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African Development in Perspective



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Introduction

Context

- The *Economist* (11 May 2000): Hopeless Africa
- The *Independent* (15 July 2009): Africa – the lost continent
- The *Economist* (3 December 2011): The hopeful continent – Africa rising
- A recent *Afrobarometer* survey suggests: ‘despite high reported growth rates, lived poverty at the grassroots remains little changed’ (Dulani et al. [2013](#)); others even question the growth revival referring to poor data

Pressing questions

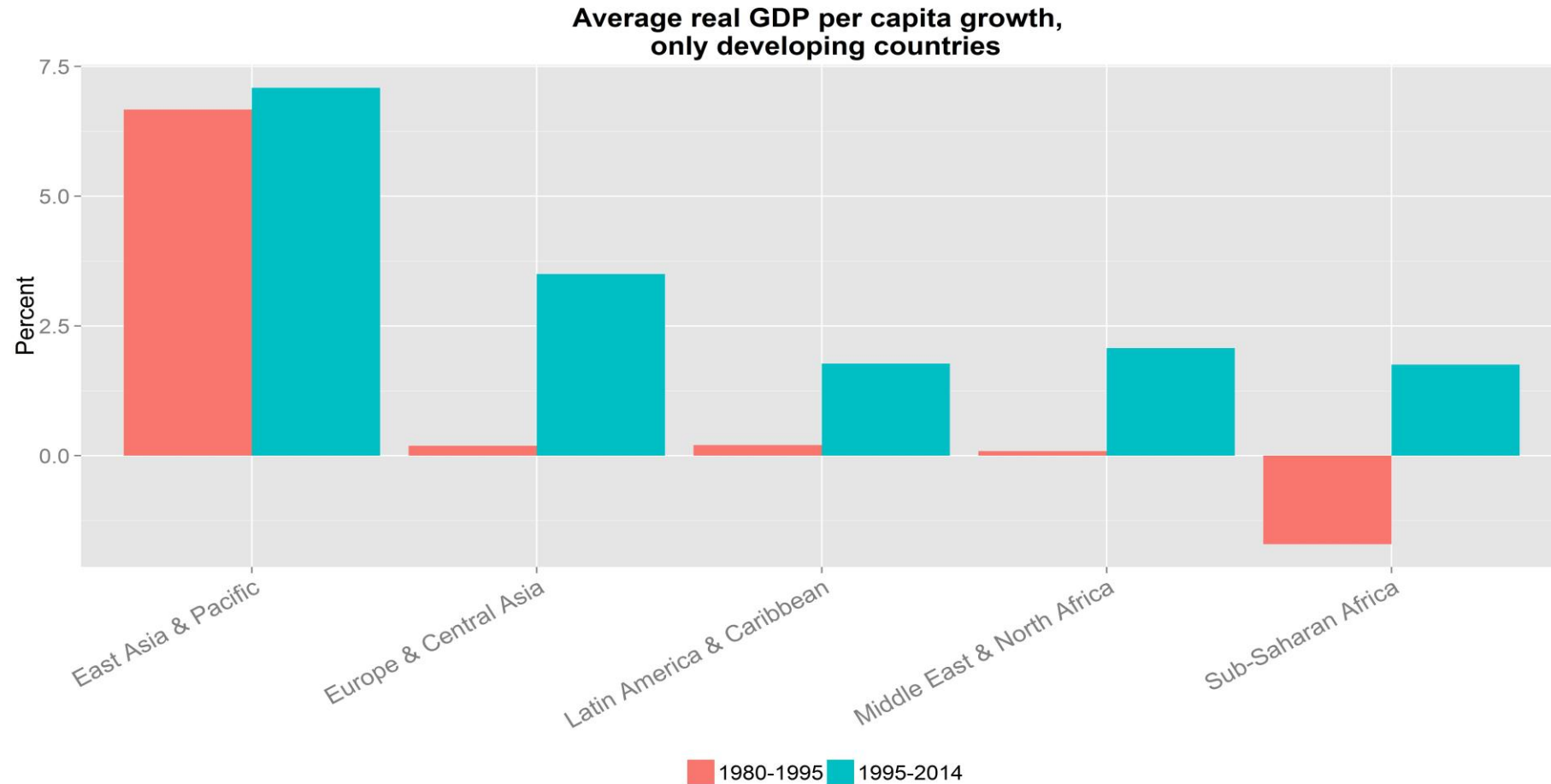
- What is really happening?
- What is going on at country level?
- Can one make sense of all this?
- Policy implications – more broadly and for National Treasury's Africa strategy

Macro-economic Background

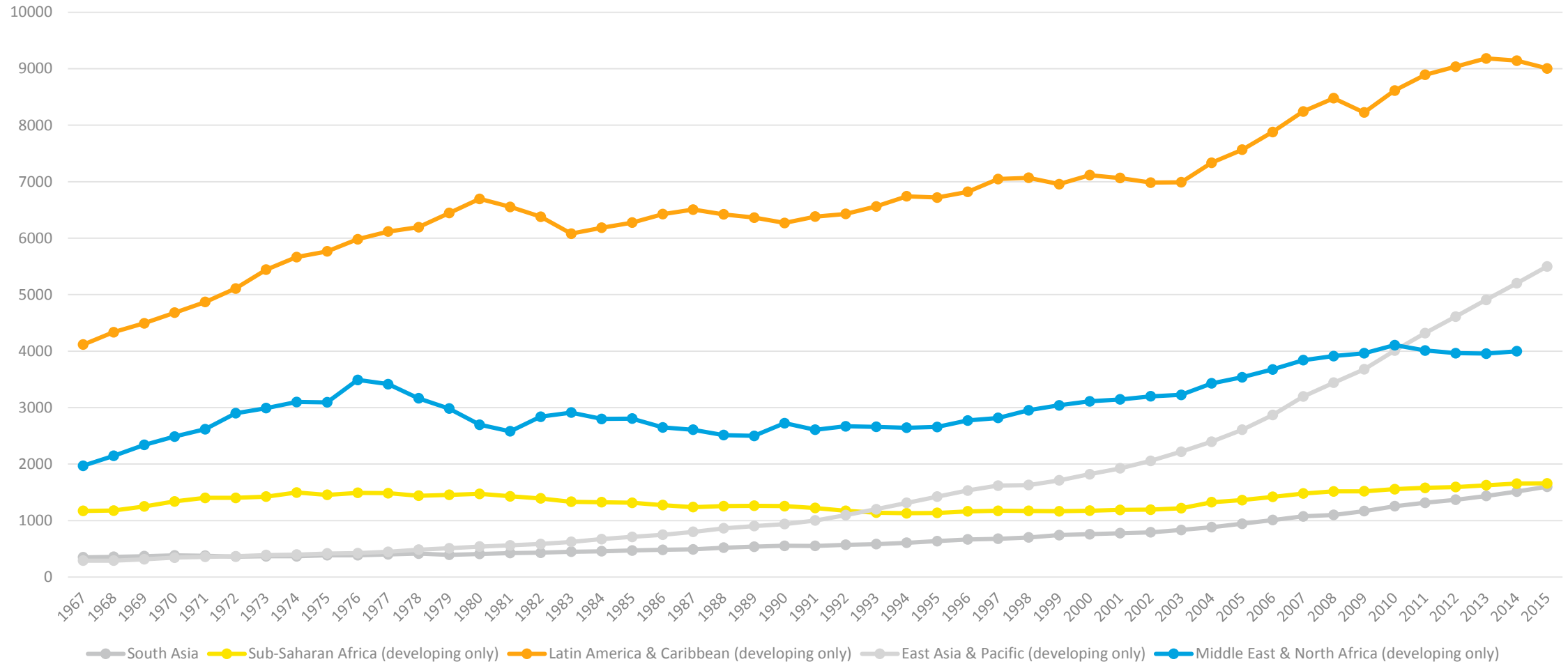
Key issues

- A growth turn-around but still poor
- Variability
- New vulnerabilities
- Public sector dependence on foreign inflows and indirect taxes

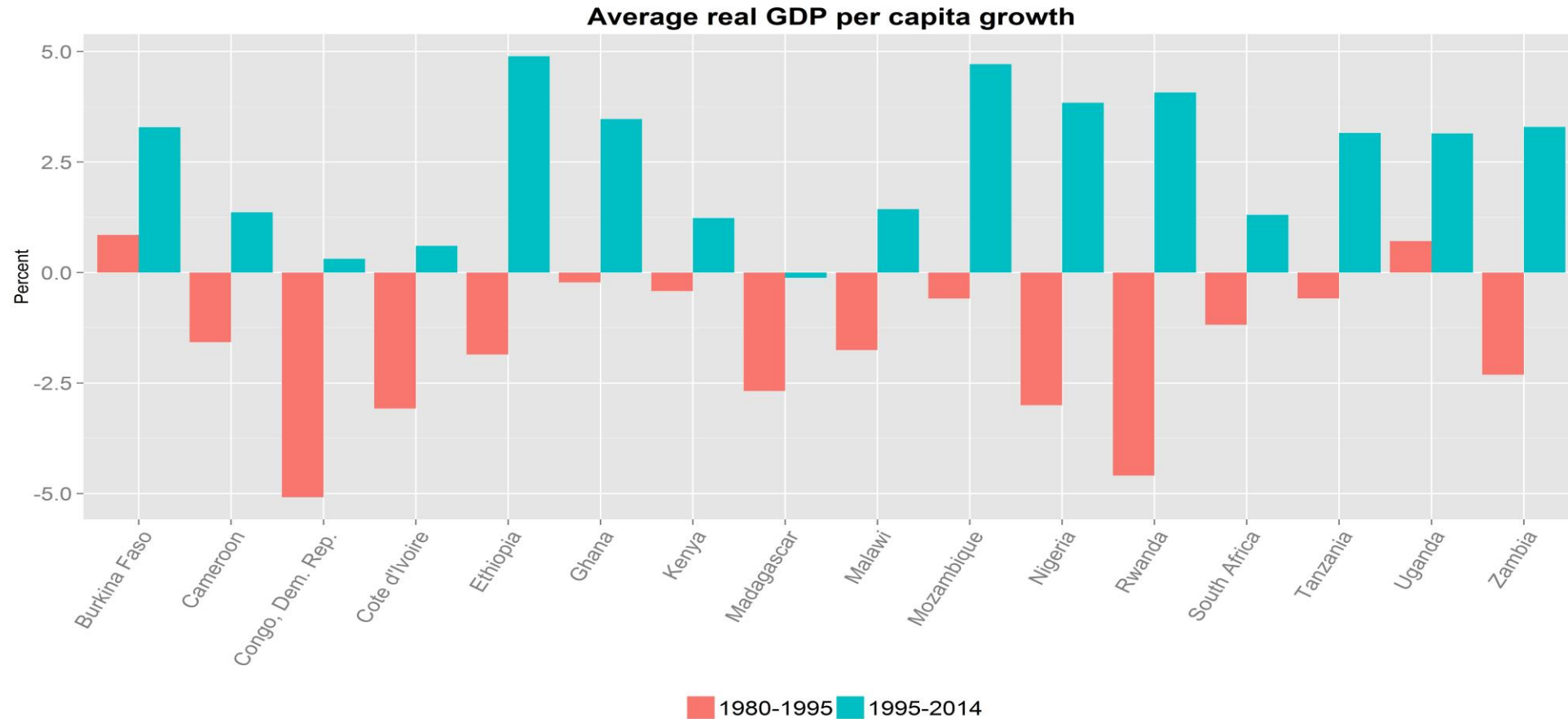
The African Growth Turn-Around



GDP per capita (real USD2010)



Substantial Variability: The 16 GAPP Country Cases

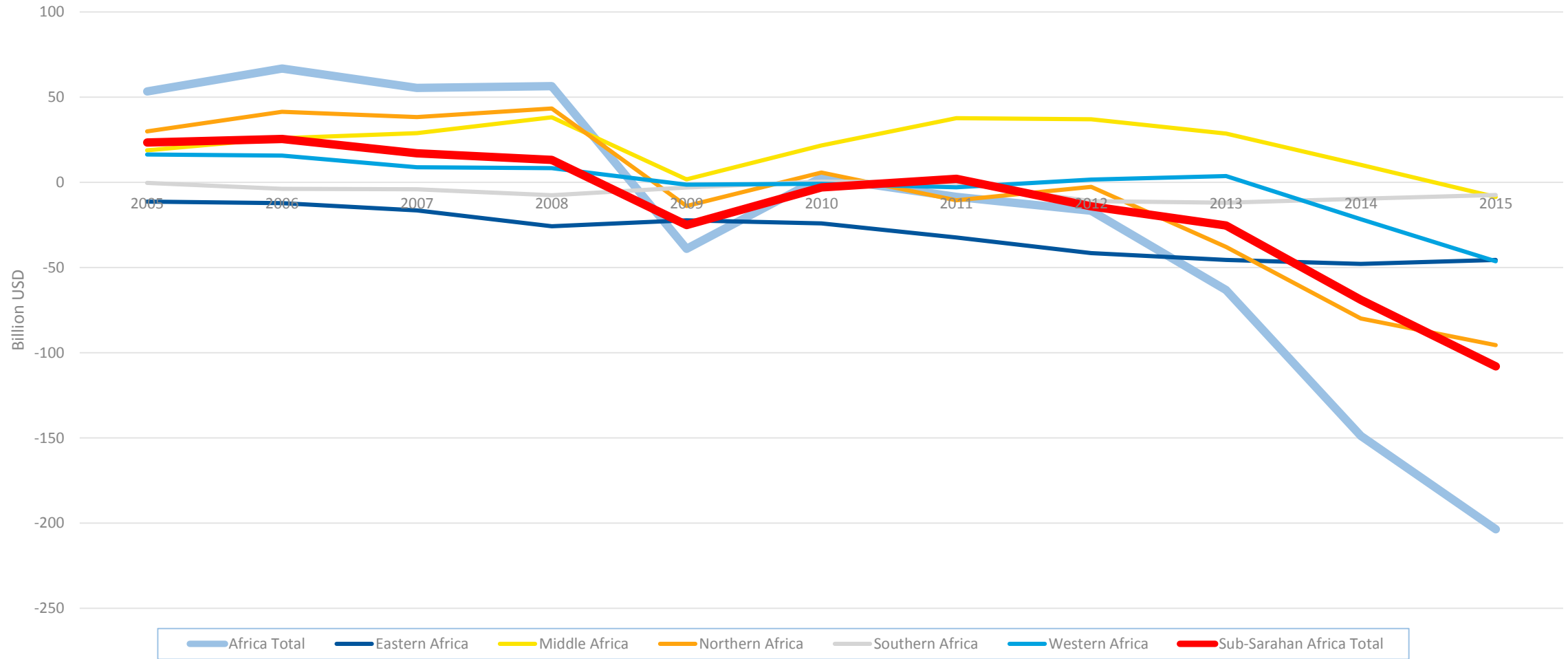


Something's happening

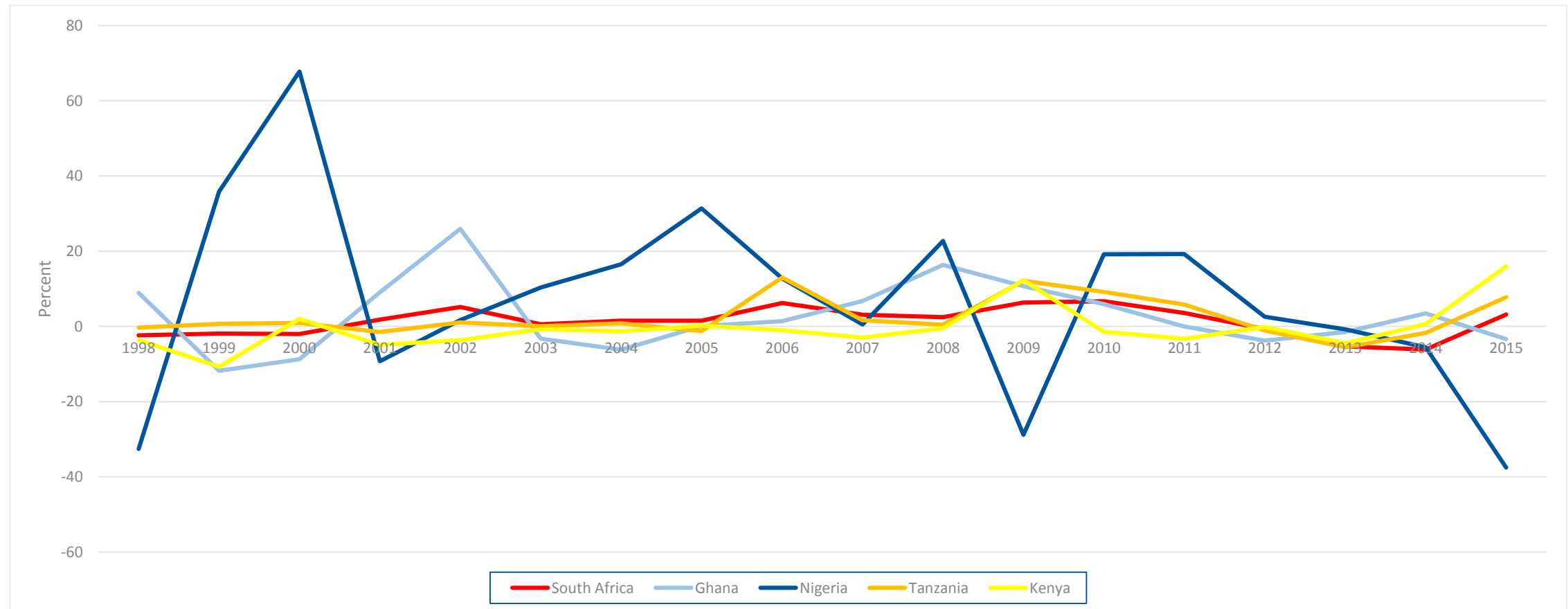


Source: IMF WEO

Also in Trade



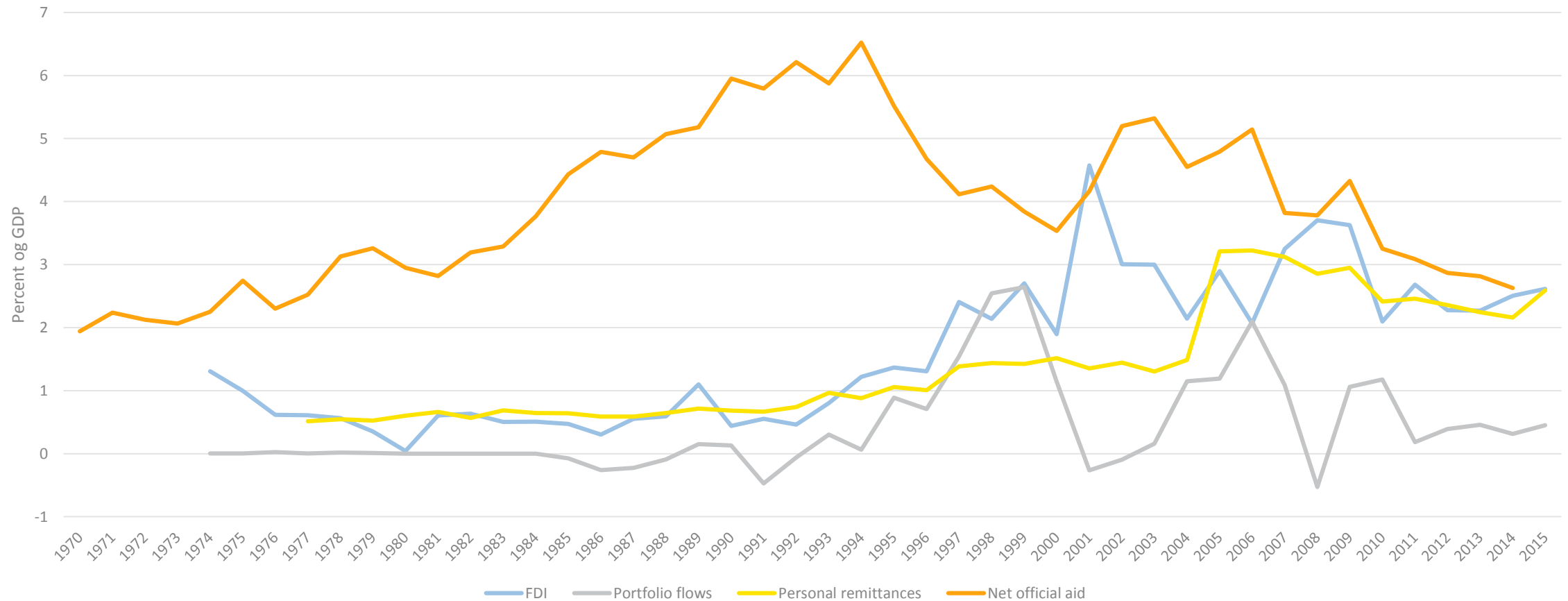
Diverging external conditions: terms of trade (annual change in percent)



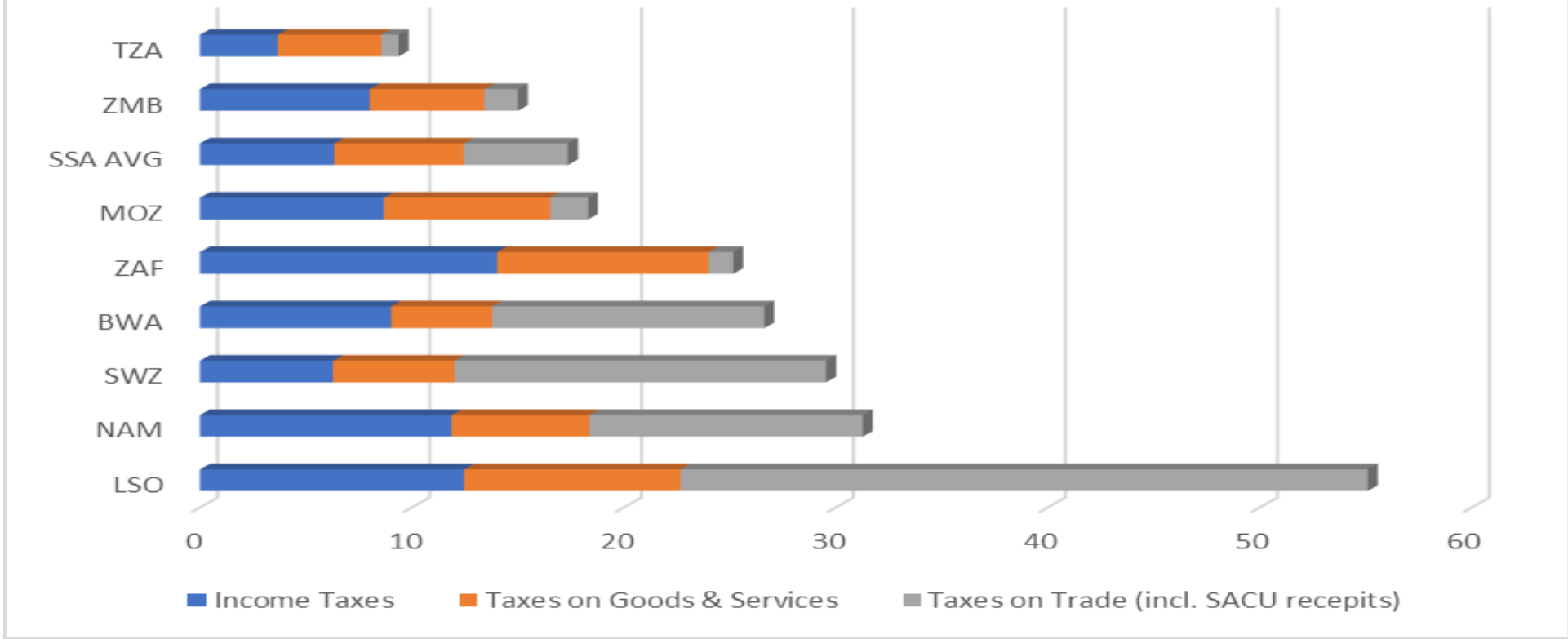
Note: Resource rich countries affected by lower international commodity prices and shift in Africa's economic gravity **from West to East**, towards less commodity-based economies. May be amplified by investment finance by China's One Belt One Road Initiative, which includes East Africa for infrastructure finance and China's Silk Road Fund, which targets the economies along Africa's east coast (African Economic Outlook (2016) (AfDB, OECD, UNDP))

Source: IMF WEO

Net financial inflows



Tax Structures, Southern African countries (% of GDP), 2012



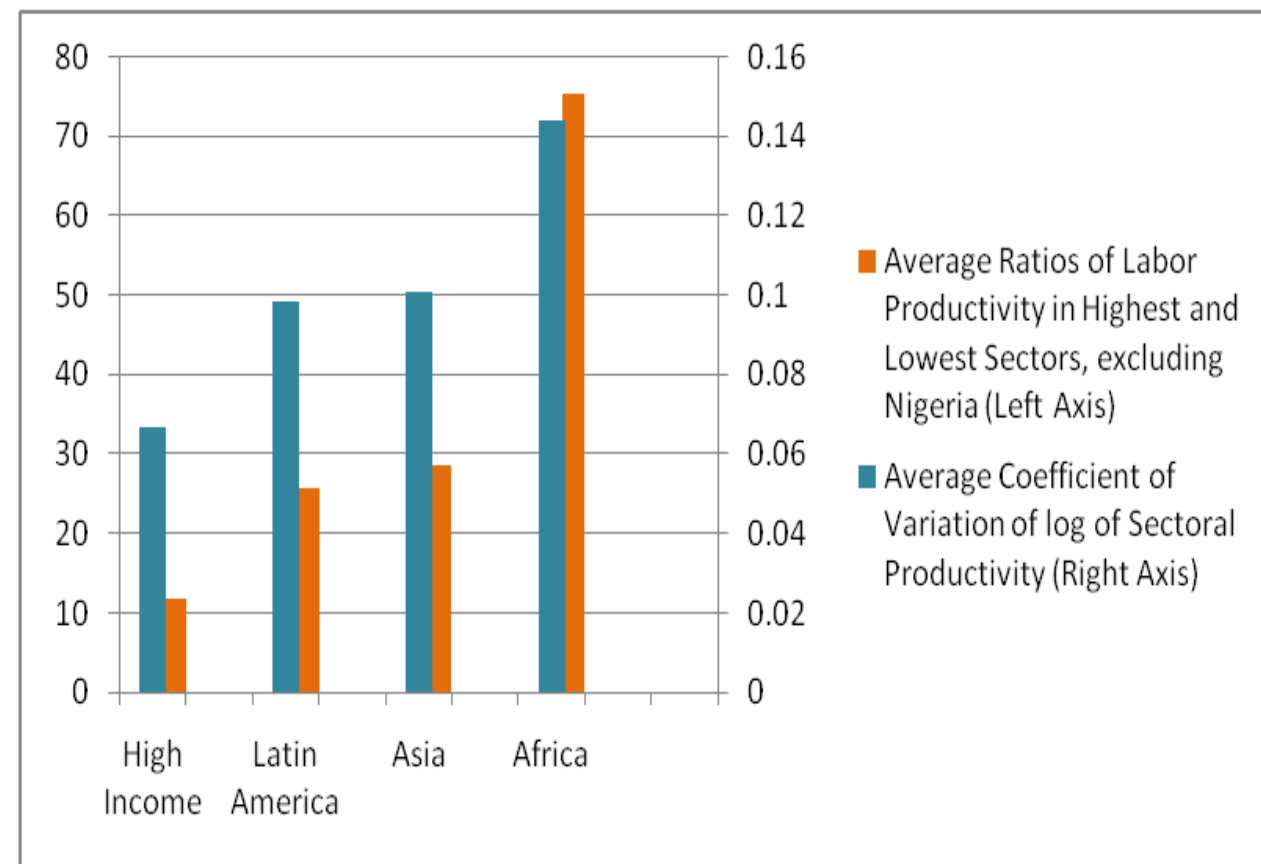
Structural Dimensions

Key issues

- Lack of structural transformation
- Population growth, urbanization and the employment problem
- Low productivity and marginal presence in international markets
- High cost of doing business and infrastructural constraints
- Lack of skills and human capital (including poor data – see HLP report)
- Losing the global beauty contest for FDI

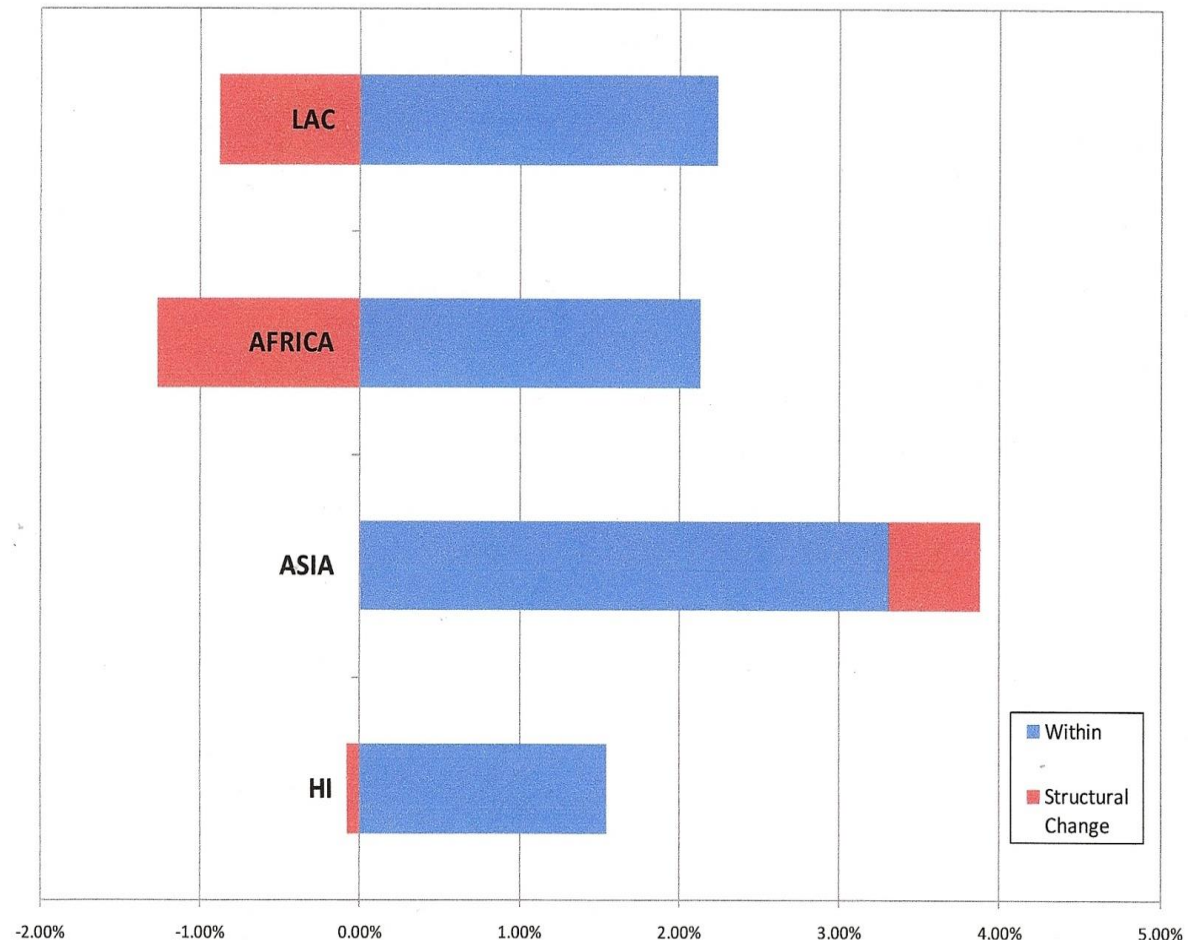
The Potential for Structural Change

- 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

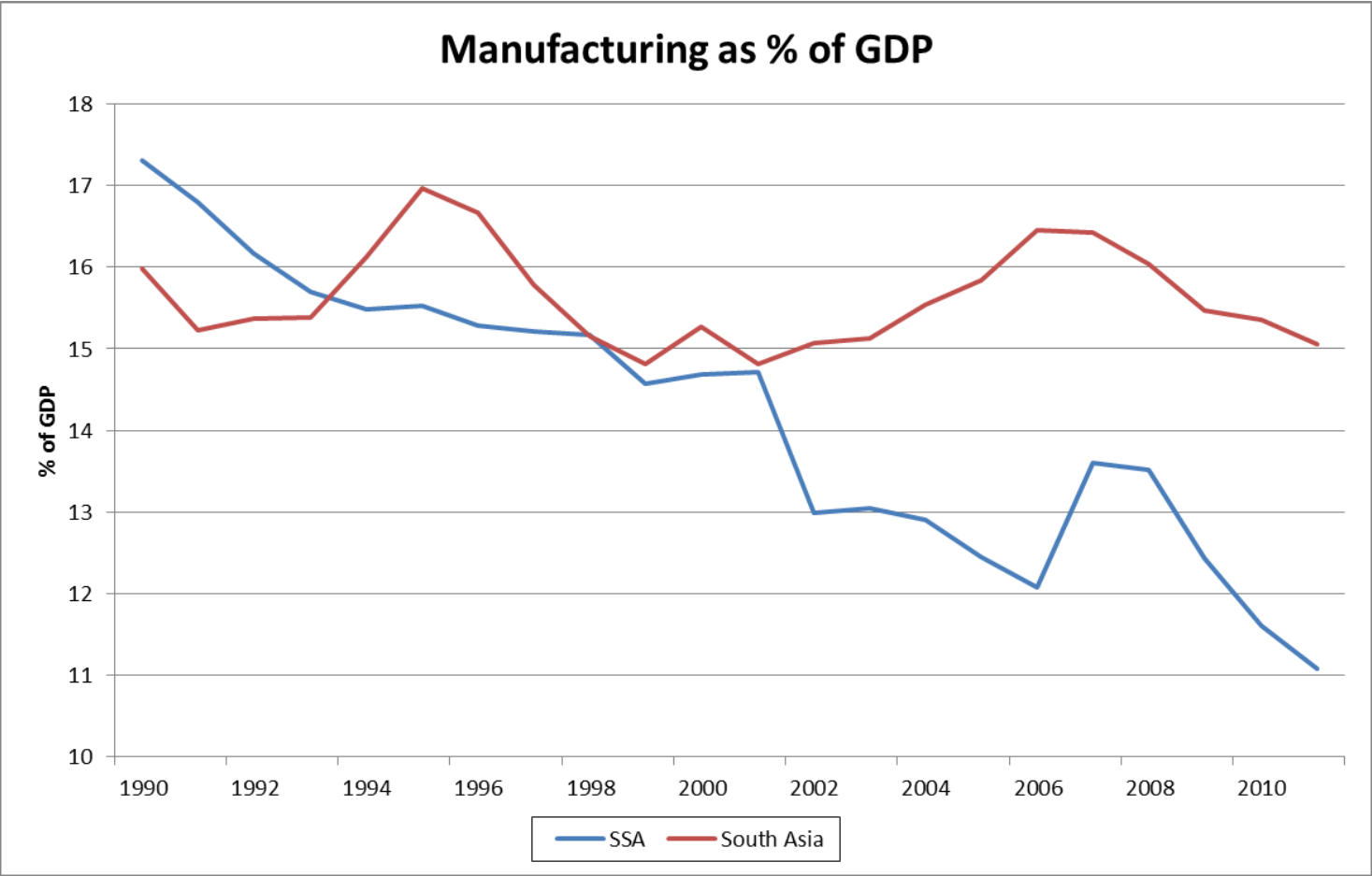


Going Up the Down Escalator

- In Africa until 2000 structural change was going in the wrong direction
- An increasing share of the labor force was found in lower productivity sectors
- “Growth reducing” structural change slowed overall growth

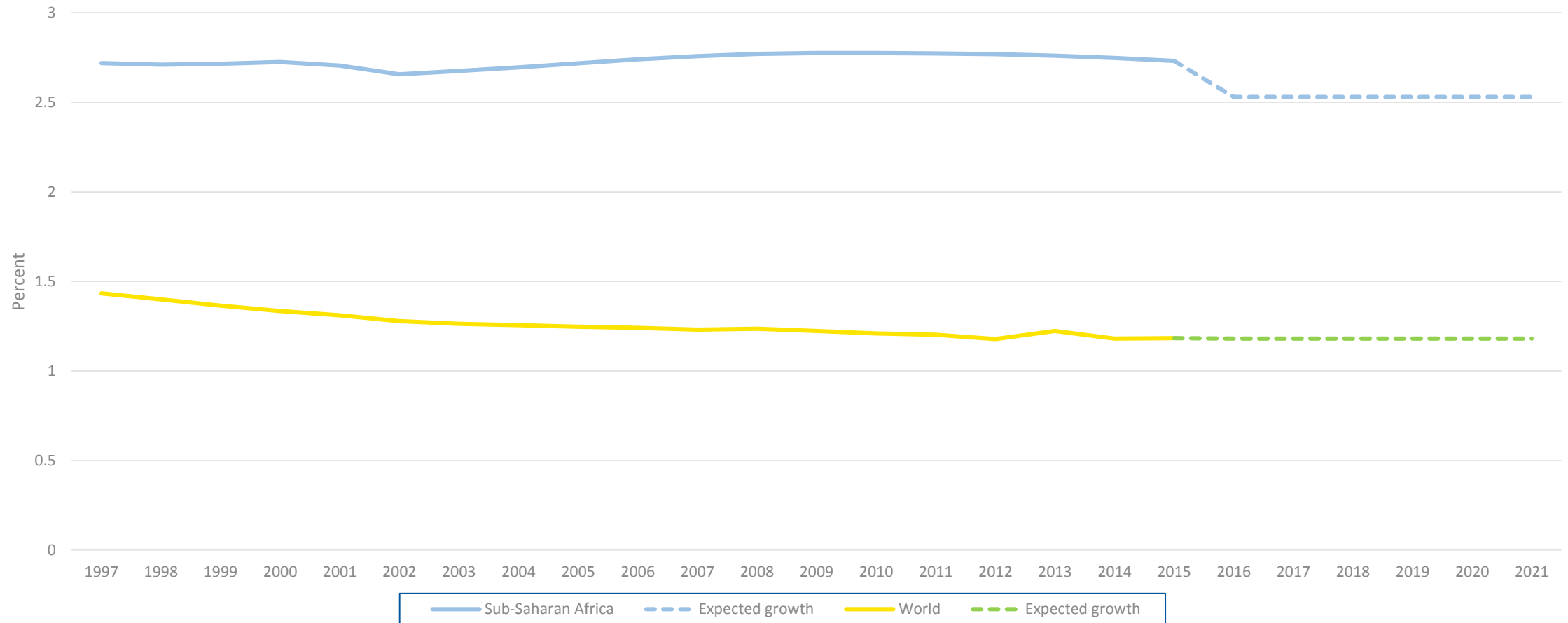


Growth Has Occurred with De-industrialization

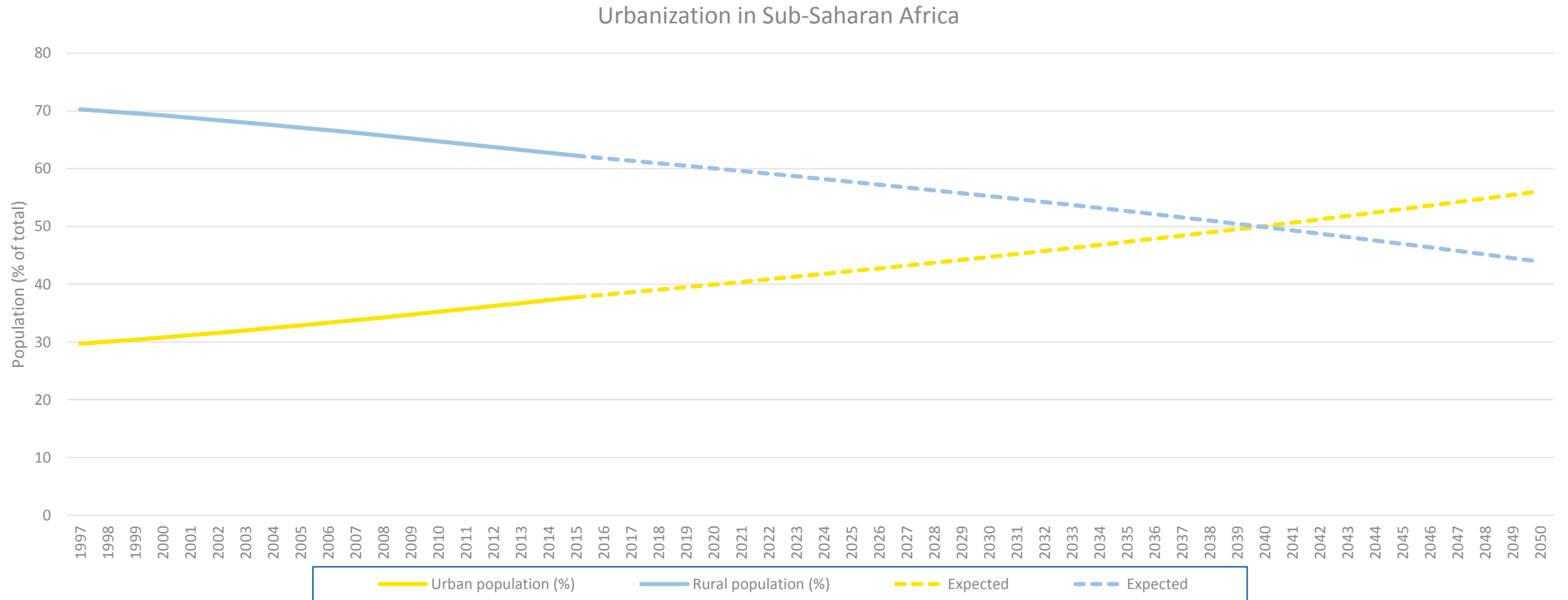


Source: WDI

Population growth (% annual change)

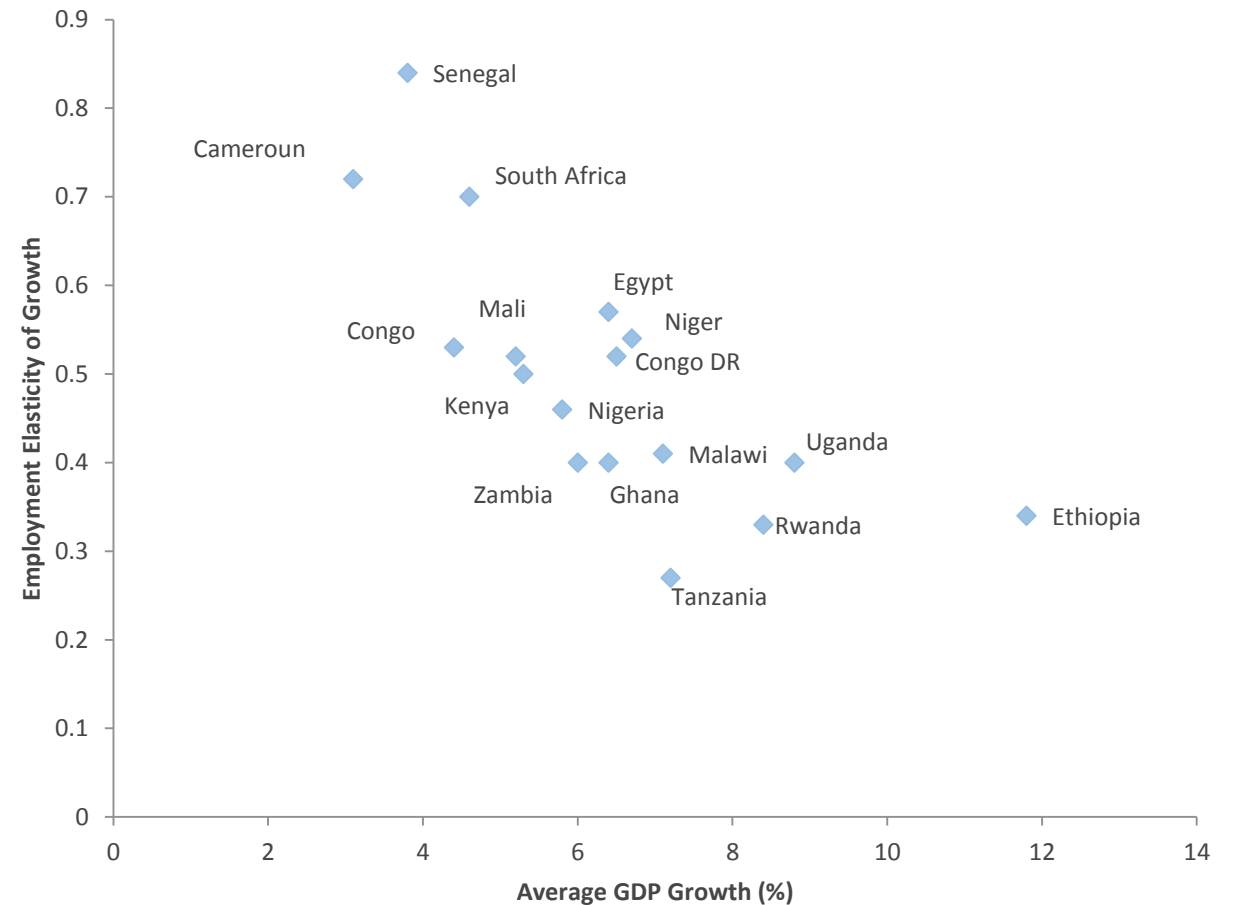


Urbanization in Sub-Saharan Africa



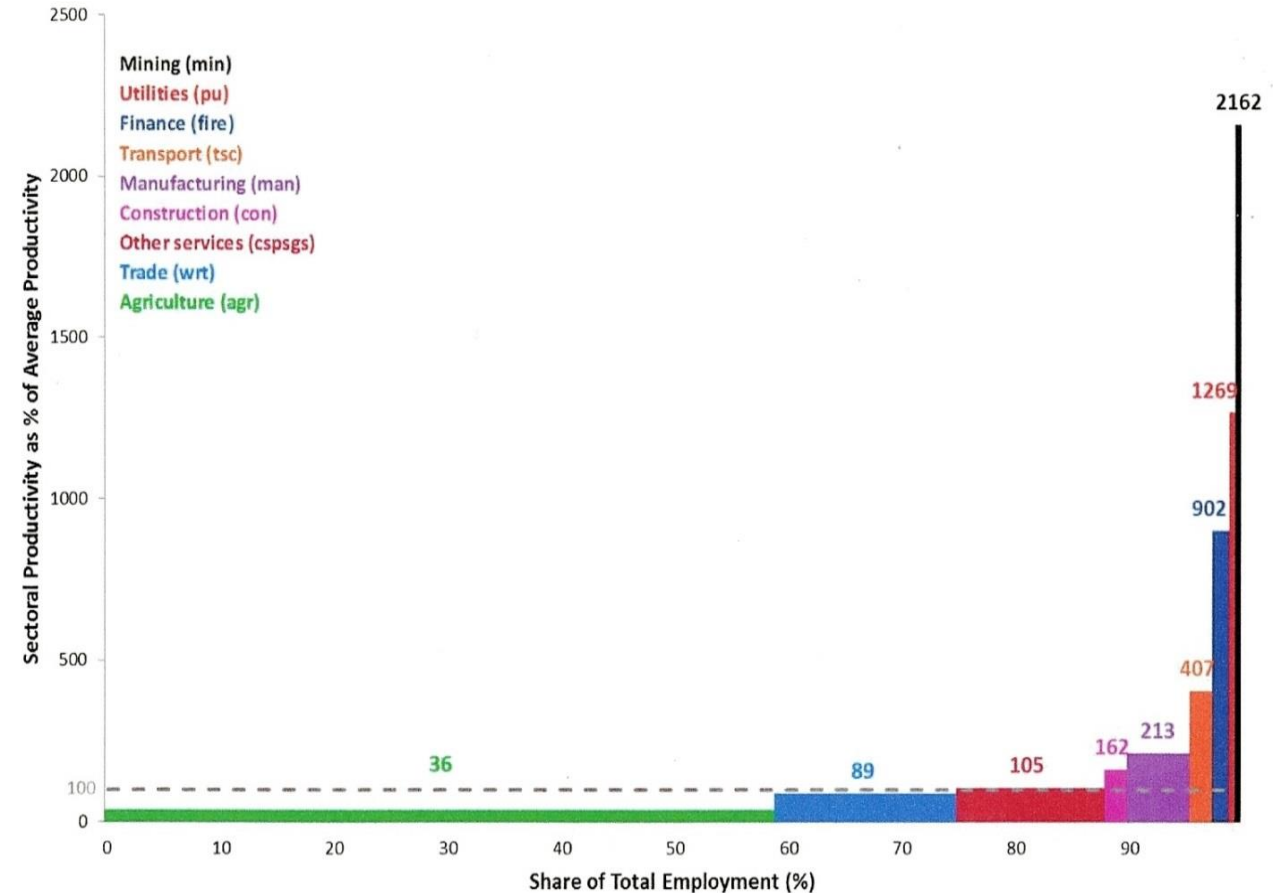
Too Few Jobs for Too Many Workers

- 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



“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



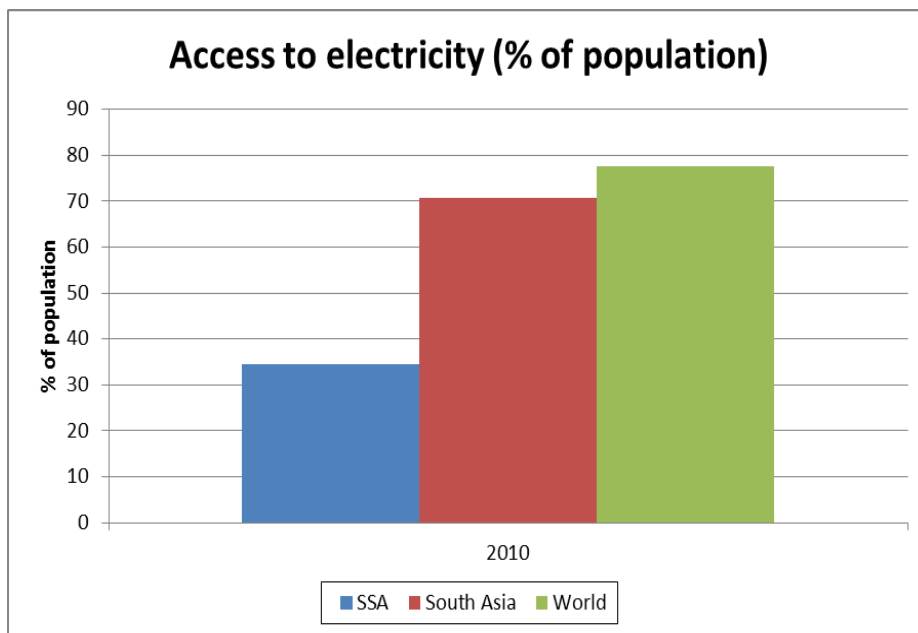
Low penetration of international markets



Source: WTO

- Africa marginal
 - Even less excluding South Africa
- Asia – 23% in 1990 to 33% in 2012
- Low survival rates in export markets

Infrastructure constraints



Source: WDI

- World Bank Enterprise Surveys:

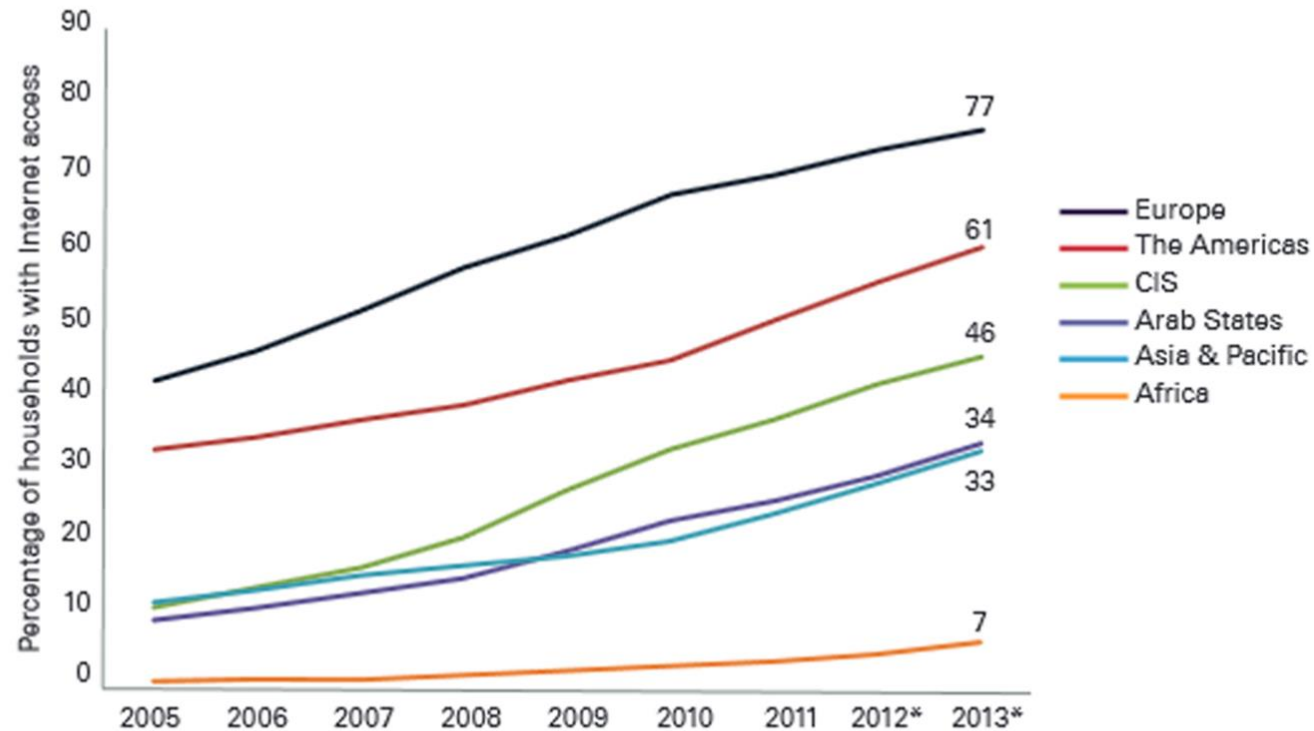
Service Problems	SSA	DCs
Delay in obtaining electricity connection	79.9	27.5
Electrical outage (days per year)	90.9	28.7

— Source: Page (2012)

- Share of ODA for Economic Infrastructure has reduced 1990-2010.
- The transition of China from low-end manufacturing jobs to high-end manufacturing provides Africa with new investment and growth opportunities that must not slip away.

Internet access: Growing in Africa, but...

Households with Internet access, by region

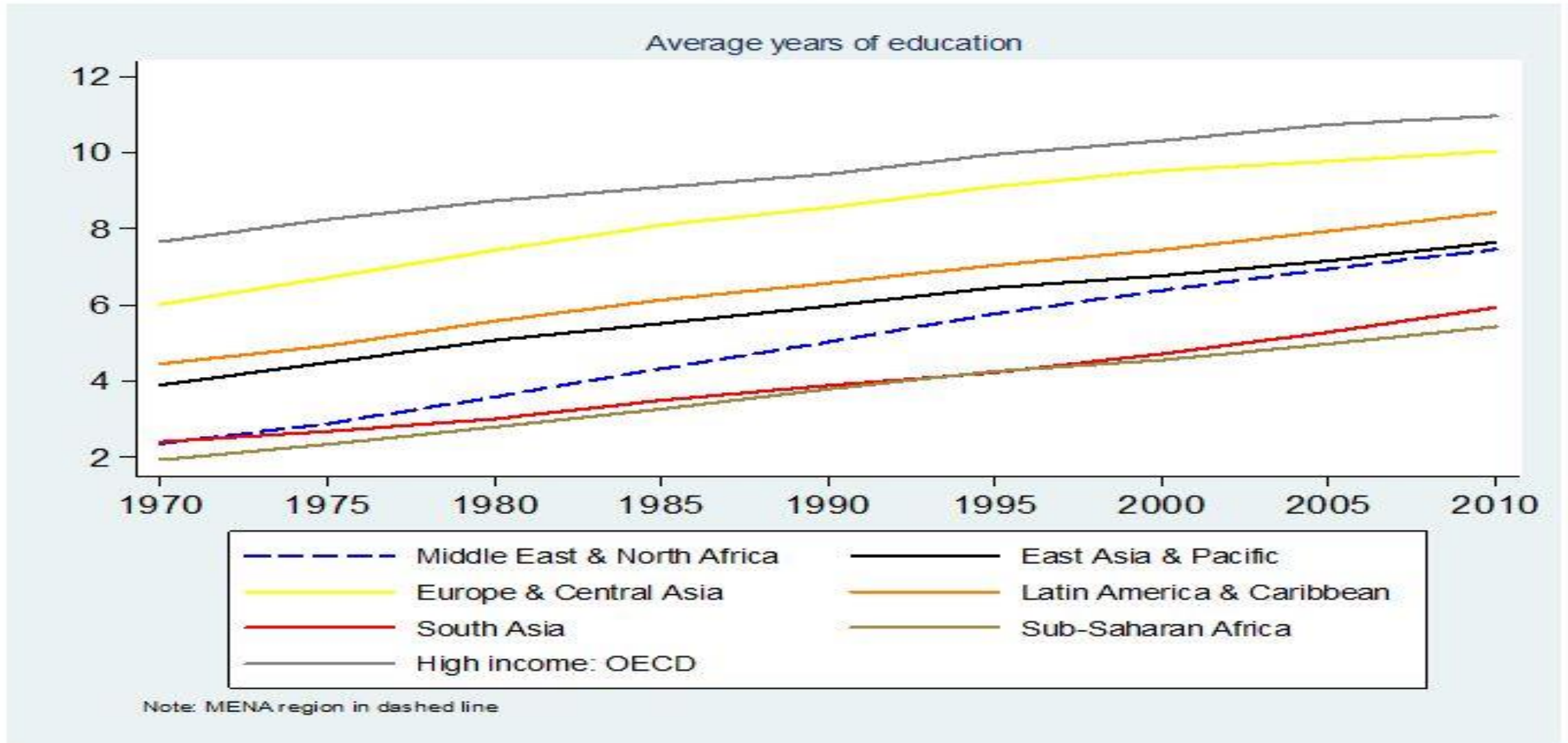


Source: ITU World Telecommunication /ICT Indicators database

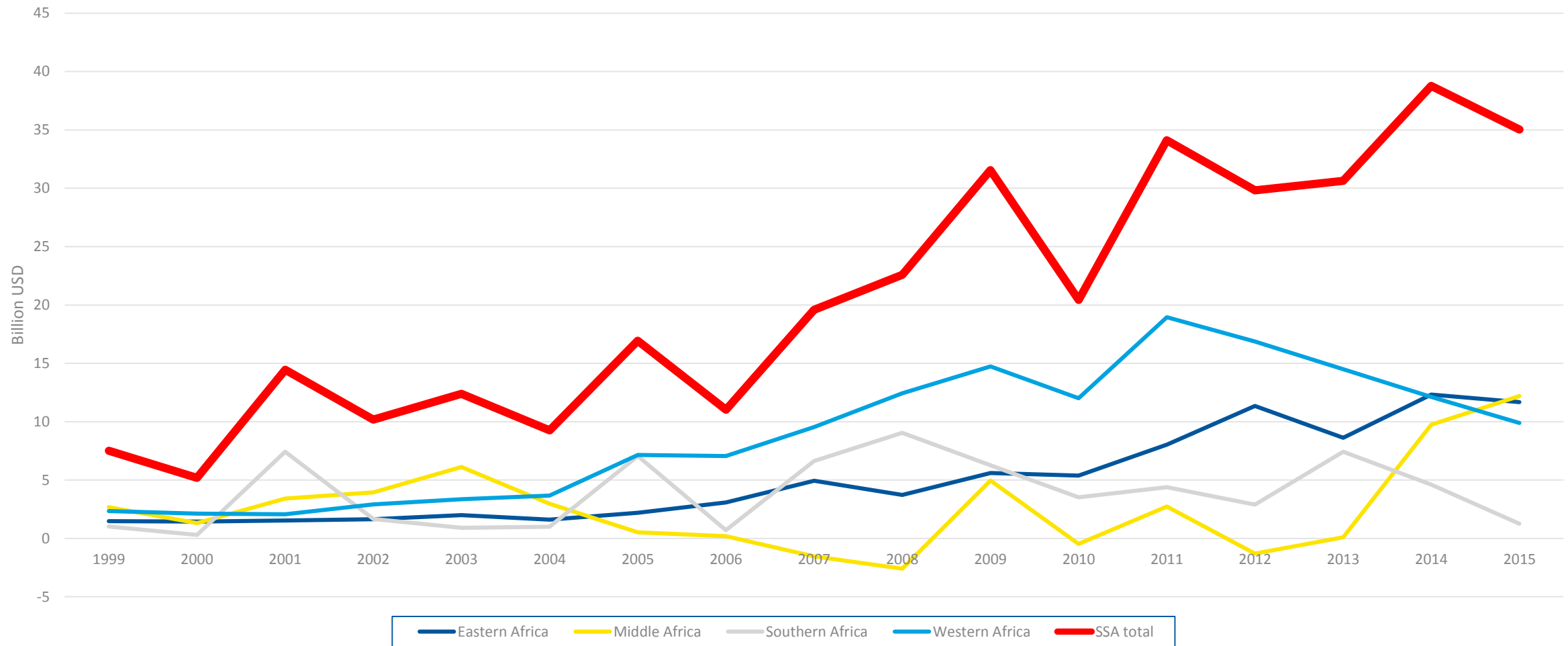
Note: * Estimate

Africa still lags in educational attainment

Evolution of education attainment across regions, 1970-2010



Yearly FDI flows



WIDER's engagement in Africa

UNU-WIDER's 2014-18 Research Programme

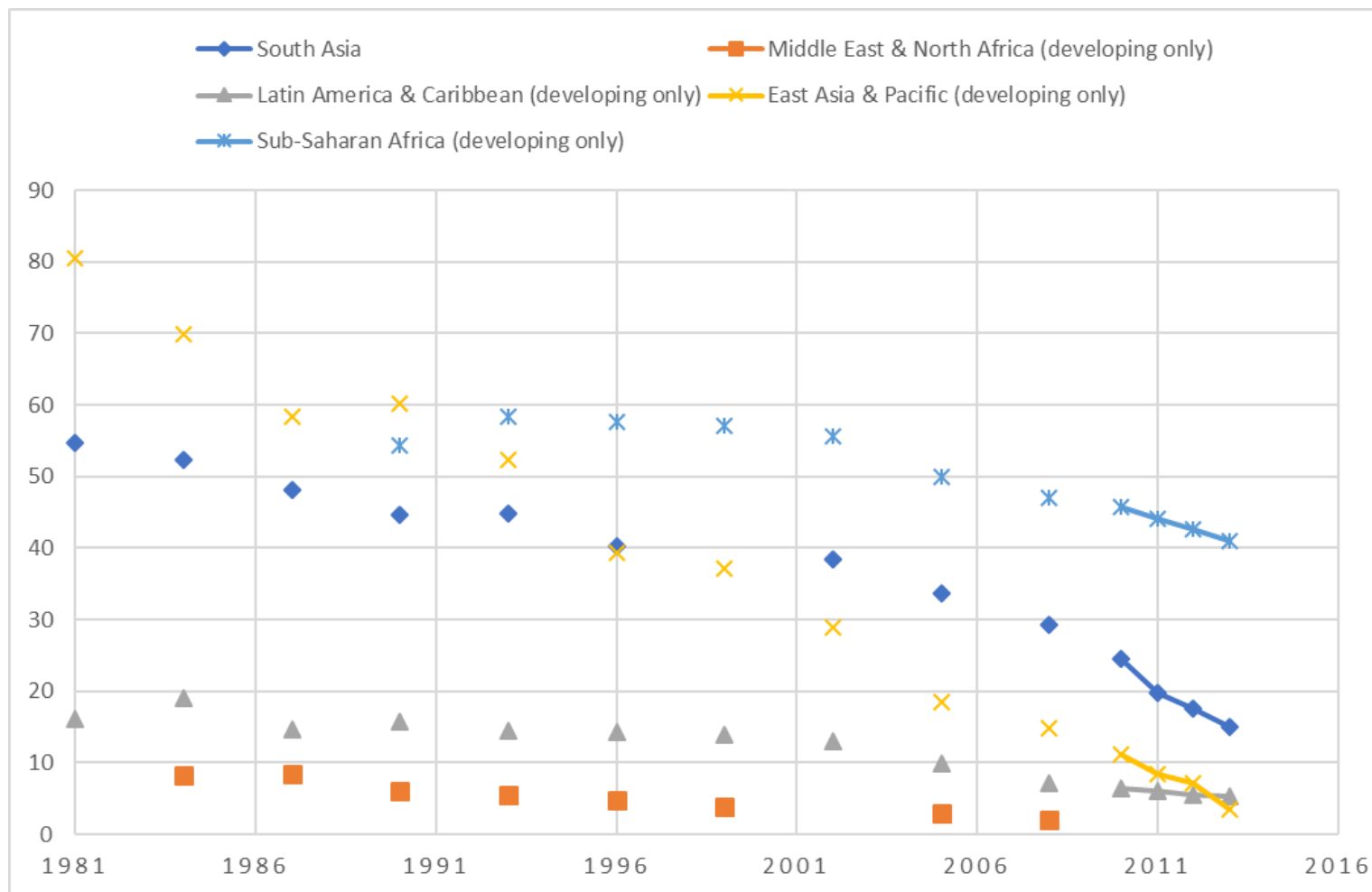
- **3 Challenges:** Transformation, Inclusion, Sustainability
- **3 Concerns:** Africa's inclusive growth, Gender equity, Development finance
- **3 Audiences:** Decision-makers in developing countries, International agencies (both bilateral and multilateral) Global research community
- **Informative results** are starting to emerge

Two Large Scale Projects

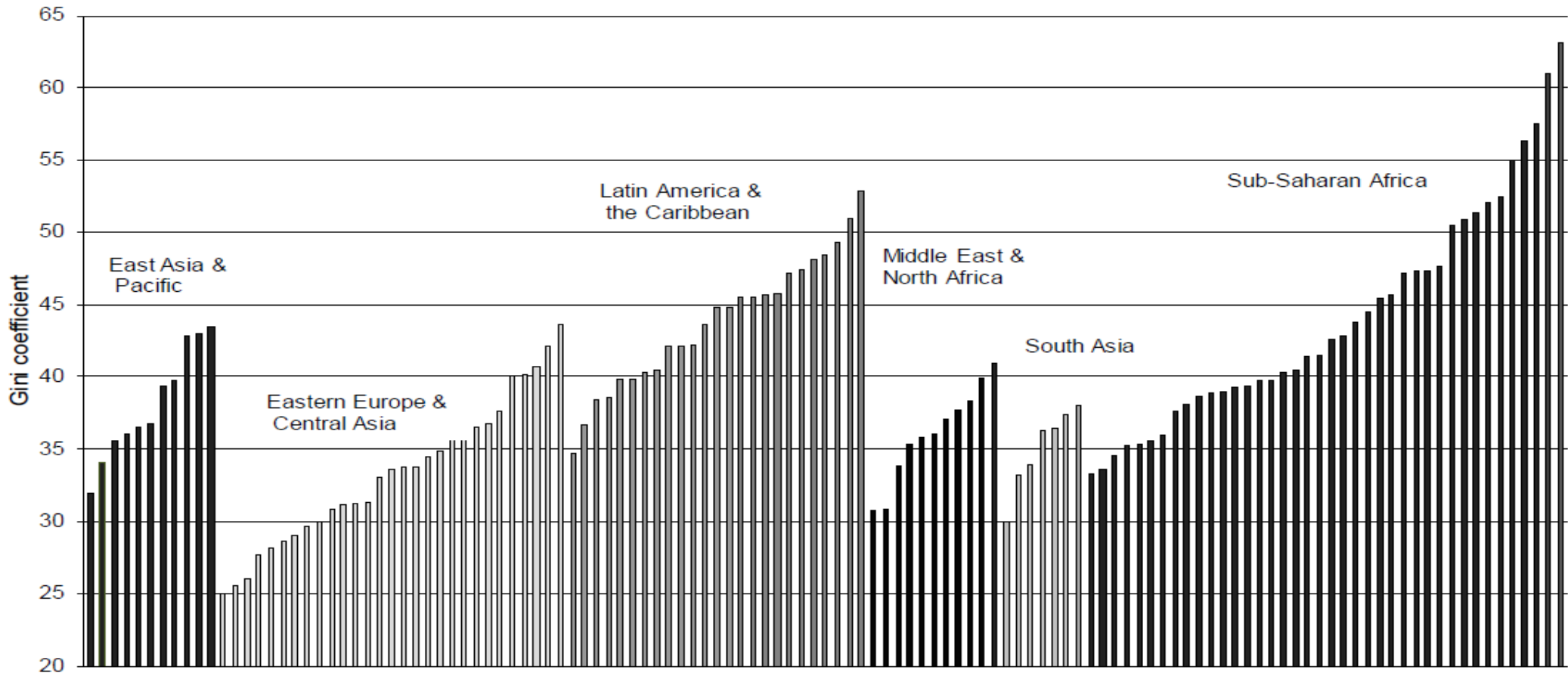
- **Growth and Poverty Project (GAPP)**
- Re-examined Africa's growth, poverty and inequality developments and asked:
 - What explains the trends in monetary and non-monetary poverty and their links to growth and inequality in 16 of the 24 most populous African countries?
 - What should policy makers do looking forward?
 - Covers almost 75% of the Sub-Saharan African population and 9 of the largest 10 countries.
- **Learning to Compete (L2C)**
- Tried to answer a simple question:
 - Why is there so little industry in Africa?
- And addressed other questions such as:
 - Does it matter?
 - Is it realistic for Africa to break into global markets?
 - What makes firms more competitive?

GAPP Approach and Country Categorisation

Poverty headcount ratio (USD 1.90 per day, 2011 PPP)



Gini coefficients for the distribution of household consumption per capita: Developing countries, 2010



Each bar represents a country in a given geographic region of the developing world

The GAPP Approach

- Poverty, growth and inequality tend to be related
- Simple cross-country extrapolations from WDI data will not reveal underlying dynamics or lack hereof in specific country contexts
- Therefore: bring together:
 - Available macroeconomic data
 - Comparable household budget surveys
 - Demographic and Health Survey data
 - A host of other information (prices)
- Critically examine validity and consistency of existing data
- Develop coherent country case stories

GAPP

- Carried out 16 carefully designed country case studies from the 24 most populous countries in sub-Saharan Africa:
 - Ethiopia, Ghana, Malawi, Rwanda, Uganda, Burkina Faso, Mozambique, Nigeria, Tanzania, Zambia, Cameroon, Côte d'Ivoire, Kenya, Madagascar, South Africa and the DRC
 - Represent almost 75% of the African population and 9 of the largest 10 countries
 - Exact time period varies: generally the last two decades
 - 16 high quality teams consisting of leading local and international experts, focused on identifying and explaining trends in monetary and non-monetary poverty and their links to growth and inequality
 - Synthesis and interpretation by the editors
- Key result: there is a lot to celebrate in African development (two cheers)
 - But not every where, and major challenges remain (not three cheers)

Country level results

- Relatively rapid economic growth and corresponding poverty reduction: *Ethiopia, Ghana, Malawi, Rwanda, and Uganda*
- Relatively rapid economic growth but limited poverty reduction: *Burkina Faso, Mozambique, Nigeria, Tanzania, and Zambia*
- Uninspiring or negative economic growth with corresponding stagnation or increasing poverty: *Cameroon, Côte d'Ivoire, Kenya, Madagascar, and South Africa*
- Low-information countries: *DRC*

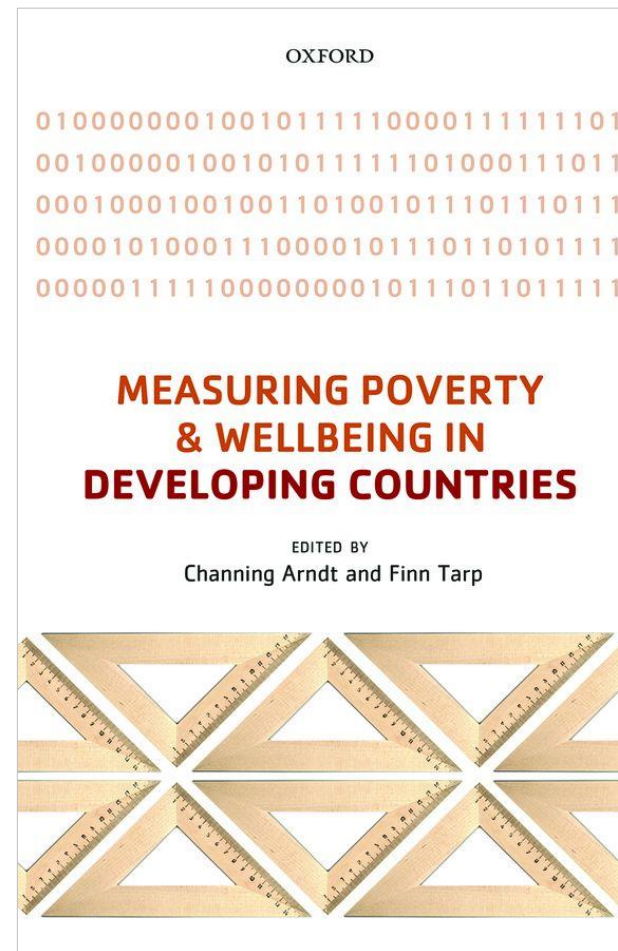
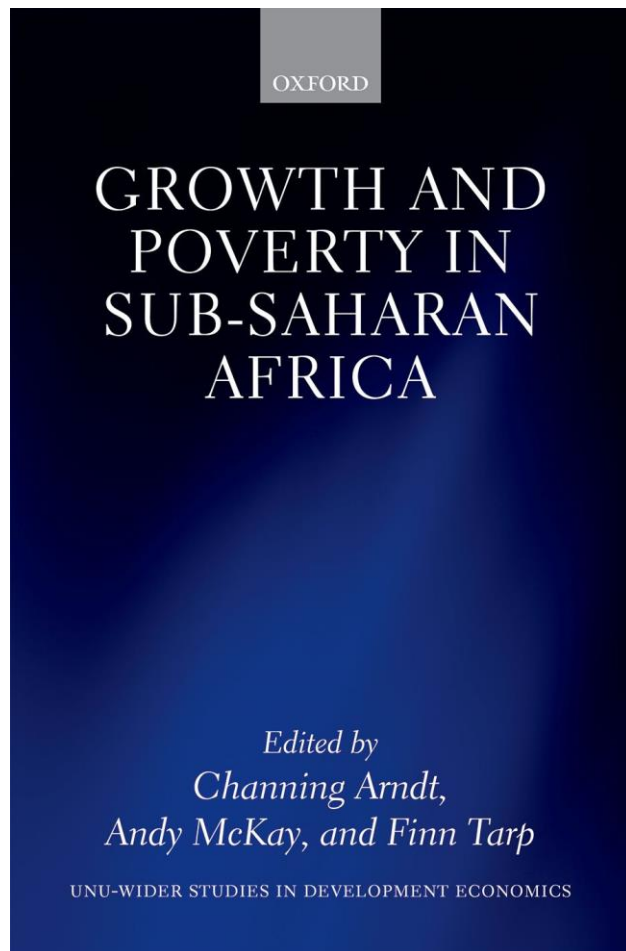
Three Findings

- Socio-economic progress in Sub-Saharan Africa has been markedly better than almost anyone expected 25 years ago
- But progress has not been even, the development process has without exception been highly non-linear, and the fragility of gains evident
- The regional powerhouses of Kenya, Nigeria, and South Africa not among the better performers in terms of growth or poverty reduction

Three Lessons

- Volatility of monetary poverty measures: extreme care in analysis and interpretation warranted
- Importance of multi-dimensional assessments: speaking to non-money metrics of development
- The role of agriculture remains critical

GROWTH AND POVERTY PROJECT: GAPP



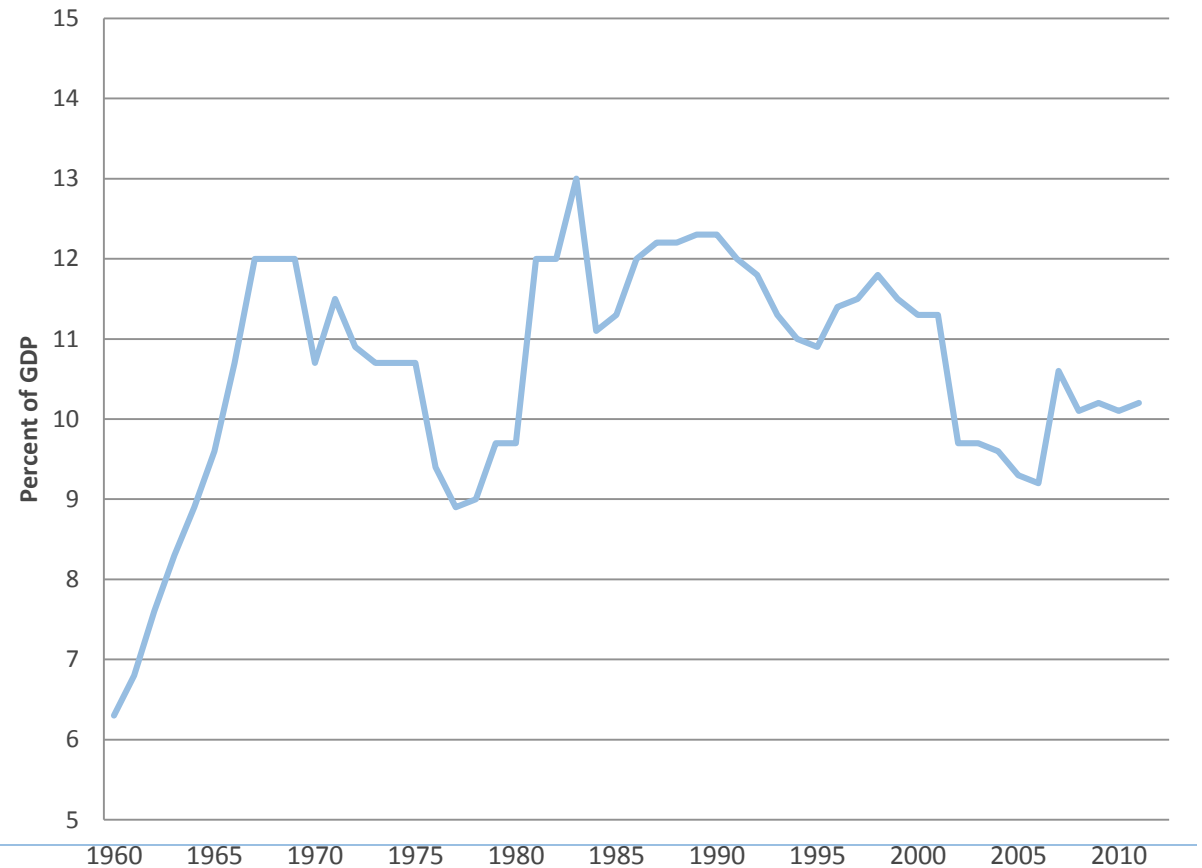
Learning to Compete (L2C)

Understanding why there is so little industry in
Africa

Ending Up Where it Started

Africa has deindustrialized since the 1980s

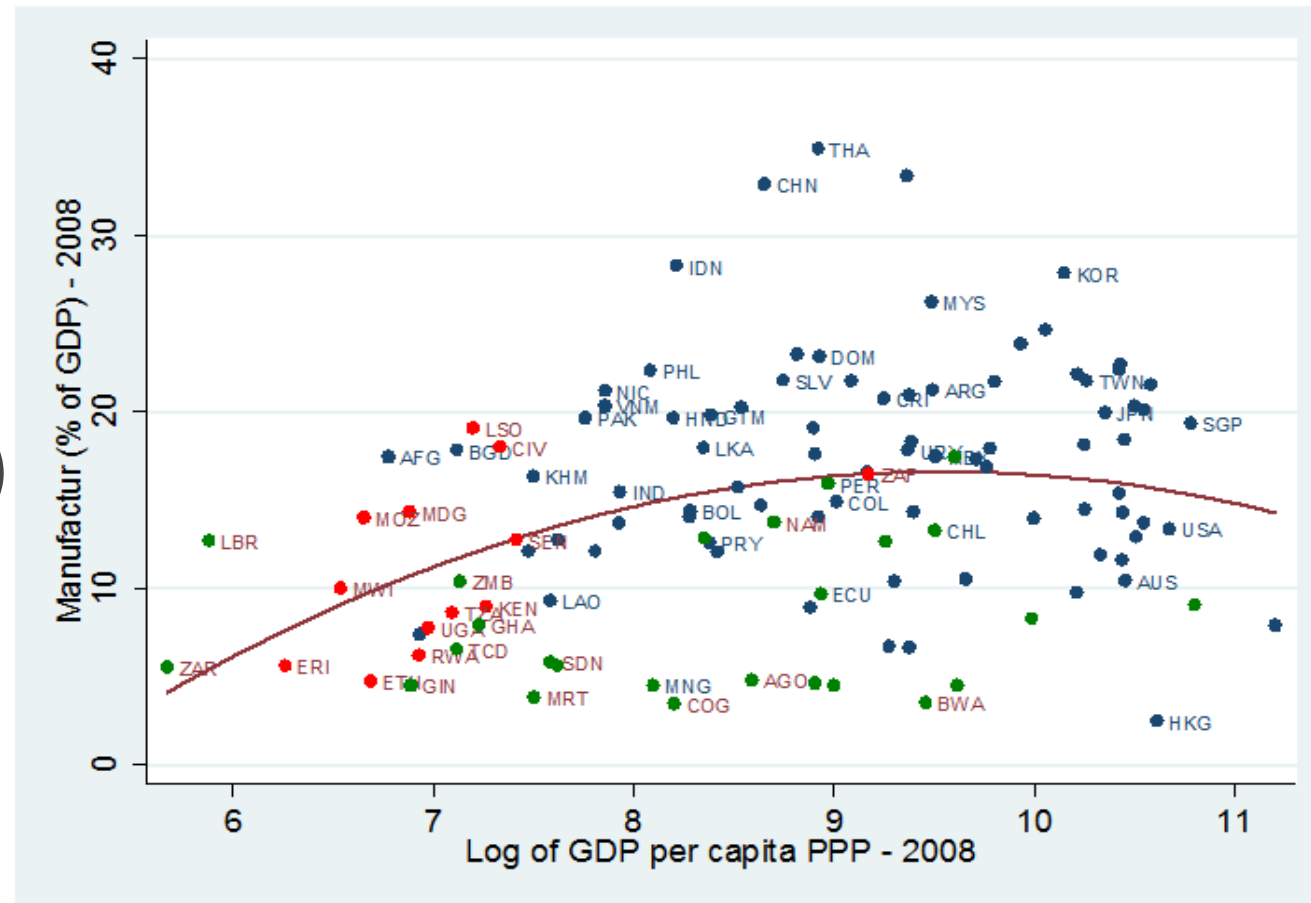
- Africa's share of manufacturing in GDP is less than half of the average for all developing countries
- Per capita manufactured exports are about 10 per cent of the developing country average.
- Africa's share of global manufacturing is smaller today than in 1980



Africa's Deficit in Manufacturing

Share of Manufacturing in GDP Relative to Income Per Capita, 2008

- Only 4 of 25 economies exceed predicted values
- The fast growing economies (ETH, GHA, KEN, RWA, TZA, UGA) are all negative outliers
- Resource rich economies are extreme outliers

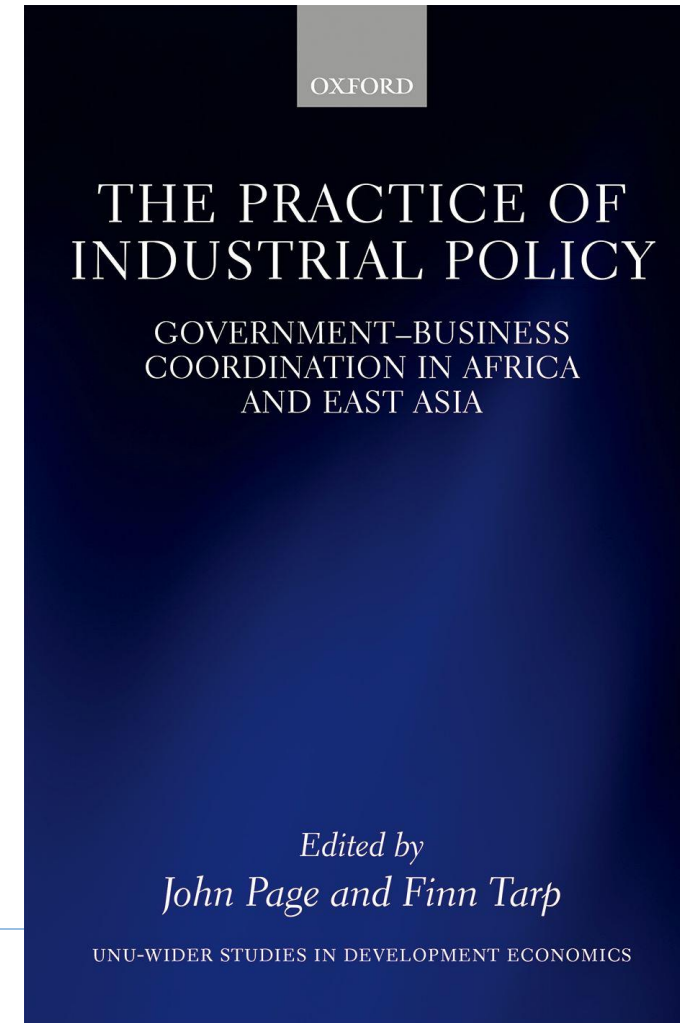
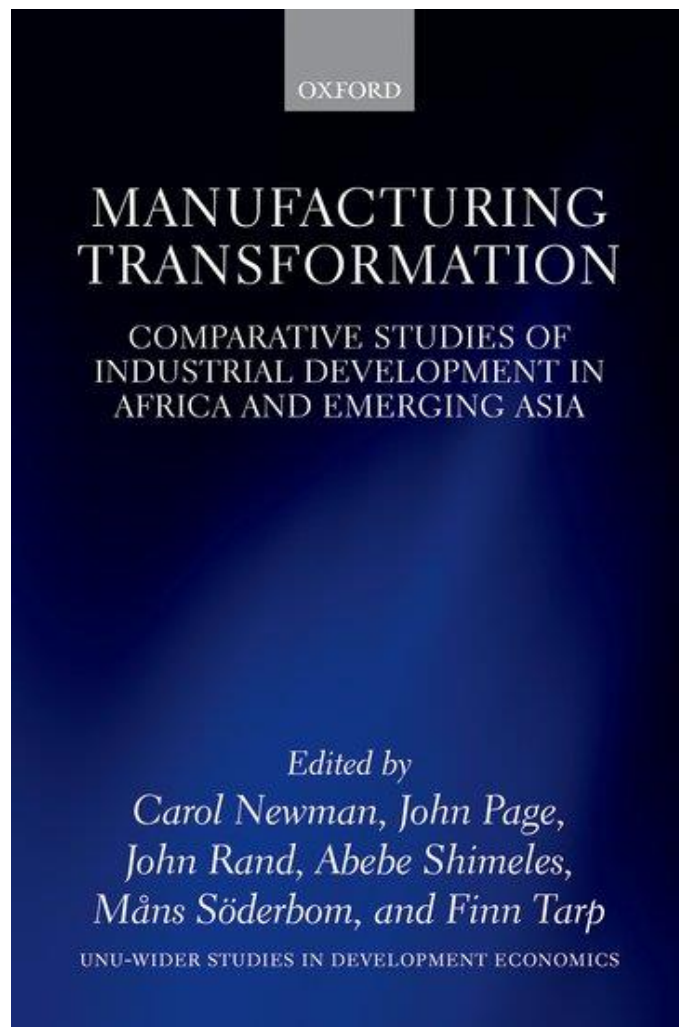


Learning to Compete

A Joint Research Program of the African Development Bank, the Brookings Institution and UNU-WIDER

- Eleven Countries
 - Nine African : Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, Tanzania, Tunisia and Uganda.
 - Two Asian: Vietnam, Cambodia.
- National researchers
 - Teamed with global experts
- Three Track Approach
 - Detailed case studies of industrialization and the evolution of public policies
 - Econometric analysis of the stock of firm level surveys
 - Qualitative surveys of FDI firms and linked domestic firms.

Learning to compete: L2C



Four Drivers of Productivity and Location

- The “basics” (AKA the “Investment Climate”)
 - Infrastructure and skills
 - Institutions and regulation
- Exports and competition
 - Firms in low income countries increase their productivity by exporting
 - Competition increases productivity through entry and exit
- Firm capabilities
 - The tacit knowledge and working practices that affect both productivity and quality
 - Capabilities can spill over to other firms through supply chain links
- Agglomerations
 - Industrial clusters confer significant productivity gains
 - Virtually everything we know about agglomeration economies comes from middle and high income countries

Lacking the “Basics”

- Country case studies highlight large gaps in infrastructure:
 - Power is the biggest constraint
 - Transport and logistics come a close second
- Skills related to production and management are lacking in many countries
 - Deficiencies in post-primary education
 - Poorly performing vocational and technical education

Exports and Productivity

- Confirming expectations
 - More productive firms select into exporting
 - Large (and foreign) firms are more likely to export
 - Exporting further raises productivity
 - Learning effects are stronger in
 - Domestically owned firms
 - More sophisticated products
 - Higher income (or more distant) markets
 - The initial years of exporting
- Some surprises
 - Many African exporters are “born global” (both FDI and local)
 - Few firms “learn to export” (few partial exporters and fewer switchers)
 - Export activity is highly persistent
 - The productivity premium tends to increase with low national (or sectoral) export participation rates

Firm Capabilities

- Africa lacks capable mid sized firms (50-70 workers)
 - Management of a growing labor force is a major constraint
- Firms learn capabilities from exporting
 - The positive relationship between exporting and productivity is mainly due to process and quality innovations undertaken by firms
- Firm to firm knowledge transfers are an important source of capabilities
 - FDI is a major source of higher capabilities
 - Vertical linkages along supply chains are much more dense in Asia than in Africa

Firm Capabilities: Different Neighborhoods

Vietnam: Supplier Customer Competitor Kenya:

Supplier Customer Competitor

FDI Firm				Supplier		Customer		Competitor	
No	Province	Investor	Product	I/No	Inputs	I/No	Products	I/No	Products
1	Hanoi	Japan	Porcelain products	1	Chemical	1	Porcelain products	x	Porcelain products
						2	Porcelain products		
						3	Porcelain products		
2	Hanoi	Japan	Furniture	1	Glass	4	Furniture	x	Furniture
				3	Wood	5	Furniture	x	Furniture
				4	Wood	6	Furniture		
3	Hanoi	Singapore	Tyres and tubes	5	Chemical	7	Tyres and tubes	x	Tyres and tubes
				6	Chemical	8	Tyres and tubes	1	Tyres and tubes
				7	Chemical	x	Tyres and tubes		
4	Hanoi	China	Electrical equipment	8	Copper wire	9	Transformers	x	Transformers
				9	Copper wire	10	Transformers	2	Transformers
5	Hanoi	Japan	Motor components	10	Iron	11	Auto assembling	x	Auto spare parts
				11	Iron	x	Auto assembling	3	Auto spare parts
				12	Iron	x	Auto assembling		
6	Hanoi	Multiple	Rubber components	13	Rubber materials	13	Rubber products	x	Rubber products
				14	Raw rubber	13	Rubber products	x	Rubber products
				15	Raw rubber	14	Rubber products	x	Rubber products
7	Hanoi	Japan	Metal components	16	Steel	15	Locks	x	Metal products
				17	Steel	16	Misc. mechanical products	x	Metal products
				18	Steel	17	Antennas	x	Metal products
8	Hanoi	Taiwan	Fibre optic cable	19	Discal printing ink	18	Optic cable		
				20	PP Inks	19	Optic cable		
						20	Optic cable		
9	Hanoi	Japan	Paint	21	Packing bags/bowls	21	Auto assembling	6	Paint
						22	Misc. equipment	x	Paint
						23	Misc. equipment		
10	Hanoi	Multiple	Paint	24	Chemical	24	Doors	x	Paint
				25	Chemical	25	Concrete	x	Paint
				26	Products for packing				
11	Hanoi	Multiple	Chemical products	27	Acid	26	Construction	7	Chemicals for construction
				28	Chemical	27	Concrete	x	Chemicals for construction
				29	Chemical	28	Construction		
12	Hanoi	Multiple	Carton products	30	Paper	29	Beer	8	Paper
				31	Paper	30	Mills	x	Carton
				32	Printing	31	Mechanical items	x	Paper bags
13	Hanoi	Japan	Plastic products	33	Amoronic	32	Plastic door	9	Plastic products
						33	Plastic door	x	Plastic products
						34	Misc. plastic products	x	Plastic products
14	Hanoi	Singapore	Electrical equipment	35	Electric wires	35	Transformers	10	Electric wires
				36	Misc. electronic products	36	Transformers	x	Electric wires
				37	Misc. electronic equipment	37	Radio	x	Electric wires
15	Hanoi	Japan	Printing products	38	Printing paper	38	Misc. printing products	11	Printing
				39	Printing paper	39	Misc. printing products	x	Printing
				40	Printing paper	40	Misc. printing products	x	Printing

Note: Out of the 86 identified none refused to participate in the survey. An additional 3 FDI/MNCs were interviewed but their interlinkages were not traced.

FDI Firm				Supplier		Customer		Competitor	
No	City	Investor	Product	I/No	Inputs	I/No	Products	I/No	Products
1	Nairobi	India	Packaging	1	Thrust and hygiene products	1	Dairy/Food processing	x	Carton packaging
						x	Dairy/Food processing	1	Packaging
								x	Packaging
2	Nairobi	Switzerland	Footwear	x	Textiles			x	Misc. Rubber products
								2	Food and Footwear
3	Nairobi	USA	Automotive Industry			2	Cement	3	Automotive Industry
4	Nairobi	UK	Pharmaceuticals					4	Pharmaceuticals
5	Nairobi	Mauritius	Iron and Steel Industry					5	Steel
								x	Steel
6	Nairobi	Taiwan	Textile	2	Carton manufacturer				
7	Nairobi	UK	Tobacco	3	Printers			6	Tobacco
8	Nairobi	Netherlands	Petroleum	4	General plastics	x	Sugar		
				x	Misc products				
9	Nairobi	USA	Beverages					7	Beverages
10	Nairobi	France	Cement					8	Cement
								x	Cement
								x	Cement

Note: Out of the 14 identified for interview 9 refused to participate in the survey.

Agglomeration Effects

- Broad evidence of productivity gains
 - Large (formal) firms appear to benefit more than small (informal) firms
- Localization (“cluster”) effects are strongest in lower income countries
- Where markets are poorly integrated competition offsets productivity gains
 - Prices tend to fall, reducing incentives to cluster

A window of opportunity?

- Africa has a chance to break into the global market for industrial goods
 - Changes in Asia
 - Trade in tasks
 - Industries without smokestacks
- But Africa must attract more industrial firms
 - Developing policies to attract global firms
- And while some firms in some countries are competitive many others are not
 - Developing policies to raise firm-level productivity

A new strategy for industrial development

- Reforming the Investment Climate Agenda
- Mounting an “Export Push”
- Building Firm Capabilities
- Creating Clusters

Conclusion

Key Messages

- There is a lot to celebrate in African development (two cheers)
 - But not every where, and major challenges remain (not three cheers)
- Country context and understanding critical
- Growth matters for poverty reduction
 - But not equally everywhere
 - Will South Africa start pulling its weight for African growth?
- Africa has a chance to break into the global market for industrial goods
 - But business as usual will not deliver desired for results
 - Can South Africa have a constructive engagement?