

African growth: facts and issues

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François-Xavier Bellocq, Pierre Jacquet, Laurent Muresianu
Preliminary

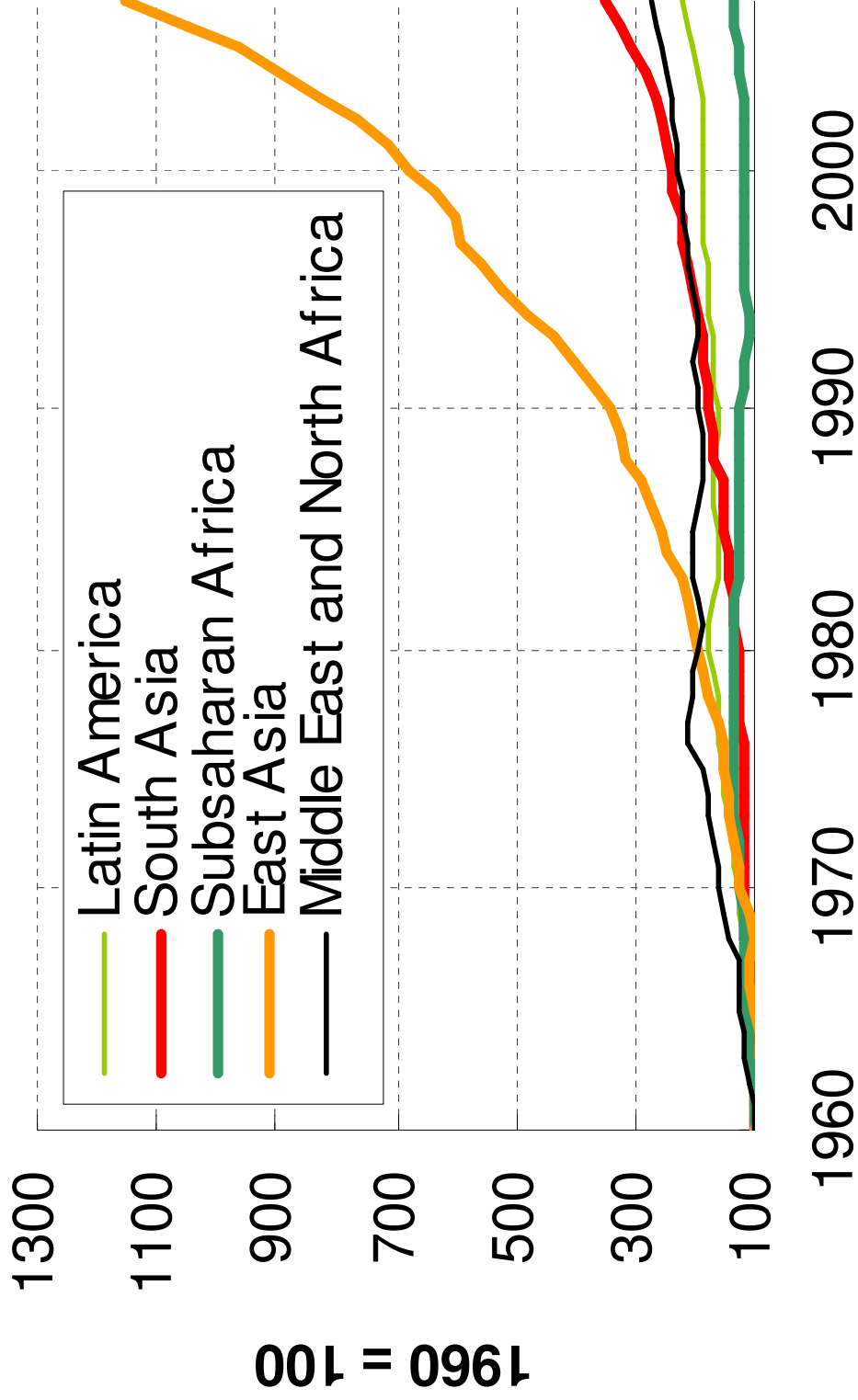
Outline

- 1960-2000 : a few stylized facts
- Brief review of explanations
- Growth after the crisis: what model for Africa?

A few stylized facts

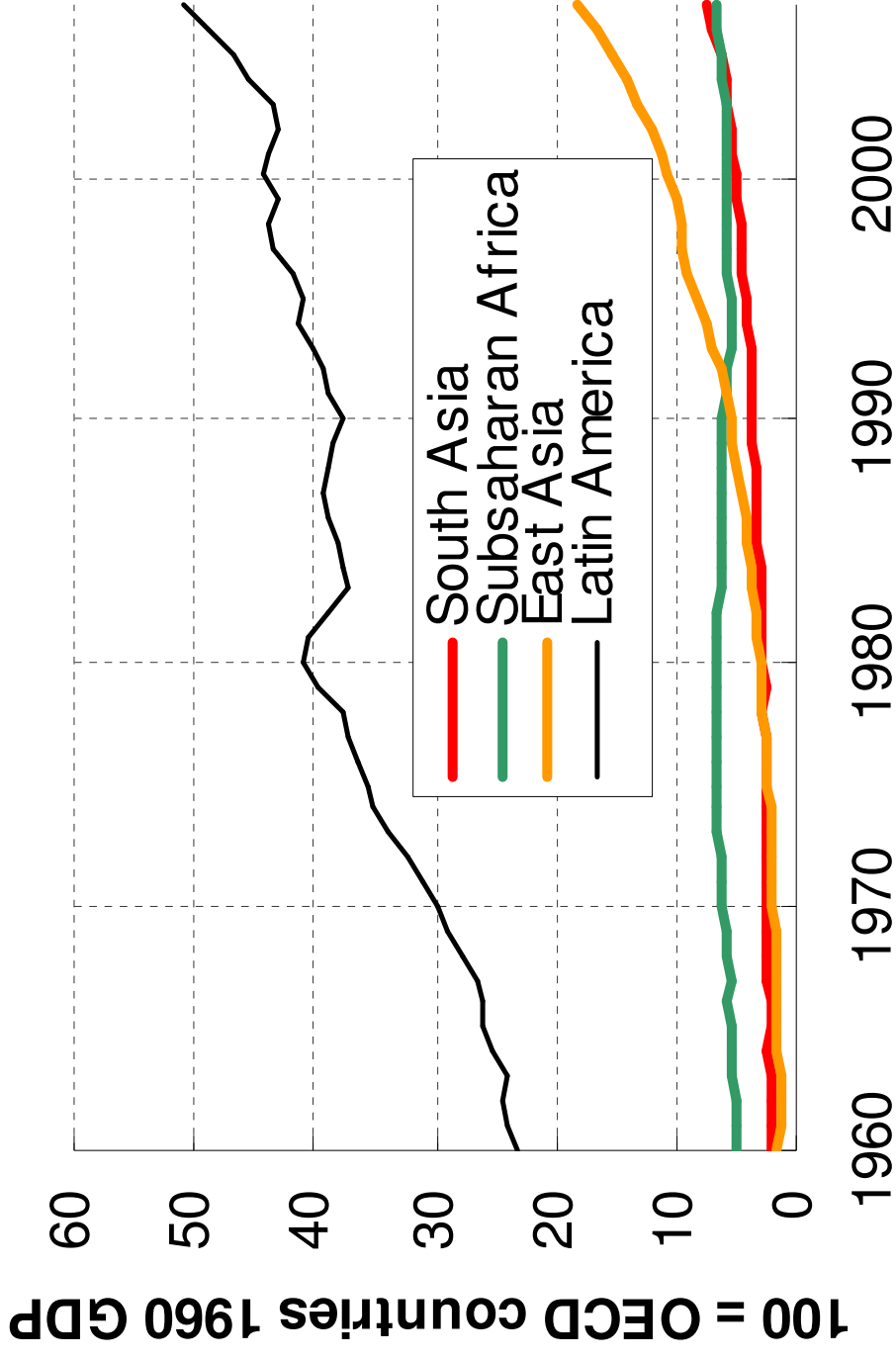
- No catching-up in per capita GDP over the 1960-2007 period
- Unfavorable savings-investment balance
- No progress in industrialisation

Evolution of per capita GDP

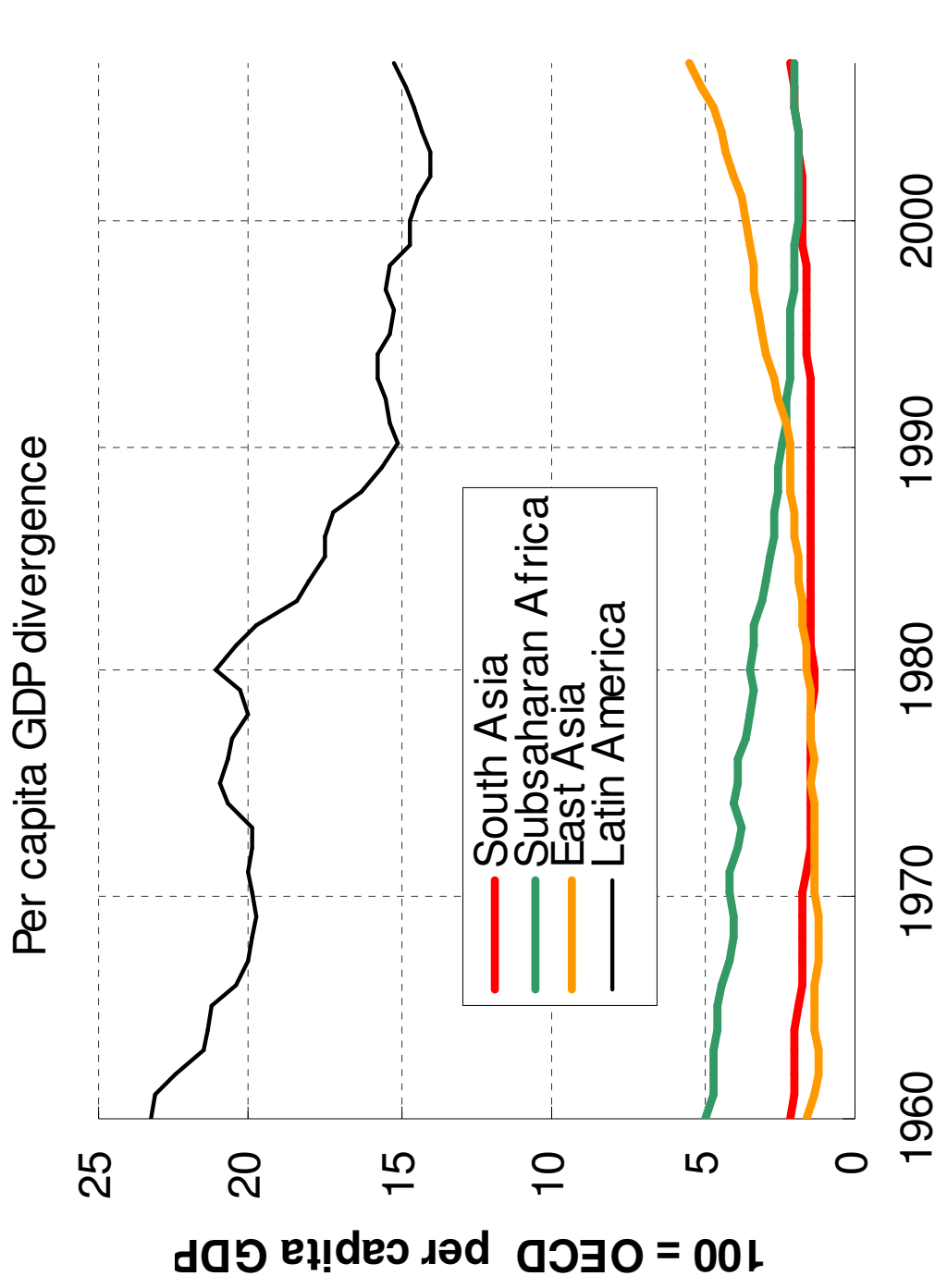


Source : WDI (Ecwin database)

Per capita GDP in proportion of OECD 1960

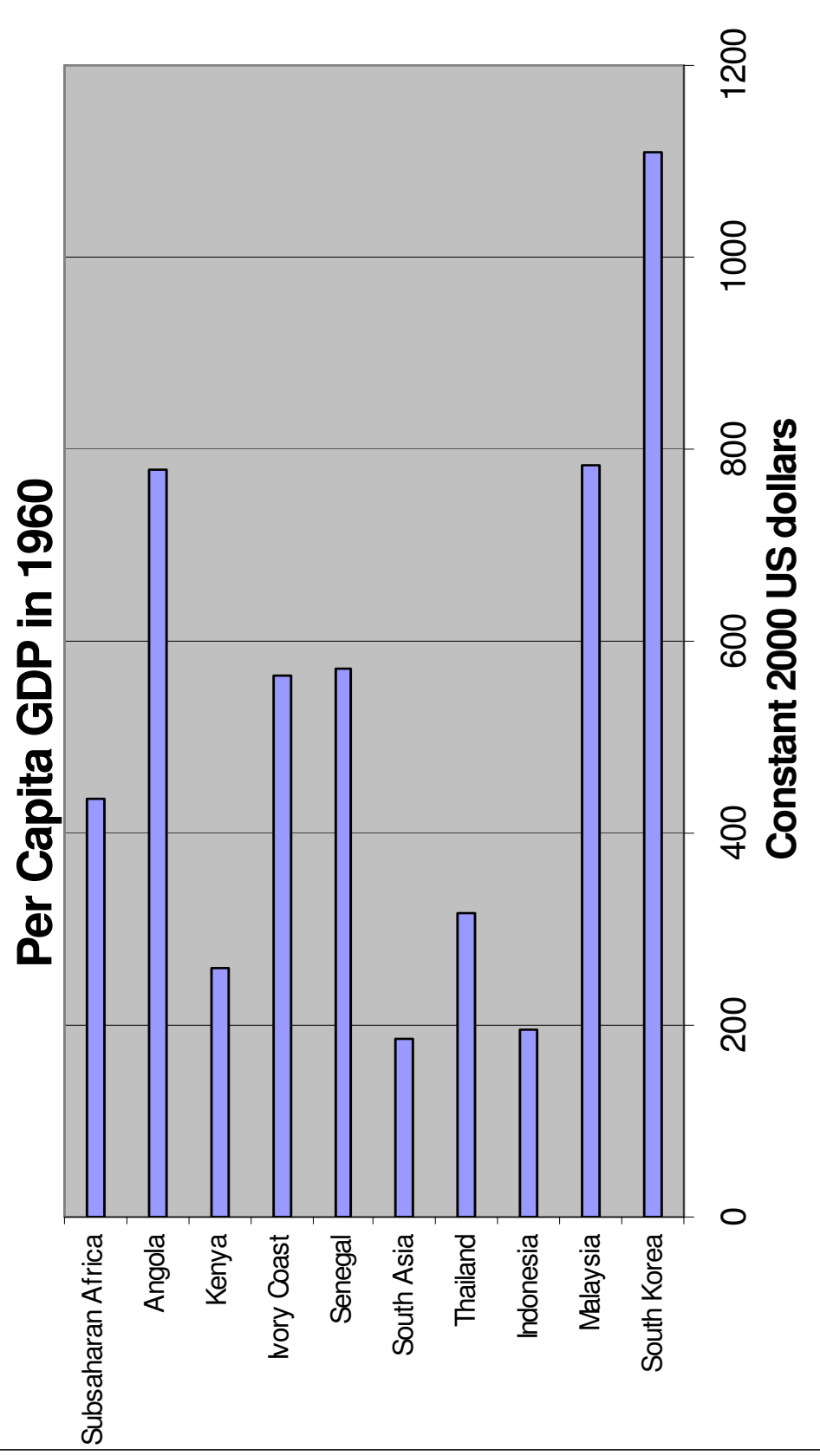


Source : WDI (Ecwin database)



Subsaharan African per capita GDP was 4.9% of OECD per capita GDP in 1960, 1,9 percent in 2000, 2 percent in 2007.

Source : WDI (Ecwin database)



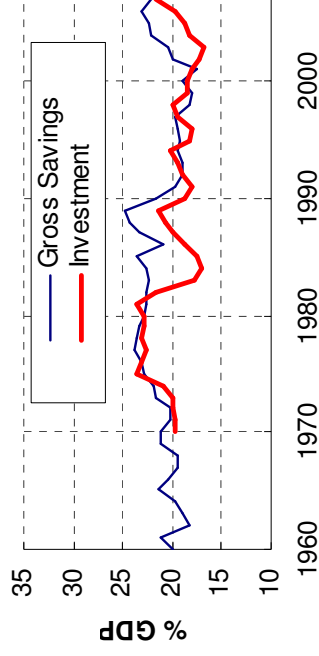
- Reason of Africa's poor performance relative to other countries is not due to initial income conditions



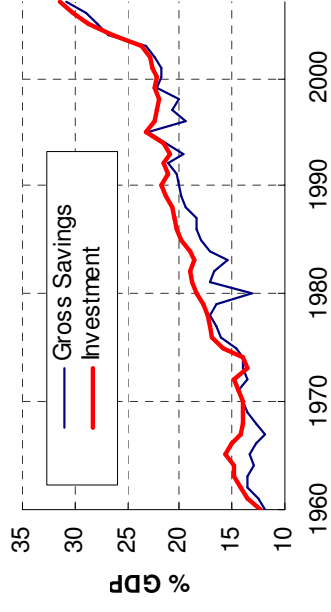
Savings-Investment Balances (% GDP)

Major debt shock in the 1980s

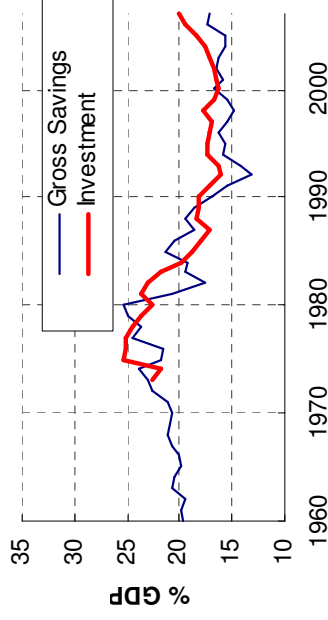
Latin America and Caribbean



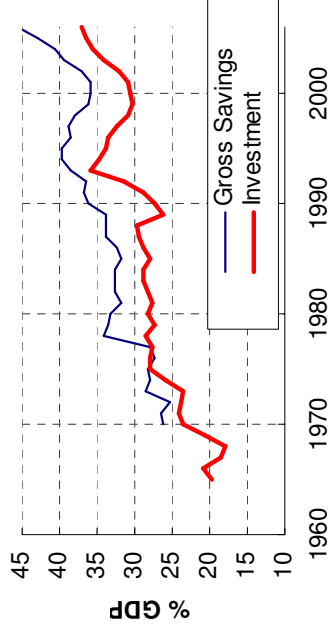
South-Asia



Sub-Saharan Africa

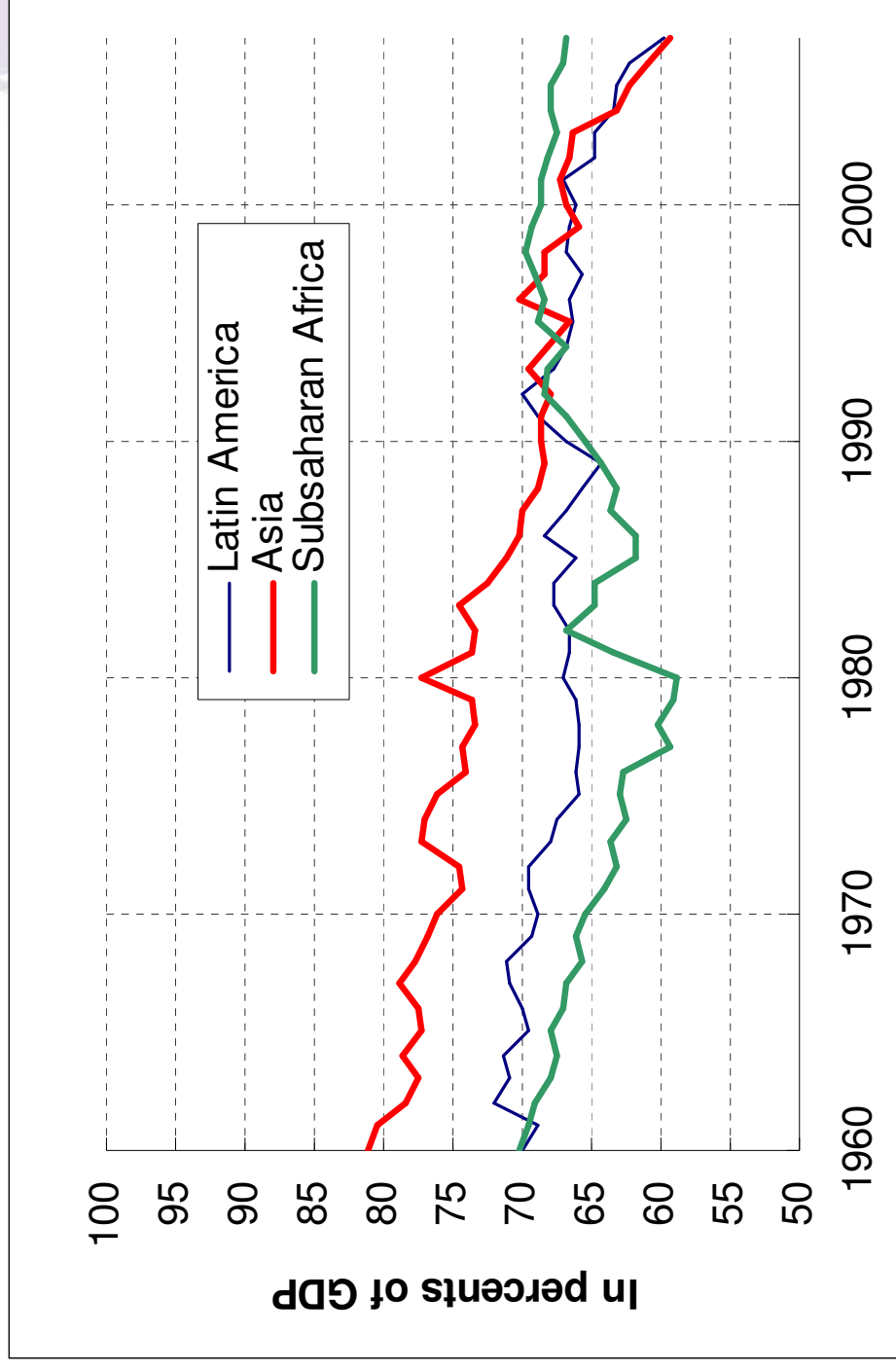


East-Asia and Pacific



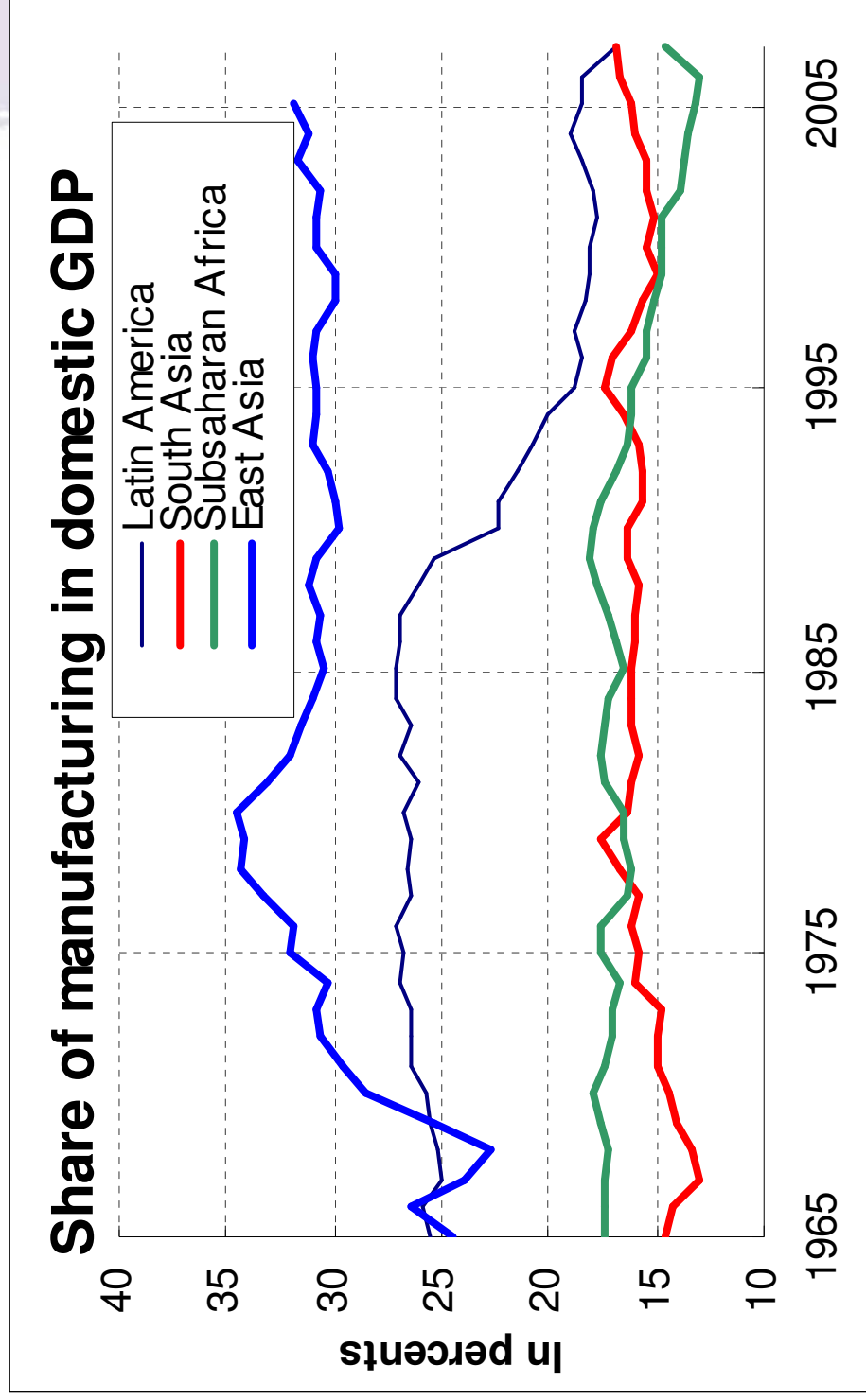
Source : WDI (Ecwin database)

Household final consumption expenditure



Source : WDI (Ecwin database)

Industrialization

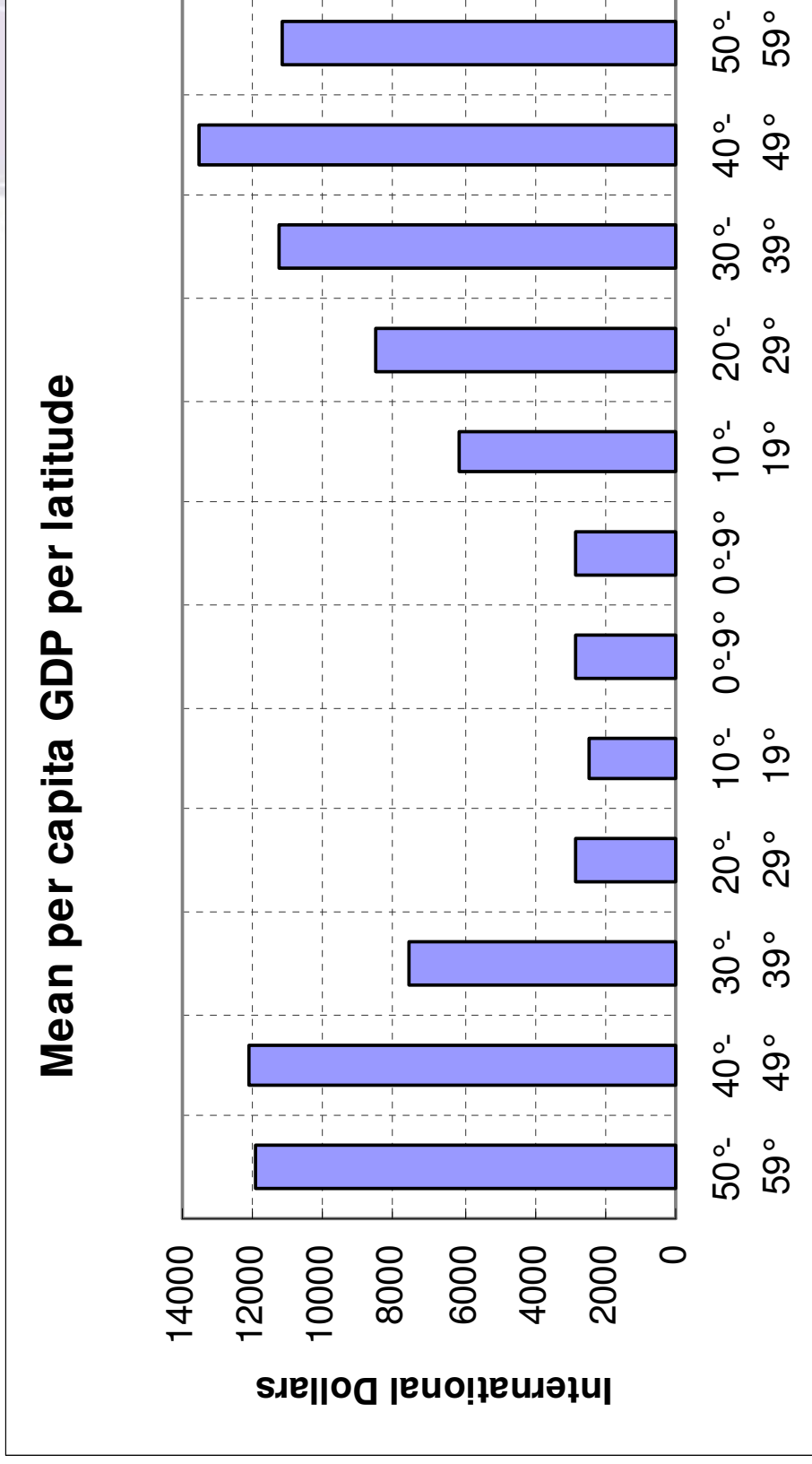


Source : WDI (Ecowin database)

Traditional literature explanations

- Factor endowments and geographical constraints
- Dynamism of demography and urbanization
- Institutions
- These explanations of the “African dummy” should not be interpreted as competitive and mutually exclusive. They are complementary. In particular, poor institutions are endogenous but also explain why the other obstacles have prevented SSA to grow faster.

Geography and income



Two classes of explanations: climate and transport costs

Source : Berthelemy and Söderling, 2001

Climate and transport costs

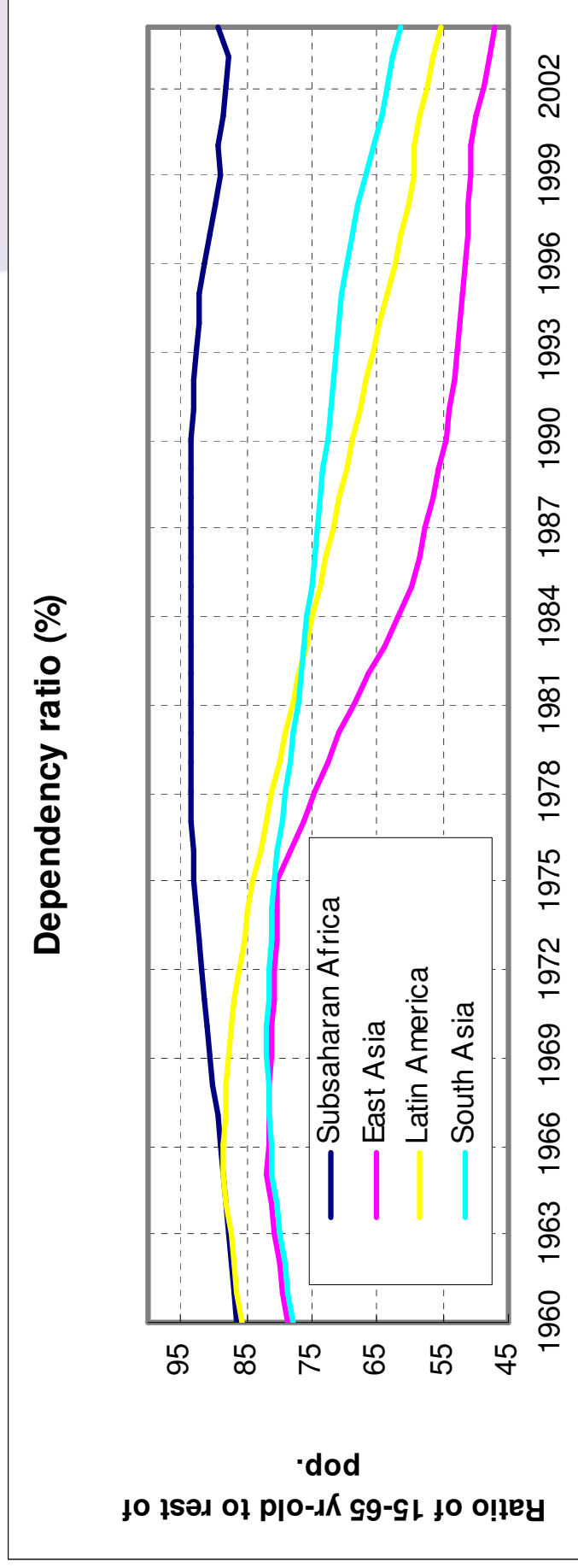
- Tropical characteristics
- Effects of climate on Farm productivity (high temperatures, less intensity of exposure to the sun, high rain variability, poor farming conditions, high risks, climate differences as barriers to technological transfers...).
- Location of rural populations in isolated areas
- **Next issue: climate change**
- Health conditions (recently, AIDS). Influence of climate on health
- “Economic” distance a huge handicap.
 - Transport costs (lack of infrastructures, of rivers irrigating the inside of the continent)
 - Low ratio of coastal length to global area.

Factor and resource endowments

- Abundance of natural resources, esp. in relation to population: endowment per capita looks favorable
- Ambiguous or outright negative benefits
 - “malediction” of natural resources
 - Impact on institutions (organizing rent exploitation and capture)
 - Conflicts
 - Dutch disease: overvalued real exchange rates, biased, undiversified specializations
 - Impact on institution

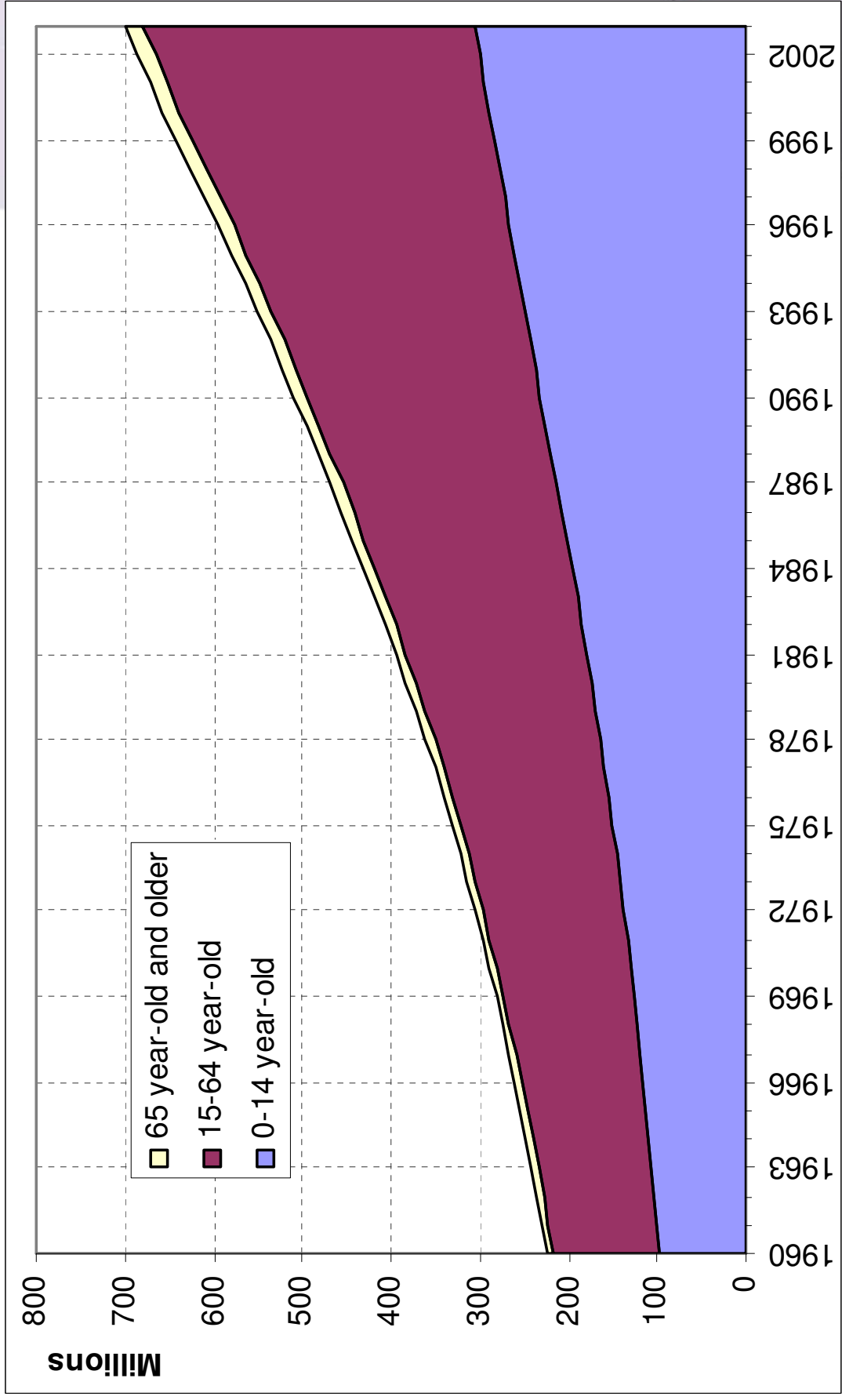
Demography

- Belated demographic transition: fertility rates remain quite high. Hence, population grows fast, the characteristics of low density is evolving. But there is a “demographic dividend” coming in the future (lower “dependency ratios”)



Source : WDI (Ecowin database)

Structure par age – Subsaharan Africa



Source : WDI (Ecwin database)

Economic geography issues

- Endogenous location of population and activities depending on agglomeration vs. dispersion factors
- Relatively low rate of urbanization, but high pressure
 - High transport costs, lack of infrastructures prevent concentration of populations, poor access to domestic and international markets
 - Legacy of slavery: population located in areas difficult to access
 - Poor farm productivity
 - Phenomenon of “rural urbanization”
 - Nutrition risks, risks on farm production
- Changes ahead
 - Fast growing populations (2 billion people in 2040 ?)
 - Where will increases in farm productivity come from?
 - Will urbanization provide a “solution” ?

Institutions

- An aggravating factor
- Reign of personal relations. Depersonalization through confidence-creating institutions lagging.
- Institutions are endogenous, part of integrated social orders that include the political regime, the economic regime, the judicial system, education, etc.
- Inherited laws often clash with traditions and are not respected nor implemented
- Poor policies
- How to understand the process of institutional change?
 - What incentives for the elites?
 - Problem is not as much institutions per se (they are not “given”) as the lack of institutional change toward institutions more friendly to long term growth and innovation
 - How to understand the joint process institutions-politics-economics (North, Weingast and Wallis, 2006; Meisel 2008)

Partial conclusion

- None of these explanations is likely to suffice. Their interactions matter: to surmount geographical obstacles, to transform resource malediction into resource net benefits, well-working institutions are needed.
- Underdevelopment trap due to the interaction between a series of unfavorable conditions
- Prescriptive, normative approach difficult: What to do? How to help?

Questions

- Fast pace of demographic growth and of urbanization : is it a chance?
 - Problem with agricultural productivity. 70% of population is rural. Focus should also be on farm productivity
 - Problem with essential services infrastructures in fast growing cities : can they play their role as a locus for increasing returns?
- Role of export led growth : is it also a crucial model for Africa?
 - What exports ? Does Asian specialization leave room for Africa ? Can world markets absorb more manufactures ?
 - How to promote exports and industrialization (need for undervalued real exchange rates). Can and should it be through selective export subsidies (Rodrik 2009) ?
- What role for policy makers ? What growth model for Africa ?
What are the prospects for “green and inclusive” growth ?
- How to address and mobilize the informal economy?
- What role for development assistance ?

Selective and partial references

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