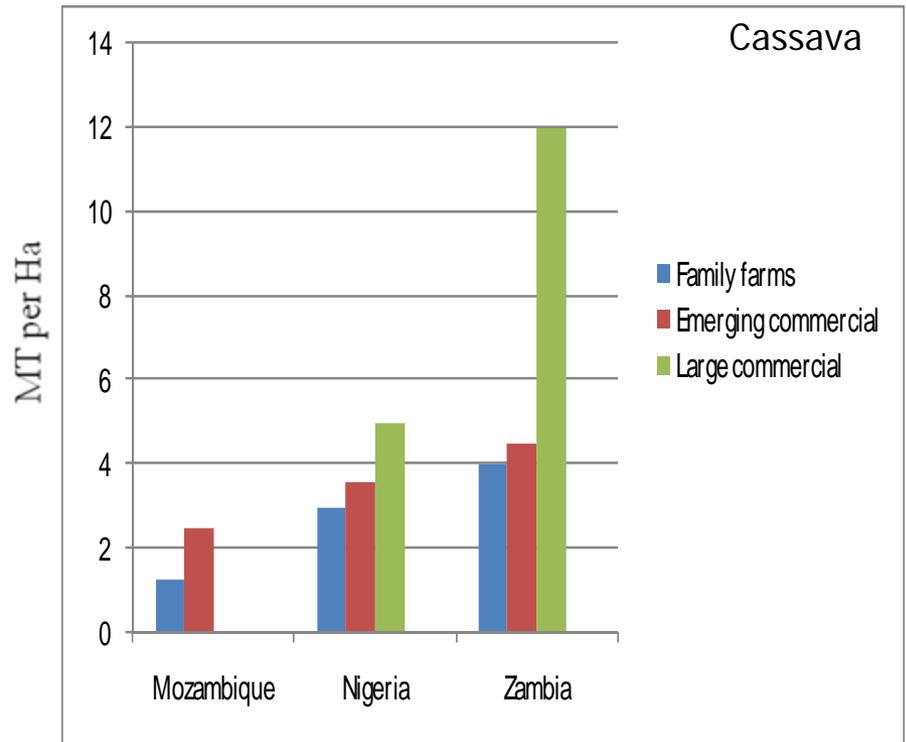
The informal sector is associated with low productivity...

Labor productivity of informal microenterprises is very low (median)

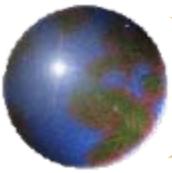


Gelb et al. (2008)

Productivity of family farms is low

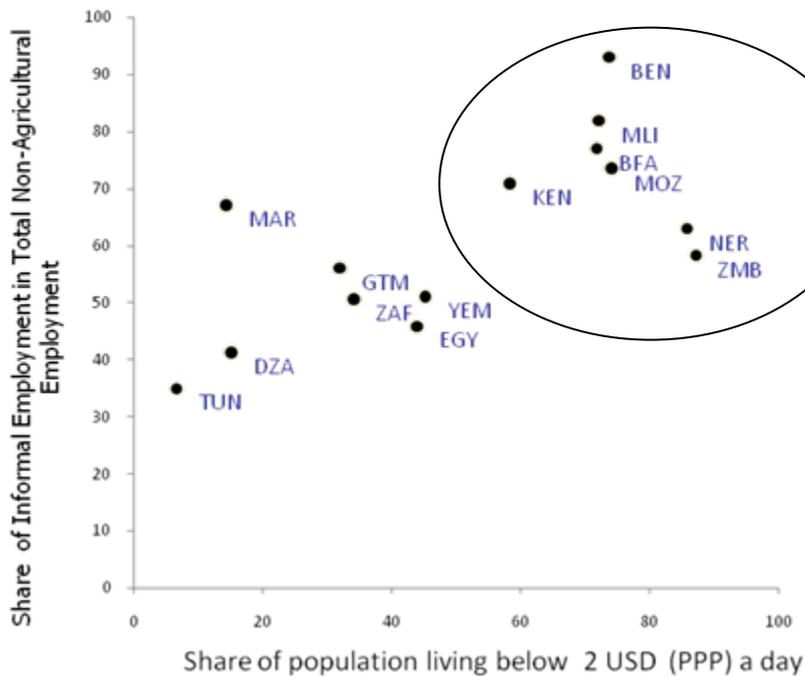


Morris et al. (2009)

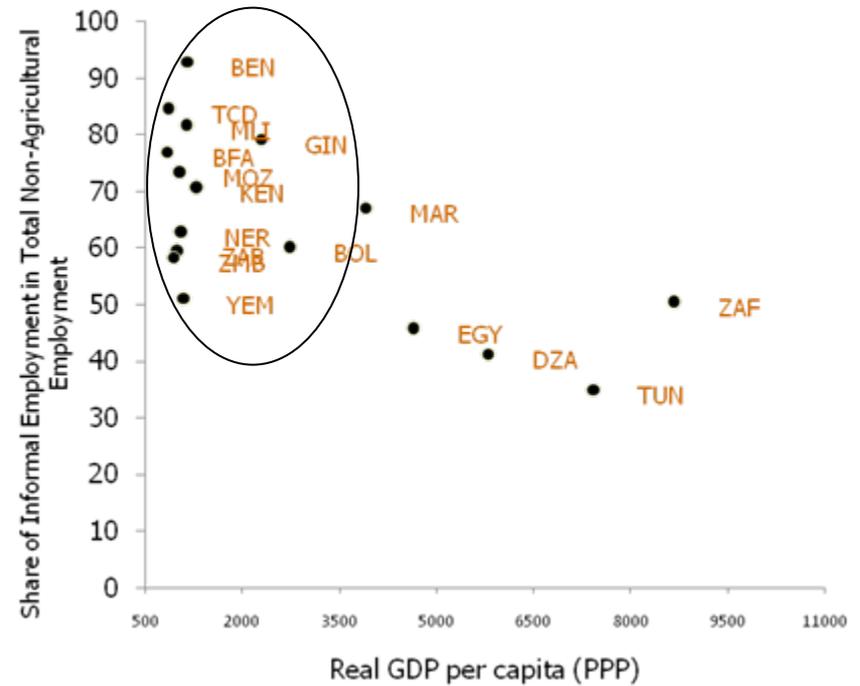


... and are correlated positively with poverty and negatively with GDP per capita

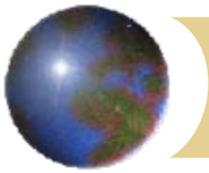
Poverty and informality are positively correlated



GDP per capita and informality are negatively correlated

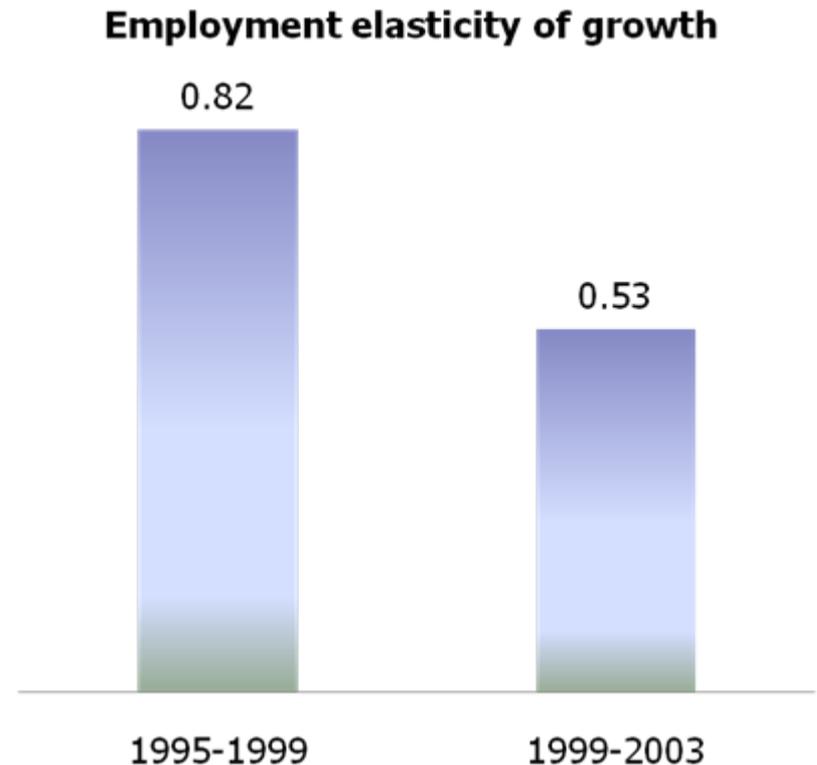


Source: OECD

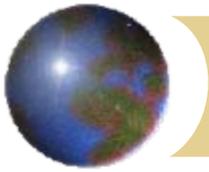


Growth is not creating jobs

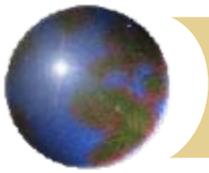
- Growth observed since mid 1990s was accompanied by falling employment elasticity
- Main drivers of growth are not labor intensive: minerals, oil



Kapsos (2005)

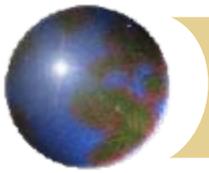


Africa's challenges



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

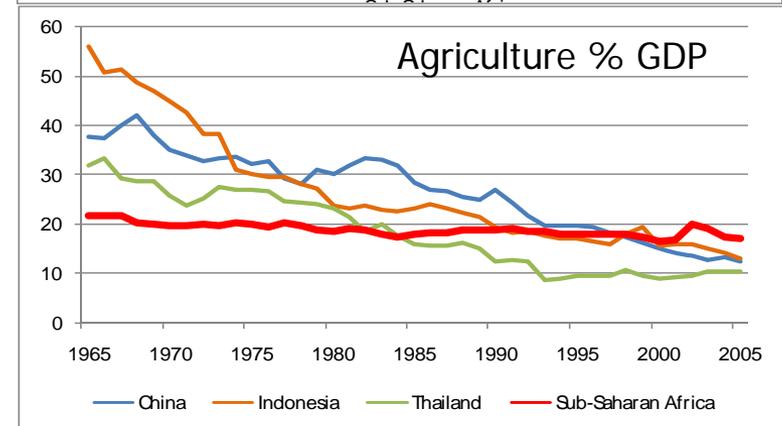
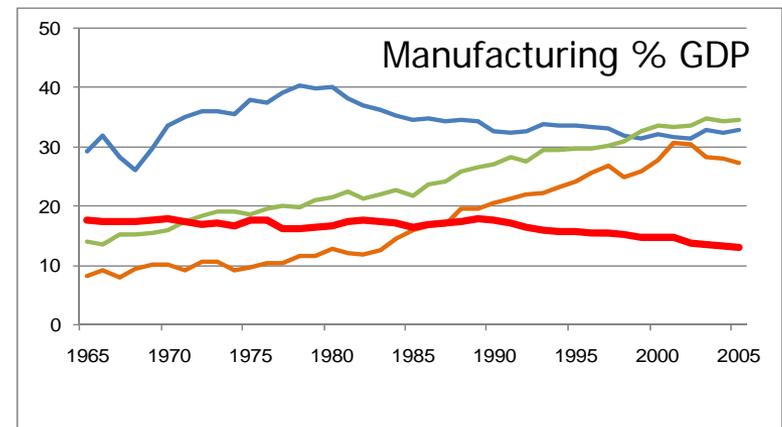
● Africa shows:

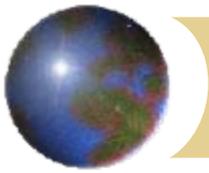
❏ *The economic structure remains constant with low levels of economic diversification => primary activities*

❏ *Urbanization without industrialization*

● For a long time to come agriculture will remain the main source of jobs

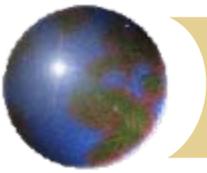
The economic structure hardly changed overtime



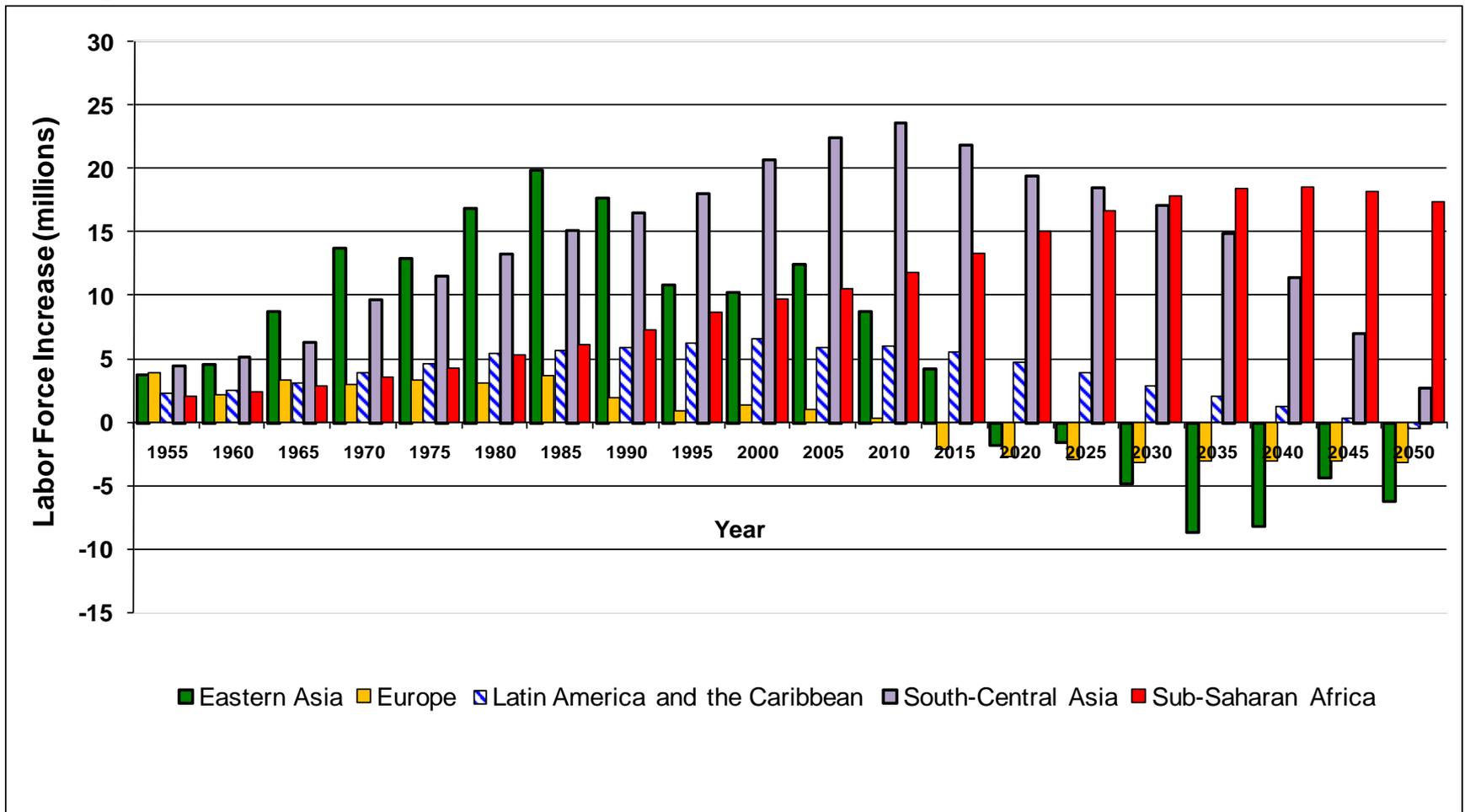


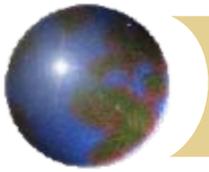
Demographic Transition

- 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*

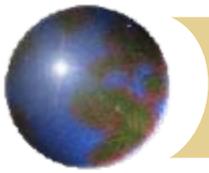


The labor force is increasing in Africa while it is decreasing in all other regions





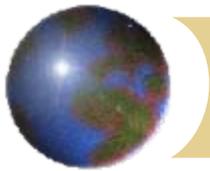
2. What Africa Can Learn from the East Asian Experiences



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

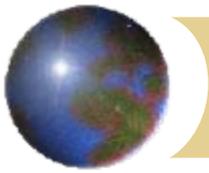
✚ Economic growth driven by public policy

Strategy

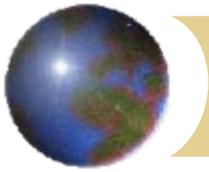
- ✚ *Leadership*
- ✚ *Prioritization*
- ✚ *Industrial policy*
- ✚ *Creation of human capital*
- ✚ *Getting the fundamentals right*
- ✚ *Active exchange rate policy*

Implementation

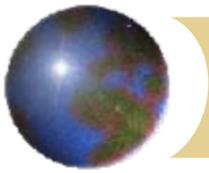
- ✚ *Pragmatism and experimentation*
- ✚ *Gradualism and incrementalism*
- ✚ *Sequencing*



- 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*

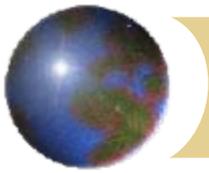


3. Policy options for breaking out of the traps



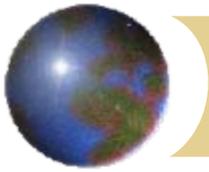
Policy options (1): Breaking out of growth volatility

- 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 → development of rural nonfarm → 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