

## ***Africa: Neither Hopeless Nor Rising***

Robert Kappel

The Annual Meeting of the African Development Bank will take place in Kigali, Rwanda, from 19 to 23 May 2014. The theme of the meeting is “The Next 50 Years: The Africa We Want.”

### **Analysis**

Most of the 49 countries in sub-Saharan Africa have registered positive economic growth in recent years. Gross domestic product (GDP) growth rates as well as export growth rates have been quite high, and the flow of foreign direct investment (FDI) is rising. However, scholarly analyses have also clearly shown which factors are impeding the economic advancement of particular sub-Saharan countries. Above all, it is structural change that has failed to make headway.

- Economic growth varies greatly from country to country in sub-Saharan Africa. The more fragile states (approximately 25 percent of all African countries) are recording growth rates of less than 4 percent, and only the countries who export natural resources top 6 percent.
- Large sections of the sub-Saharan population have experienced an improvement in their quality of life over the past ten years; some of the Millennium Development Goals (MDGs) were even reached (school enrollment rate, life expectancy, health care). But the main goal, to decrease the number of people living in poverty by 50 percent, has not been met.
- A small middle class is developing in sub-Saharan Africa.
- Africa is often referred to as the “continent of the future” because the share of young people relative to the entire population is quite high. But the continent’s youth will have a future only if enough jobs are created to support them.

*Keywords: sub-Saharan Africa, economic development, economic growth, trade, industry, social structures, structural changes*

## Exaggerations by the Media and Consulting Firms

Countless newspapers and journals have aggrandized the rise of Africa, reporting that the continent is currently experiencing a growth dynamic that gives reason to hope, and that the average rate of growth among African countries has surpassed that of the emerging economies of Asia. Consulting firms and rating agencies extol the huge potential of Africa and have styled the continent as the region of the future in terms of growth.

There are nine basic arguments commonly employed to evince the rise of Africa:

- 1) The average rates of sub-Saharan GDP growth have been high for the last eight to ten years and have even surpassed the average GDP growth rates of Asian countries.
- 2) Export growth is sharply increasing, making sub-Saharan Africa the new “export world champion.”
- 3) Per capita income has increased, poverty has decreased, and middle classes have begun to emerge.
- 4) Africa has experienced an Internet revolution.
- 5) Industrialization has begun and production has become more strongly diversified.
- 6) FDI is increasing, which will lead to more technology transfer.
- 7) The agricultural sector has been reinvigorated.
- 8) The continent’s youth and natural resources represent its potential, which just has to be realized.
- 9) Trust in institutions has grown.

Many sub-Saharan countries are in fact demonstrating positive growth rates and a friendlier business climate after many decades of crises. The continent is gaining more attention from investors worldwide. The efforts made by specific countries in terms of economic policy – including striving toward macroeconomic stability, creating incentive programs for investment, making changes to tax policy, limiting the debt and displaying budget discipline – are showing improvement. For example, international rating agencies are rating these states’ level of “business attractiveness” higher than they did five years ago. Furthermore, many African countries and foreign investors alike are demanding more sub-Saharan natural resources. Nevertheless, exaggerated and uncritical optimism is uncalled for.<sup>1</sup>

<sup>1</sup> It is interesting to note how often Africa is supposed to have

First and foremost, the following aspects, which have mostly been ignored by consulting firms and rating agencies, must be included in the evaluation:

- African markets are very volatile. Fluctuations in demand and prices directly affect investment, foreign trade, domestic markets and income levels. Because of this, it is essential to track the long-term trends and to resist the urge to either proclaim that Africa is rising or spin a tale about the big crisis around the corner with every slight change in the market.
- Each country in sub-Saharan Africa has its own unique history in whose context specific political and economic values and goals have evolved. Economic points of departure vary drastically from country to country – for example, between coastal and landlocked countries, or between countries rich in natural resources and those who have hardly any. But the main determining factor of a country’s performance is whether and when reforms in economic policy<sup>2</sup> have been introduced. Countries that have made substantial reforms such as Ghana, Ethiopia and Tanzania are not only distinct from one another, but also clearly differentiated from reform-resistant countries such as Eritrea, Zimbabwe and Senegal. There are many states that have been stable over a long period of time, such as Tanzania and Ghana, but there are also a good number that have remained fragile, such as South Sudan, Somalia, Burundi, Côte d’Ivoire, Mali, Liberia and Sierra Leone. Some countries demonstrate a high level of urbanization, such as Nigeria and South Africa, where more than 60 percent of the population live in cities. But there are also countries with overwhelmingly rural populations, such as Kenya and Uganda. Thus, the data on averages represents a skewed picture of the reality in individual states.
- Oftentimes, data on the development of African states is presented as if these states are op-

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“turned the corner.” For decades, numerous reports by the World Bank, the International Monetary Fund, the African Development Bank and the Organisation for Economic Cooperation and Development (OECD) have been claiming that “now” is Africa’s time (see, for example, the thorough study by Berthélemy and Söderling 2002).

<sup>2</sup> For example, opening markets, safeguarding property rights, improving investment regulations, promoting small and medium-sized businesses, reducing inflation through macroeconomic stabilization, balancing national budgets and undertaking currency measures.

erating outside the boundaries of international competition. But in order to capture the success and rise or crisis and fall of a given country, comparative studies are necessary: long-term comparisons with countries on other continents and comparisons between individual African states can better illustrate the actual competitiveness than can assessments that rely on short-term trends. Nevertheless, numerous journals, such as *The Economist*, have devoted themselves to such short-term analyses, which in the span of a little over a decade have switched from diagnosing the continent as a hopeless case to making proclamations about "Africa rising."<sup>3</sup>

### Hemmed In: What is Constraining the Rise of Africa?

The aforementioned nine points that supposedly substantiate the rise of Africa can be countered by the following facts and evaluations:<sup>4</sup>

#### *GDP Growth over the Past Decade*

Economic growth from country to country is quite varied. The fragile states (approximately 25 percent of African countries) have a growth rate of less than 4 percent; the middle-income states<sup>5</sup> (approximately 15 percent) show a growth rate of 4 percent or more, the low-income countries are at 5 to 6 percent, and only the countries that export natural resources are at over 6 percent (IMF 2012). Using the growth acceleration criteria<sup>6</sup> laid out by Hausmann,

3 *The Economist* (2000), *The Hopeless Continent*, 13 May, online: <[www.economist.com/node/21519234](http://www.economist.com/node/21519234)> (accessed 10 August 2013); *The Economist* (2013), *Africa Rising: A Hopeful Continent*, 2 March, online: <[www.economist.com/news/special-report/21572377-african-lives-have-already-greatly-improved-over-past-decade-says-oliver-august](http://www.economist.com/news/special-report/21572377-african-lives-have-already-greatly-improved-over-past-decade-says-oliver-august)> (10 August 2013). The series written by *Der Spiegel* journalist Bartholomäus Grill entitled "A Giant Awakens: Inside Africa's Economic Upsurge" stands out in this regard, pointing to the numerous problems, *Spiegel Online International* (2013), online: <<http://www.spiegel.de/international/world/spiegel-series-on-winners-and-losers-of-economic-boom-in-africa-a-934816.html>>.

4 See Bach 2013; Baliaoune-Lutz and Boko 2013; Devarajan and Fengler 2013; Kappel and Pfeiffer 2013; Sindzingre 2013.

5 Middle-income countries have an average annual per capita income between 1,036 and 12,615 USD; in low-income countries, this figure is 1,035 USD or lower. See classifications as defined by the World Bank, online: <<http://data.worldbank.org/about/country-classifications>> (accessed 13 December 2013).

6 Hausmann, Pritchett and Rodrik (2005: 2) define a "growth acceleration" as "an increase in per capita growth of 2 percentage points or more [...]. To qualify as an acceleration, the increase in growth has to be sustained for at least eight years

Pritchett and Rodrik (2005), sustainable growth can be established for some countries; however, this sustainability cannot be applied to the fragile states and the low-income states, meaning only about half of the countries in sub-Saharan Africa are actually demonstrating accelerated growth.

#### *Increase and Diversification of Exports*

Many sub-Saharan countries were able to realize high rates of growth in exports, sometimes even surpassing the worldwide average. Many, but not even close to all of them, took advantage of the price increases in natural resources and the rising demand for both those resources and for energy on the part of India and China. China's increased demand for natural resources from Africa accounted for 4 percent of sub-Saharan Africa's total export growth. The corresponding figure for the OECD states stands at 1 percent. The particular trade dynamics between sub-Saharan African countries and the BRIC states<sup>7</sup> have led to the former region remaining largely oriented toward the export of natural resources and agricultural products, meaning Africa is stuck in a resource trap.

#### *Per Capita Income, Poverty, Middle Classes*

Today, large sections of the continent's population enjoy a slightly higher standard of living than they did ten years ago. Due to the high rate of population growth, the increases in per capita income are significantly lower than GDP growth rates. The average gross national income (World Bank Atlas Method) in sub-Saharan Africa is 1,350 USD per year, though there are huge differences between countries such as the Seychelles (12,000 USD), South Africa (7,600 USD) and Botswana (7,500 USD) and states such as Burundi (240 USD), Sierra Leone (580 USD) and many other countries where the corresponding number is lower than 500 USD.

Regarding the implementation of the United Nations' MDGs, Africa has shown improvements in school attendance rates, life expectancy and access to health services, though the situation regarding education and health is, in most cases, precarious. The proportion of the poor relative to the total population has fallen from 56.5 percent (1990) to 48.5 percent (2010). Despite the fairly high rate of economic growth, the percent-

and the post-acceleration growth rate has to be at least 3.5 percent per year."

7 The BRIC states are Brazil, Russia, India and China.

age of poor people who earn less than 1.25 USD per day has risen from 376 million (1999) to approximately 420 million (2010).<sup>8</sup> Some 70 percent of the continent's population is forced to survive on less than 2 USD a day. Today, every other African lives in extreme poverty. Optimists speculate that the relative poverty will drop down to 30 percent by 2030. What is undisputed is that in the year 2030, most of the world's poor will live in Africa. High population growth rates are undoing the progress in productivity and contributing to the perpetual poverty.

The continent's middle class is still small in general, but in the context of the continuous growth of the last ten years, the middle class has grown in some countries. This middle class is primarily characterized by altered consumer behavior and other consumption patterns (such as the amount of money spent on qualitatively better consumer products, education and health). However, determining who belongs to this group has proven problematic: according to the African Development Bank (2011), anyone earning over 2 USD per day is categorized as belonging to the middle class (Melber 2013).

#### *Internet Revolution*

The assessment that Africa has undergone an Internet revolution is far from reality. Actually, the continent is a straggler in terms of the use of modern communications technology. The spread of cell phones began much earlier on all the other continents. What is crucial to consider are the server capacities rather than the number of cell phones or Internet cafés: most of the continent's servers have relatively low storage capacities, and servers in general are much more sparsely scattered throughout Africa than elsewhere in the world. Even in South Africa, the quality and ubiquity of information and communication technology lags behind that of comparable countries.

#### *Industrialization*

Numerous countries on the continent could solidify their positions in the international natural-resources markets, but their proportion of trade

in manufactured goods is especially low and has sunk even further over the last thirty years: from 1.6 percent in 1980 to 0.8 percent in 2010. Most sub-Saharan countries have not been able to further industrialize; high trading and transaction costs as well as insufficient state incentive schemes have hampered industrial breakthroughs. Africa is the continent with the lowest level of industrialization. Small clusters and zones of industry have certainly developed in the cities, but these are dominated by micro-businesses in the informal sector and small and medium-sized businesses. In those cases where growth can be evinced, it is primarily in businesses that are integrated into the global supply chain. The amount of growth needed for technology transfer is very small. Most sub-Saharan countries are still far from being able to make structural changes. Agriculture, the informal sector and natural resources continue to dominate the economies of Africa, essentially leading to growth without development.

#### *Foreign Direct Investment*

The increased levels of FDI in sub-Saharan Africa can probably be attributed to the heightened importance of the region in the global economy, even though the proportion of global investment is still quite low (2 percent in the 1990s, 3 percent over the past decade). However, FDI has been concentrated in specific, resource-rich countries and focused on resource extraction. The "trend" regarding industrial investment is at best rudimentary.

#### *Agriculture*

Agriculture also played only a small role in the growth boom of the past decade. Since the mid-1990s, productivity has stagnated at a low level. The productivity gap between sub-Saharan Africa and other world regions is increasing.

#### *Youth Prospects*

Africa is often viewed as the "continent of the future" because its mean population is quite young. The potential of the youth can only be realized, however, if there are enough jobs for them. Approximately two-thirds of Africa's total population is under 24 years old, and this section of the population is generally underemployed. African countries will need to generate about eight million jobs annually to adapt to the high rate of population growth. It is unlikely that sub-Saharan countries will be able to keep up, because neither the

<sup>8</sup> In his article "Africa's Statistical Tragedy," Chief Economist of the World Bank's Africa Region Shantayanan Devarajan (2013) proposes the theory that due to the lack of data on Africa, one cannot decisively conclude whether growth rates are rising and whether poverty is decreasing. He refers to this as a "statistical tragedy." See World Bank Poverty Data, <<http://povertydata.worldbank.org/poverty/region/SSA>>.

booming natural-resources sector nor the small and medium-sized businesses are creating a significant number of additional jobs.

#### *Improved Institutions*

Here, individual indicators are selectively incorporated, such as the World Bank's Ease of Doing Business (EDB) index. According to this index, the situation in some countries truly has improved. The institutional reforms have had positive effects in many countries, and the political risks are often not as big now as they were in previous years. Trust in institutions has strengthened in many countries, but not nearly all of them. The region's high growth rates over the last several years are also a result of improved institutions and enhancements made to macroeconomic policies since the 1980s and 1990s. Nevertheless, institutions in many countries display deep weaknesses. This state of affairs has continued to be confirmed by numerous studies over the past few years (Bates et al. 2012; Kappel and Pfeiffer 2013).

#### **How Well do Sub-Saharan African Economies Perform?**

Will the growth of the last several years prove sustainable? The following points indicate that sub-Saharan Africa has a ways to go in that regard:

- In terms of the catching-up process, most African countries are starting at a very low standard of living. Even given the increasing per capita incomes in Africa, sub-Saharan countries will be able to close the income gap only very gradually. In order to double the current average per capita income of 1,350 USD/year by 2025, an annual growth rate of 6 percent is required. For example, it would take about eleven years for an average sub-Saharan country to reach today's – relatively low – annual per capita income of the Philippines (approximately 2,500 USD); for Sierra Leone, it would take about 25 years. Even the most successful sub-Saharan countries are actually much poorer than the poorest countries in other regions of the world. It should be fairly clear that the majority of these states will not be able to make this leap.
- In most countries, the growth process was triggered by an increased demand for natural resources and agricultural products. These coun-

tries can profit as long as they engineer a structural change toward industrialization. They have access to the resources they need in order to diversify. A certain few countries (for example, Botswana) have used their resources toward that end, but most countries find themselves stuck in a "resource trap": agriculture and industrial development are being neglected – production is not being diversified. In many resource-rich African countries (such as Angola, Nigeria and Cameroon), the overemphasis on natural-resource production is compounded by institutional weaknesses. The growth of resource-rich countries is permanently in peril. In only very few countries does the path to growth appear sustainable; only a handful of countries have experienced a spillover effect. This is how certain countries in phases of growth were able to post correspondingly high job numbers. Even South Africa, which boasts the best current account in sub-Saharan Africa, has had tremendous problems generating broad-based growth (Kappel 2013).

- In the most crucial sectors – agriculture and small and medium-sized businesses – a clearly recognizable domestic market cannot yet be spoken of. Small and medium-sized businesses have demonstrated very marginal growth, and almost no growth in productivity has been recorded in the agriculture sector. Increasing productivity represents an important requirement for readiness to compete on a global level and for sustainable growth.
- With the exception of exporting natural resources, sub-Saharan Africa plays almost no role in the global economy. This marginalization limits opportunities for broader-based foreign trade. A stronger integration into global supply chains would heighten the demand for African labor and create new opportunities for local businesses. If and when international investors begin to turn in larger numbers to Africa in order to bypass wage increases in China, India, Brazil or Vietnam cannot be predicted. One barrier to that might be high unit labor costs in Africa (Gelb, Meyer and Ramachandran 2013; Fox et al. 2013).
- In most sub-Saharan African countries, the infrastructure is insufficient, even though slight improvements have been made over the last several years (for example, in Internet access). The often poor physical infrastructure (streets,

ports, railways, electricity) has limited the development of domestic markets and of imports and exports. The lack of infrastructure is a substantial obstacle to sustainable high rates of growth. Particularly precarious is the situation for landlocked countries, in which geographical isolation, institutional weaknesses and the high cost of trade have a compound effect.

- Institutional conditions have improved in many countries, and the political risks are often not as big as they were in previous years. Nevertheless, from time to time extreme political tensions surface, such as has occurred in South Sudan, South Africa, Mali, Mauritania, Sierra Leone, Liberia, Côte d’Ivoire, Somalia, Nigeria, Burundi, the Central African Republic, Mozambique and Kenya. On the other side, the business climate in some sub-Saharan countries has improved.
  - Sub-Saharan Africa has made some progress in terms of productivity; however, this holds true for only a small number of countries, as some even suffered a *drop* in productivity. In contrast to China and other emerging countries, sub-Saharan African states have not been able to even begin catching up. Efforts to bolster industrialization and to improve the technological equipment and qualifications of the labor force and businesses alike have so far been grossly unsuccessful. Due to the low inflow of FDI in the processing and technology-intensive sectors, almost no technology transfer has taken place, which has contributed to the overwhelming number of African countries lagging behind the emerging countries technologically.
- In a recent study, Kappel and Pfeiffer (2013) reported on the performance of African countries. The goal was to carry out a comprehensive assessment of the countries with as small a number of individual indicators as possible. To that end, six dimensions were set out for an indicator catalogue, which covered fundamental aspects of the definition of competitiveness: economic development, level of financial development, infrastructure, institutional framework, level of education and market openness. The variances from state to state were reported on using a principal component analysis, and 42 African countries were included in the rankings (Performance Index Africa, PIA).
- For years, the Seychelles and Mauritius have been way ahead of most of the developing coun-

**Table 1: Performance of 42 African Countries, in the Context of a Comparison of 106 Developing Countries (2011)**

Top 10	Seychelles (1), Mauritius (7)
11–20	South Africa (20)
21–30	Botswana (29)
31–50	Cape Verde (34), Namibia (40)
51–75	Gabon (53), Lesotho (56), Swaziland (61), São Tomé and Príncipe (62), Congo-Brazzaville (66), Kenya (69), Ghana (70), Angola (72), Mauritania (73), Liberia (74)
75–106	Malawi (76), Togo (80), Senegal (81), Nigeria (82), Tanzania (83), Gambia (84), Comoros (85), Benin (86), Mozambique (87), Uganda (88), Sudan (90), Cameroon (91), Côte d’Ivoire (92), Mali (94), DR Congo (95), Eritrea (96), Madagascar (97), Guinea-Bissau (98), Ethiopia (99), Guinea (100), Sierra Leone (101), Burundi (102), Burkina Faso (103), Niger (104), Chad (105), Central African Republic (106)

Source: Kappel and Pfeiffer 2013.

tries, and they accordingly display the best performance in the index. South Africa, Botswana, Cape Verde and Namibia also rank high. Heavily populated Nigeria is somewhere in the middle. Landlocked and fragile states demonstrate on average worse rankings than coastal countries and those with natural resources. At the bottom of the rankings are primarily poor countries and landlocked countries. Most of these states are also characterized by civil war and fragile statehood.

- Only countries with a high per capita income are capable of seriously pursuing goals that would allow them to catch up to other countries. Most sub-Saharan African countries do not meet the necessary requirements in this regard.

The comparison of 106 developing nations demonstrates that the majority of African countries fall somewhere between rankings 70 and 106 (see Table 1), meaning that the majority of African countries are not currently experiencing a “rise” – rather, they have dropped down to below the level of most other developing countries. Other ranking systems have reported similar results.

Prospects for growth in sub-Saharan Africa are determined by many “if-then” scenarios: If the global economy continues to develop, then growth rates may remain stable at the high level of previous years. If the race for natural resourc-

es continues its trend, then the export revenue of sub-Saharan resource-exporting countries will rise. If the aforementioned trends continue, then states could gain the additional resources needed to promote structural changes.

Africa is tasked with industrialization. Direct investments need to flow with increasing intensity into industry. Only in this way can a sustainable growth occur, one that is characterized by the parallel and combined development of agriculture, agro-industry, light industry, industrial zones and small and medium-sized businesses. Only then will the requisite number of jobs be created for the large number of young people on the continent, which will ultimately lead to a reduction in poverty.

Essential to this are the further opening of markets, the safeguarding of property rights, the improvement of infrastructure, the reduction of trading costs, and greater administrative efficiency. The basic requirement is macroeconomic and political stability. In over one quarter of all African countries, this basic requirement has not been met. One determining factor of this is the readiness of governments and economic elites to modernize economies, to promote the much overdue structural changes and to foster trust, all of which would serve to heighten the incentive for local and foreign businesses to invest in Africa.

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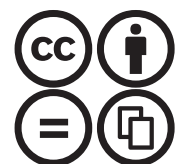
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