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AFRICA ON THE MOVE:
UNLOCKING THE POTENTIAL OF SMALL MIDDLE-INCOME STATES

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PARTICIPANTS:

Introduction:

MIN ZHU
Deputy Managing Director, International Monetary Fund

Presenter:

ALI MANSOOR
Chief, West Africa Division, International Monetary Fund

Moderator:

AMADOU SY
Senior Fellow and Director, Africa Growth Initiative, The Brookings Institution

Panelists:

ALI MANSOOR
Chief, West Africa Division, International Monetary Fund

ANDY BERG
Deputy Director, Institute for Capacity Development, International Monetary Fund

LILIANA ROJAS-SUAREZ
Senior Fellow, Center for Global Development

Concluding Remarks:

ANNE-MARIE GULDE
Deputy Director, African Department, International Monetary Fund

P R O C E E D I N G S

MR. SY: (in progress) -- growth initiative. We know that Washington has a number of interesting events and when we have a full room we're very happy because we know that you could have been sitting somewhere else or doing something else so welcome to Brookings and we are even happier when the topic is about Africa. We are very happy here to be hosting strong delegation from the IMF to present a book Africa on the move: Unlocking the potential of small middle-income states. I will briefly introduce Min Zhu and the IMF delegation and then we'll move to a speech and to a panel discussion. Mr. Min Zhu welcome. He is currently the Deputy Managing Director at the IMF a position he assumed on July 2011. I've seen that he has taught at John Hopkins so this is his street too. Mr. Zhu was deputy governor of the Peoples Bank of China where he was responsible for international affairs, policy research and credit information. Prior to his service at China's central bank he held various positions at the Bank of China where he served as group executive vice president responsible for finance and treasury, risk management, internal control, legal and compliance and strategy and research. He also worked at the World Bank and taught economics at both John Hopkins University and Fudan University. Welcome Mr. Zhu.

MR. ZHU: Thank you Amadou for very kind introduction and also thanks for hosting this event as well. It is wonderful to come back to Brookings again. I'd also like to thank all of you for coming to this event. I have to apologize we launched a book and I just learned we will not give everyone a free copy but only give a 20 per cent discount. I think you should change that policy. Any time we do a book launch and anyone who comes we should give the people a copy of the book. We can cut the cost on coffee and cookies. People that come here is for the book not the cookies and the coffee. I don't think that Brookings has a special on cookies as well. But anyway thank you very much for coming to this event. Obviously this is a very important issue for Africa. We're going to talk about several countries. Those middle-income small countries are a very unique group. In the past 20 years say be able to maintain a very prudent macro policy say do the structure reform, do the market reform, diversify their trade, their exports and they will be able to maintain growth in a very sustainable way. So roughly in 20 years their GDP increased double, triples from roughly a thousand dollars 20 to 25 years ago to today roughly from 5,000 to 25,000 across several countries. So this is absolutely a remarkable opportunity.

The important thing is there seven governments in these countries are very much committed. They committed the country, they've committed the growth and committed the people and they really want to carry on the policies so they are very closely working with us always asking advice to see how they move forward. So a few weeks ago it was winter. We hold a conference and we bring all the seven countries authority come to Botswana and they are beautiful countries and they would talk about the lessons and the futures and also particularly the challenges they are facing today. So I did an opening and I did the conclusions and the conclusions made I wanted to share with you one of the first conclusions we did is for middle-income countries in Africa the middle-income moved up it's much easier to move in and it's much more difficult a challenge to move out. What does that mean? That means it is easier—it’s not easy but it’s still gradually easier—to move from low income countries status to the middle income status but its much, much more difficult a challenge to move from the middle income status to the high-level income status because everybody understands the middle income traps because it is a completely different game. So we spend a day really talking about the challenges and the key issues of why it is easier to move and why it is so difficult to move and whether we can get together to help them to move out of the middle-income to avoid the middle-income trap and to support and become high level income countries. I think that's the whole task we had on this conference and we had in the past few years, that's the whole issue that makes this conversation so exciting. If we can make this a low income country in Africa become high income countries say in another 10 to 20 years what a big, big impact of events for the whole world, for the whole international communities and for the whole economic development series as well. So this topic is really, really exciting I would say and we see the fruit but we need to move forward. The challenge remains in the daily discussions that we talk about really they are facing three sort of sets of overlapping challenges. The challenge is really daunting. The first set of challenges is a remaining domestic challenge. Yes those seven countries moving very fine, growth is strong, maintains sustainability but challenges remain for example the unemployment rate is still high. In many countries it is 20 per cent and the youth unemployment rate is even higher. Income distribution is a bigger issue. And the Gini increased or decreased when per capita income increases from 1000 dollars to 5 to 10 thousand dollars. So the income cap is widened which is obviously not supported for sustainable growth and the government also is big and some case are getting bigger. In some cases the government accounts for 50 per cent of the GDP. So the private sector developments is a limit and the productivity growth the key drive for the economic to move forward, forward and forward is slowing down. So domestic challenges remain. When we have domestic challenges those groups are also facing external challenges because global environments are really changing from the head wind to the tail wind. The global gross is slowing down. We just mentioned this many, many times and with federal interest rates we all understand the global financial on the situations. It is not how much the federal raise interest for impact on the global financial market it is really to send a signal that interest rates would no longer downsize where only go upside. I think is very important change the message to the financial market. We also see the commodity price change for those countries that some exports but still directly and indirectly impact on that and the global trade grows today much slower than the GDP grows which is really the first phenomenon we observed. In the past 20 years trade growth is always two times at least 50 to 80 per cent higher growth than GDP growth but during the crisis of 2007 first time trade growth is below the GDP growth and those small size countries very much depends on exports. So clearly there are also internal situation change and put tremendous pressures for those countries as well. Now this is common for a country in the development process. You are constantly facing domestic challenges. And it depends on when. Sometimes you're lucky you a favorable external environments but in most cases you're also facing unfavorable external environments, that's the today they are. But more than, that when we're looking at the world they're not only facing two set of challenges they're all facing a third set of challenges and that is the global mac trend. The world is really facing fundamental structure change, climate change. The study shows when the climates changes who will suffer most the African countries. The African countries will suffer most from agriculture and foods they will suffer more disproportionately from drought and flood and back and forth as what we observed in the past 10 years already. Climate change does have a profound impact for the low income country particular in Africa. You have to put this into the policy agenda which is new and which is not easy and which is new for everyone. Demographic change is a big mac trend shift. We observed in the past 30 years the global labor force increased all the way particularly in the advance economy and merging market. Now in Kenya's horizons the labor force will drop gradually in 25 to 30 years of horizons the global labor force increased and that increase will drop to zero. Meanwhile in South Africa the labor force will gradually pick up and increase. So when we all as a part of the world are facing labor force shortages this continent has a surplus for labor which is great news, yes it is great news. But then you say will this continent be able to provide jobs or roughly to 2030. 350 million new labor force. They will say yeah it is coming in 20 some years. Will the country be able to provide education today so in due causing their days those peoples become the skilled labor force and will be able to join the labor force, join the global market. We should do that. They themselves are also responsible for the whole international community also should help them be responsible for that as well. The technology change such a big IT's that the communication changed this is artificial intelligence and those techs and neuroscience and all those things have changed the whole future of the industries. In Dallas we talked about Industry 4.0. Will this put more of a threat for this group of economy or become a window of opportunity for them to catch. This is technology to move forward. When I visit these countries they all talk about a set of special economic zones, they try to attack the technologies. They have a various purpose of the zones from energy efficiencies to the vi techs and all those things but can they transform those things into the industry into the real economy. Given the signs and the skill will they be able to catch the wave or lead the wave when we materialize the technology challenges and the benefits from those strengths. So it is a daunting challenge. There are three set of challenges really in front of the authorities in the seven middle-income countries as well. But the challenge remains and you have to face it. International head wind is coming and you have to face it and the global mac trend is coming you have to seize right on it you don't want to miss it but that makes life extremely challenging and interesting for this group of countries. Where the very (inaudible) discussions we bring the speaker from New Zealand talked their reformed experiences and the speaker from Europe talked about their reformed experiences to see how can we formulate policy reform. The few key policies is comparing this group in an advanced economy and clearly on agenda. The first issue is clearly you need to further enhance institutional capacity. Because that is the key issue to drive the economy to continue to grow which includes many, many things for example improve the government efficiency. Enhance the public finance management that's a key issue. Enhance the macro policy framework for fiscal policy and monetary policy that's occasion. But meanwhile building a more social resilience – also important social safety nets and the floor to support the poor, education and healthcare systems for everyone where it is affordable cost. This also becomes the key challenge for this group as well. But the further enhanced the legal framework to protect private ownership to promote to support the private sector to view the enabling environment for the private sector to act has also become very important. Because the government sector in many countries still quite a bit to make sure the private sector will be able to grow and grow healthy and strongly with the proper policies supported from the government's o clearly those policy issues and all of the policy issues are part of the economic process. They make the policy implementation very, very challenging. The good news is the authority from this group was a committee that understands the challenges and they want to move forward. The good news is we at IMF as a committee and we decide to work with groups and move with groups so in the past four and a half years I went to St. An Marisa here and the African Department continues to bring this together doing the peer to peer reviews helps them to figure out what is the current situation how can they move forward and it is a group who has really become a good group, they talked to each other, the learn from each other after out Botswana meeting they also have another meeting in the Spring Meetings in Washington, D.C. so we'll do more policy data with them. We spend sort of a classical (inaudible) from macro stability and fiscal policy and marginal policy to climate change, to job growth, to income inequality, to gender issues. So we will expand our policy dialogue and talk to them further and will support them forming the new strategy to move forward and also support them on implementations. I think your support as international communities also absolutely important and will play a very, very important role because this group is important. Yes there are several countries, they are small. But what if they succeed the train goes. I will think that will have a profound impact for the whole middle-income countries. It is not only move low income to the middle income but we'll be able to move to advance economy and that will change the whole world. It will have a profound impact on emerging markets and all the emerging markets you'll see a much, much bigger struggle moving from the middle-income to the high level income. There are facing the same challenge. The lessons from this middle-income small size middle-income groups can be well used, applied to the emerging market as well and they will have a global impact as well. Because I'm sure this group when they move from the low income to the middle-income and from the middle-income to the advanced economy will have created their own models their own experience and they will contribute to global economic growth. They will contribute to the thoughts of a global economic and the global government community as well. So in that sense I really want to thank all of you for coming to this event to be with us to get details on the seven countries. They are so important for them, for all their country growth but for all us thank you very much.

MR. MANSOOR: I'd like to thank Min for having set the stage and we'll start from what he said that these countries have a lot of challenges and the good news is that other countries have gone down this journey. So one of the things I think we looked at in this book is what do we learn from countries that have successfully graduated to advance economic status. And this highlights some of the areas for reform that these countries may pursue and the first one as Min said is their scope for more government effectiveness and it is not necessarily related to the size of government spending in fact there is a big opportunity as Min kept saying that the challenges were also opportunities and one of the biggest opportunities is how to make government spending more effective and more efficient. There is also a need to have a better enabling environment for the private sector including working on the depths of the financial system into financing private activity. Poverty has been successfully tackled in some of these countries but in the majority much more needs to be done and part of the answer to that is to have more inclusive growth by working on the unemployment problem. I think that is not only a problem of unemployment there is also a problem of underemployment and insufficient participation. Women are not participating enough and not remunerated enough when they do participate in addition to which there is a big problem of youth unemployment. Again these are both challenges but it is an opportunity for seizing opportunities for growth which is in there today. If we look broadly not all of these countries have the same priorities but we've tried on the basis of the analysis of what is it that the successful countries did to identify for each of these countries which are the areas where they would need to particularly focus and where the biggest opportunities are there for them to raise their productivity. On reserves the reserve position is goods of in terms of co IMF interests their not any major challenges however as Min said the international environment is changing and given all the challenges these countries face and given also that they tend to be much more vulnerable since they are smaller they probably need to think a bit more about fiscal consolidation but more importantly than that focus on economic diversification where they have not really made sufficient progress and this is the only way to be resilient. The biggest challenge through which we could see a movement towards advance economic status over the next decade or so is in the labor markets. And there a lot of work has to be done and this is one of the areas where it is not only the fund but this is where the fund working with the World Bank and other development partners may have to look at what has worked and what has worked less well across the world and the big lesson that we take I dwell a little bit on this from the book is that active labor market policies may have a role but only if they're properly conceived together with the private sector and which that interventions on market conforming. Interventions which emphasize public employment do not generally work and are not only costly but they results are not sustainable. And this leads to another angle if government is hoarding labor then it makes it very difficult to get the productivity growth in the economy that we need and wage bills tend to be high as well as the share of public employment in these countries. So getting a shift towards the private sector is another important source of potential growth. This is urgently required because these countries did very well as Min said they went from 1000 or so to between 5000 and 25000 in one generation. But if we look at what is happening to total factor productivity not only is it declining but it is even turning negative. So there is an urgent need to not only increase the pool of labor but also seek efficiency gains and productivity gains by shifting to labor to where it is going to be more productive. Inclusive growth will naturally follow if you get these things right and I think we should see this particular chart more as indicating how much opportunity there is for this reorientation that needs to take place. Part of this happening though is also creating more opportunities for all especially those who have been excluded from the system. One way to think about this is the challenge is how to open economic space. Open economic space to outsiders by which I mean both SME's that often are forced to be in the informal sector and therefore cannot grow as well as foreigners who want to come to these countries to use them as platforms for global competitive production. In this regard particularly for brining SME's in financial inclusion is important and again the lessons from the book is that directed credit doesn't work, interventions through government institutions generally hasn't been sustainable. What has worked in some of these countries is market conforming interventions which are about finding better ways of sharing the risk and rewards of bringing in SME's into the system. The key in all these things is to find market conforming interventions. And then the big question we know what needs to be done broadly. We've seen that partly by looking at was it is it that the countries which successfully graduated did which these countries are yet to do? We've seen it in terms of what potential there is to secure productivity gains and efficiency gains but the big question of course is how to do it whether than what to do. The thing with what to do these countries understand but they have a lot of problems like most countries including this one in how to do what most people agree should be done. So in this regard one of the questions which the book poses is perhaps more peer learning which the African Department and the IMF has started for some time. But maybe more peer learning and in a more structured manner perhaps might be able to help. Each of these countries is grappling with different parts of the elephant and some of these may have found out how to straighten the tail and others how to straighten the trunk and sharing these examples of political economy may perhaps have an impact and certainly this is one of the things which resonated with both officials in those countries during the course of work on production of this book. But I leave this as a question would this help and if so what is the best way to do it thank you.

MR. SY: Thank you Ali for introducing the book. As Mr. Zhu said we didn't have lunch but we have food for thought and I think we are the right persons to serve us a high quality meal. So I have to my left Mr. Ali Mansoor who is currently in the IMF and the chief for one of the West African divisions. Previously he was the financial secretary in Mauritius from 2006 to 2013 so he comes with some experience in one of the small and middle-income countries that we will look at today. The bios are a little long so I will unfortunately have to go quickly so that you will have time for refreshments. Liliana Rojas-Suarez is a senior fellow at the Center for Global Development CGD with expertise on Latin America financial regulation. She is author the co author and editor of almost a dozen books and her most recent book is “Growing Pain in Latin America an Economic Growth Framework as Applied to Brazil, Columbia, Costa Rica, Mexico and Peru.” That book addresses some of the questions that are very relevant to today's conversation. She's also the Chair of the Latin American Shadow Financial Regulatory Committee and before joining the CGD she served as Managing Director and Chief Economist for Latin American of Deutsche Bank. Before that she has held various positions at the IMF. So you can see that I'm not being fair when it comes to gender but it's particularly great. So Andy Berg last but not least is the deputy director of the IMF's Institute for Capacity Development and he first joined the IMF in 1993 and most recently in the research department as chief of Development of McCrackin Division and before that in the African Department including as chief of the regional studies division and mission chief to Malawi. Andy also comes with some policy experience as he worked at the U.S. Treasury and also as associate of Jeff Sachs. So we will now move to some remarks. I have in the list Andy first, 5 to 7 minutes and we have a time keeper who is on your right and then Liliana will follow.

MR. BERG: Thank you very much for that kind introduction. It is a great honor and pleasure to be here. It is a very rich book and we mainly want to have a discussion so I'm just going to pick a few thoughts that occurred to me as I listened and thought about the book. One is that you can see that the spirit of peer to peer learning in the way the book is constructed and what the book focuses on and of course that comes from the fact that Ali Mansoor is as peer and because the African department has been focusing on this. And in two ways one is that there is a theme of benchmarking throughout the book. I think many of us have observed that benchmarking is a powerful way to motivate policy makers. The world banks doing business report is a phenomenal success. You can say that the indicators aren't actually very good and that there is lots of problems but the fact that you can easily benchmark yourself makes it very powerful. The other is the focus on political economy. Because peers are more likely to say that yeah they know what to do it's the doing it that is hard. Methodologically the book is very rich if you have a chance to look through it. There is a wide range and it is quite ambitious in that regard. There is a little bit of equations, some models, there is a lot of empirical work, regressions, but that is a dangerous thing to put in a book that is supposed to be sensible. In fact the book is sensible. There's a lot of emphasis on what the literature says and also on what policy makers say. Rudy Dornbush used to say that academics like the marginal result and policy makers want the average result. The book is a little of both but it ends up being sensible anyway. In terms of the substance two things strike me most and I'll come back to why. One is the skepticism about the role of the state in promoting financial inclusion especially on the credit side and the risks that poses for financial stability and that seems a very valuable lesson. And the other and this seems even more important to me is the emphasis on public sector employment. We saw how unemployment rates are high of course in low income countries unemployment rates are not high but that's not really a good thing it means that there is no unemployment insurance there are no systems for unemployment insurance so in a sense these high unemployment rates are partly a sign of being a middle income country and having ambitions to move forward but maybe getting ahead of things. And that high levels of public sector employment are identified as being problematic. This is a case where people think well we have lots of unemployment lets higher more people in the government and the book convincingly argues that that is basically not consistent with how things work on the ground. So the book comes at a good time. Min very eloquently highlighted how the world seems to be changing and in particular this train I guess he said coming at these countries but let me step back a little bit and see how I think the book fits in a bit. I myself have not liked the metaphor of the middle-income trap. It's not clear that it is really a trap in the sense that it is a place once you get in you can't get out but it is clear that it is a long, long road to go from middle income to high income. Growing at 2 or 3 per cent a year will get you their per capita will get you their eventually but it is a marathon not a sprint. I'm now not the young person in the room anymore and I remember studying the events in the sixties and the seventies. There were many countries including in Africa growing very well for a long time and of course around the world Latin America as well obviously as well as East Asia. And then there were some tremendous shocks in the late seventies and early eighties. The flows of capital changed, interest rates, world growth slowed down at least briefly and many countries around the world lost as they say the two subsequent decades in terms of growth with debt crisis and so forth including on average and from almost all countries in Africa. I'm reminded of the movie Bridget Jones Diary at the risk of being a little risqué but she has a one night stand if I can say and the next day her friend says how was it and she said I'm paraphrasing now but basically she says whether it will turn out to have been romantic or unseemly depends on whether he calls. Now what I mean by that is how we interpret the last 10 or 15 years of strong economic performance in these countries will really depend on how they go through these difficult times. If things fall apart and they have 10 years of debt crisis we will all say well their policy regimes weren't that great back then they were obviously accidents waiting to happen and then the accident happened. If they make it through we'll of course say it completely otherwise. So I feel like this is a really critical time in my own research we focused on this idea that keeping growth going is the hard part, getting it going is not and if you look at what happened to many countries that lost out that couldn't make it through the late seventies or early eighties and there was a paper by Daniel Roderick arguing that unequal countries have an especially hard time, countries with unequal distributions had a hard time because some adjustment was required. If you didn't make the adjustment you ended up building up debt, prolonging a situation until a medium or small problem became a really giant problem. So that's why I want to return to the themes of the book to say that the book provides powerful tools for thinking about how to adjust to the current circumstance. These are small, open countries, exposed to terms of trade shocks, most of them with fixed exchange rates and that kind of a dangerous combination in many cases but inevitable in most cases and then this public sector employment I want to come back to that. When we did our research and we looked back at the cases of countries that failed to adjust to the shocks of the late seventies, early eighties one thing that came out was that public sector employment was often a short term buffer for negative adverse shocks but it is a very costly buffer, it is hard to adjust. It creates near permanent obligations and is a very dangerous thing to rely on in bad times. So finally I think the peer to peer approach of the book is the right way to see through this crisis and hopefully we'll allow countries to make right decisions.

MS. SY: Thank you Andy. I remember working in Botswana and seeing how difficult it was to energize the private sector. You had this big share of the population being very well paid civil servants and then you had South Africa next door where all the young, talented people would move because they had very well paid job and it was very difficult for a country to diversify. On the other hand with such a public service the government pension fund was very, very, very well endowed and was investing even outside the country so anyway very interesting issues. But when we think about the middle-income trap we often think about Latin America so Liliana here will tell us all about what we should expect.

MS. ROJAS-SUAREZ: Thank you very much both to the Brookings Africa Growth Initiative and the IMF for the invitation. I was invited to provide the Latin American perspective in the context of the book and I have to tell you that that was very easy to do. When I first started reading the book I thought I was reading about Latin America. There are so many similar characteristics in this group of countries. Large dispersion in per capita. Well the examples given in the book they go from 3000 to 10000 dollars. In the small Latin American countries they go from 2 to 15. 2 bring Nicaragua. 15 being Uruguay. And they are diversified economies. What is most concentration then the commodities exporters of Latin America and high levels of inequality? Latin America has been known as the most unequal region in the world for long periods of time and low levels of financial intermediation. My goodness I'm reading about Latin America. But then I noticed two important differences, actually noted in the book and quite motivating and encouraging. The first is that most countries that were analyzed in the book have maintained a strong fiscal stances up to 2014. That of course is going to deteriorate in 2015 because of the global economy but that's a huge difference from what is happening in Latin America since 2013. No country is recording surpluses anymore and all large, small, medium whatever especially the small countries, countries like in Central America are dealing with huge fiscal problems and not to mention all the large countries. Second some institution indicators especially such as the legal system and property rights looks significantly different in the countries in Africa versus the countries in Latin America, Africa looks much better. Now this difference can be crucial in determining what is going to be the growth path of these countries especially in the context of the current turbulences that we are experiencing right now in the international financial markets. I want to make three points related to their (inaudible). First the last problem in Latin America was to consider positive external shocks as permanent when they were transitory. I'm referring of course now to the commodity price boom, to the capital inflows situation but that's now. But that error has happened many times in the past in the region. Including in the eighties and the nineties and the problem with that is that fiscal positions at least in Latin America that looked strong when the economies were growing quickly, very quickly deteriorated after the international conditions turned. So the situation now is that not only is Latin America facing fiscal problems but the fiscal apparatus the quality of the institutions that can actually make adjustments doesn't have the capacity to quickly deal with adjustments that are needed. As we know the adverse external environment is affecting not only Latin America, not only Africa but it is affecting all emerging market economies. So the resilience of the small, middle-income countries in Africa to deal with external environment is largely going to depend on the ability to maintain fiscal sustainability. And why I'm going to make a special emphasis on fiscal sustainability for this group of countries because they lack a tool that many other emerging market economies have. They have exchange rate regimes. They don't have what Latin America uses and many other countries uses which is independent monetary policy to be actually using that tool. That actually the US uses quite a lot, too much. So the tool for Africa at least for this set of countries is a fiscal tool at least for dealing with the current environment. Second I know the term “middle-income trap” is used and misused and abused but I was so pleased to see a discussion in the book on how to avoid the middle-income trap in the book. Why is that? Not only that I also saw that it was very encouraging to see proposals for reforms to actually get out of the middle-income trap. But why was I so excited? Because nobody talks in Latin America anymore about how to get out of the middle-income trap, nobody, that's a non issue. Because the problems in Latin American are so large that what they just want right now is to remain where they are. Forget about moving forward to high income you just don't want to go back and especially for the middle-income class. You see Latin American has made huge progress in the good growth financial years in bringing the middle-class you know many people from poverty up to the middle class and now the theories that they are reverting back into poverty. So to me to see a book and to see Africa is still dealing with that issue is just defined. I'm extremely signed off good news. The final issue is reforms are needed yes but beware about how to demand the reforms and the quality of reforms. You mentioned a book that I edited on Growing Pain in Latin America and we took a lot of examples in that book about how submitted reforms could actually lead into problems if they're not well executed. Africa faced the problem of too big government. Costa Rica did too. But Costa Rica is a good example from the nineties actually of how not to do to reduce the size of government. You see what happened is that Costa Rica focused on the size of the government but not on the quality of the bureaucracy. And what they did is basically they fired so many people especially educators and basically the outcome of this and I know that my time is up and so I really have to make this story brief but it is important because what they did is they disenfranchised they took the franchise out of the good bureaucrats the ones that were good. You know what happened in Costa Rica the different size population form is third party that actually blocked any other reform in the country. This is a wonderful example of how not to do a needed reform. So to finalize as this set of African countries look forward to prosperity they can take some lessons from Latin American. Fiscal strength, the capacity to adjust quickly is going to make a huge different about whether they are actually going to move forward in the past of convergence high income status. In Latin American they have been going in circles from growing to recession to growing to recession back to the level of divergence, rather than convergence, to where they were in the eighties. Second fiscal strength can be achieved cannot be achieved with weak political system and institution equality and that is an entrenched feature of Latin America that Africa has to fight with. And finally it is marked reforms not just reforms are essential. Most countries in Latin America are now struggling and are falling back on what was known as the lost decade of the eighties. The African countries need to remain vigilant to avoid the mistakes of Latin America thank you.

MS. SY: Thank you. Before opening the floor I just have a few questions. Ali I have one question which deals with what I could call a selection bias. So Mr. Zhu I think made a very convincing point that looking at the seven countries is very important because their success would mean a lot for the rest of the continent and by reading the book you really see that there are lots of lessons also for lower income countries but can you tell us more about the choice of these countries for example the fact that most of them are in the southern region of Africa doesn't it include some bias there? Is it just to push it through and that they are in the south that they made it?

MR. MANSOOR: Without answering directly your question which we can return to later but more on a selection bias. We took countries which were middle-income but which were also small so that excluded large economies like South Africa because the view was that the problems of small countries are different from large countries and we also excluded the countries where prayer is your best reform by which I mean you pray for a lot of natural resources and you don't really need to have good policies and that excluded some countries which were middle-income, were small but which really didn't have good policies behind their income levels it was just a good fortune of having a small population and a lot of natural resources. So I think that was behind the selection and this selection I think is relevant. It is relevant because more and more low income countries are started as a core group of 10 to 15 low income countries which is on the path of Asian tigers and these countries some of them are already now becoming middle income and others are on the way to becoming there and for this set of countries I think the experience of these countries is useful. And it is really if we sort of say what is this group of countries about? It is countries which started off with low income, small countries which started off with low income but which through good policies sustained over a long period. As Liliana said the question is not how to start growth, many countries start growth but the question is how to sustain growth over a generation. Another way of saying this is not small middle-income African countries this is a group of low income small low income countries in Africa which sustained high growth over a generation.

MR. SY: Thanks Ali. Liliana I have a question for you I mean you mentioned Costa Rica and the importance of having smart reforms. Can you tell us about success stories this time in Latin America when it comes to reform?

MS. ROJAS-SUAREZ: Yes. There are many, many success stories. Actually one of the most important (inaudible) rates by the way. I didn't want to put too much emphasis on that but I saw without flexible exchange rates many countries will be in severe crisis right now. But in terms of more specific pension reforms in Chile for example have been very well done but the reason that I wanted to emphasize the not successful cases is because you see if you follow by the book and you just say things like okay we need to reduce the size of the government you could fall into traps. And actually for example another example of good and bad together is in Brazil. Brazil it is problematic when a country becomes a rising star in the IMF. Argentina and Brazil were stars and Peru I'm praying that it doesn't become a star. If it becomes a star it starts to fall. Well the latest case has been Brazil. See Brazil was doing so well in private sector and whatever even after the global financial crisis expanded group but didn't do the institutional capacity that there was a reversal of the fiscal growth they need it. And they need it now and is not able to do it because of acquired rights and many things that we don't have the time to discuss but again you can see the dynamics of the reform process is essential. Because it is not just the fact that you are in a given position right now but would happen if the situation that you're in right now turns negative. Will that same reform work or not and many of the things in Brazil looked good in the eyes of us, Washington, they're now not that good afterwards.

MR. SY: Thanks. And finally a question for Andy. Incidentally the Federal Reserve Bank of St. Louis had a series of blogs on the middle-income trap. I'd like to find out why the Fed St. Louis is so interested in the middle-income trap which I don't have an answer.

MR. BERG: St. Louis is not doing too good.

MR. SY: For example this is quoting their working paper and talking about this issue of convergence right? So the idea is you want GDP per capita to converge to the level of the US at some point and so it depends of course of how fast your GDP per capita growth rate is but for many countries it may take at least 170 to 200 years to catch up to the level of the US. Actually for many countries being half way would be a great achievement. For my country I would be very happy. So my question is when we have these trends of very rapidly growing population, a young population and we have all this demographic dividend that could become a demographic bomb right what do you think about that because the constrain is there and we're sure that these demographic projections are right. It's easy to project a demographic trend and you seem to be a bit less worried about the trap in saying we have time, it's a marathon but what is a marathon when you have behind you millions of young people looking at you?

MR. BERG: Well the demographics, the countries where the population is slowing is where you hear the most concern I would say right now or you hear concern on both sides. In the rich countries where population growth is slowing people are emphasizing how terribly that makes the fiscal challenges for example. On the other hand you have many countries in Africa where actually the population is getting younger and population growth is still high and it is a potential demographic dividend indeed. So dependency ratios may be stronger in some of these countries and it is an opportunity. Of course you have to find jobs for people but people are a resource and people of working age are a resource. So it challenges education systems, it challenges labor markets and challenges all sorts of things but I guess every change is a challenge but it is an opportunity as well. There was a recent chapter of the African Departments regional economic outlook that discussed the demographic dividend or whether it would be a dividend and maybe the grass in always greener in terms of challenges you face but I think that one thing I would say is that growth episodes that are rapid are on the whole just looking at the facts are more likely to end. So we don’t want to push too hard to get growth to say three and a half per cent per capita instead of three per cent per capita in a way that is unsustainable. So to some extent it speaks to what Liliana was saying about doing the right kind of reforms and not trying to push things in the wrong direction for short term.

MR. SY: Just connecting the dot I think that because you just mentioned the pension reform and you're talking about this demographic sweet spot and dependency ratios that are kind of favorable and I actually I have a question for you but after so one opportunity could be also this pension reform in these countries and so on and we have some countries where it has been very successful like in Botswana.

MR. MANSOOR: My comment is one the surprising things we found in doing this book is that countries which successfully graduated actually saw an acceleration of the growth rate in the last 5 to 10 years. We thought both because the base is larger and because as you go forward reform becomes more difficult growth rates would falter. And I think this finding is interesting. What it basically tells you and this reinforces the point I think of Andy is that if you get your policies and institutional frameworks and institutional frameworks may be much more important as you're moving to advanced economies because they will generate the right policies here on the firm and so I think if you get the right institutional framework and the comparative advantage of these countries is good governance in the sense that Liliana was talking about. Pragmatic on reforms but reforms which were done in a sustainable manner and as you fix things you actually remove bottlenecks and therefore you grow. So I think the scope for these countries to escape this trap is quite large. However as Liliana in particular but also Andy was saying the question is how do you get these policies right.

MR. SY: Thank you Ali. Now the real reason why we are here is to hear from you, the public. I will take a few questions hopefully from both sides of the aisle.

MR. HOROWITZ: Thank you very much for a great contribution. My name is Elliott Horowitz and I'm a former State Department World Bank official and intelligence community member. Would anyone on the panel like to comment about the relationships of these countries with China?

MR. SY: I'll take two more on this side there.

MR. PASTORE: Good afternoon. My name is Gonzales Pastore I'm a friend of the colleagues here. I have three observations as we think about Africa growth. I work at the IMF in the African department and then I work on the other side because I work at the Bank of Namibia and the Bank of Mauritius. If you look at the list of seven countries that you have there you find that four of those are highly connected to (inaudible) three of them belong to (inaudible) so you have Lasutu, Swaziland and Namibia and second you have Botswana. Because even though Botswana has a (inaudible) if you do the numbers you realize Botswana (inaudible). So the question is whether in terms of thinking about growth we should think a little about the exchange regime not only because of the (inaudible) to get out of but also thinking about the level of the real exchange rate. Because when we were at the Bank of Namibia for example we were going back in history and we were looking at what happened when Namibia became independent. Namibia became independent where in a situation where the country had (inaudible) South Africa. So probably at the time of the independence they should have not joined at a one to one exchange rate but they have probably joined at a more depreciated rate. So I pose you the question you have to the analysis, that's my first observation if you should think a little in terms of an exchange rate arrangement. The second observation and this links a little with Latin America, an interesting thing in Latin America that I did not see in Namibia is that in Latin America there is a lot of under employment (inaudible) super big where if you go to (inaudible) or you go to Botswana you realize that people are either employed or unemployed. They are either employed in the government or sitting there doing nothing. So although you know it is not the first place to move from unemployment to under employment possibly because countries like Peru where they have been growing very rapidly even though the unemployment is really big possibly when a strategy to move those unemployed to be underemployed is not the best solution but that could be a way to move the economy, so that's my second observation to think about. The third point I want to make is the political economy of these countries. Three of these countries like in South Africa where the ANC has been forever in Namibia has been the swap forever and Swaziland has been the king forever so probably initially (inaudible) exchange rate is something we should think about. Probably the political environment is not the most suitable and we should find ways in the way (inaudible) that could probably rock the boat a little, thank you.

MR. SY: So we have another question on the left and we'll make you a panelist next time.

MR. CASHENBAUGH: Good afternoon. My name is Andy Cashenbaugh and I'm a recent graduate with a nutrition background and I'm very interested in public health. You were talking about Latin America. Brazil has had this big issue like we had in Africa with Ebola. You guys have the Zika Virus. How is that going to contribute to the economic development is it going to have an effect to do you think?

MR. SY: All right so we'll give the panel a chance to answer and then we'll go with a second round. So there was one question about China and the relationship between the seven countries with China. Another question about foreign exchange regimes and the fact that at least four of these countries are (inaudible) linked to the (inaudible) and differences with Latin America, a question about political economy and a question about health.

MR. MANSOOR: China is the second largest economy in the world and contrary to what many commentators are saying the additional demand in China every year now with 67 per cent growth is greater than it was every year 10 years ago. So not only is the Chinese economy important but it is still an important source of growth. I'm not going to go into issues of China's economy rebalancing for Africa but what I wanted to say that China is a very important player in the world economy and consequently it is also a very important player in this region. And China has good relations with all the countries in this region and this offers tremendous opportunities not necessarily all of which are being seized. And if one is thinking about opening economic space clearly this is one area where one should look. I think to my knowledge but others who know the countries better can correct me I think Mauritius in this group has been the one that has been most aggressive in pursuing that relationship and there have been benefits without going into the macro benefits which you could also look. Anecdotally just to tell you the sort of gains you get. As China is trying to develop relations with China Mauritius in trying to develop flights to China manage to get the Chinese to subsidize flights between Mauritius and China. So I think there is a big scope in collaboration with China on trade, investment and people flows. The Chinese have also contributed in this region in terms of providing expertise. But the key thing in engaging with China is the Chinese are well organized and they know what they want. These countries can get a lot out of China but they need to think through China's strategy if they know what they want I think that is a very productive relationship with China which can help to unlock the growth with which these countries need to graduate.

MR. SY: I would agree. I would just ask also that we've been looking at how much of the growth in many African countries is driven by trade with China versus other factors and I want to point out also that we are interested in these in fact China will be moving its growth model hopefully with more services and more domestic consumption there might be an opportunity hopefully to have some of the industrial growth from China being plants in Africa and manufacturing in Africa and so on.

MR. BERG: Actually I would say just a word on that just to echo really what Liliana said before on the same point I agree that if these countries are facing external shocks and they need to adjust I think the evidence is pretty clear that having the ability to move the exchange rate can be a very efficient way to adjust to say declines in your export price. That in a felt swoop of course you could lower the public sector wage bill in dollar terms in some sense efficiently. Plenty of countries can do it with pegs but they tend to have very flexible fiscal policy so there is something of a trade off. There are countries that manage to do the adjustment but that is the trade off and that's one of the reasons I also think that there is a potential fragility there. And then just on the point on democracy I'll just advertise the book there's a nice discussion in the book about the current wisdom on the causality and the relationship between democracy and development and there is some recent work that is discussed in the book that is quite compelling about how there is sort of an independent effect of democracy on the effectiveness of government. There's a nice recent paper about how local governments in Kenya are much better at allocating road spending under democratic regimes then under the other regimes that sort of alternate in that country so I think that's another challenge.

MS. ROJAS-SUAREZ: Let me first add a little bit on what Andy just said especially on exchange rates. In countries that have endemic fiscal problems like flexible exchange rates is a must. Latin America had an endemic fiscal problem therefore it has to have flexible exchange rates. If Africa can get out of these fiscal problems and they understand from what I read in the book that they're not this endemic in Latin America they have more room to maneuver with alternative exchange rate regimes. But let me tell you also something very interesting. Even with flexible exchange rate regimes one chapter in the book talks about the accumulation of reserves. Latin America has flexible exchange rate regimes but not huge accumulation reserves. Why? And the truth of the matter is that all emerging market economies share one common characteristic. That is that none of them issue high currency. None of them issue a tradable highly liquid currency and so it really doesn’t matter if you have a fully flexible exchange rate regime. Exports are not going to react so quickly as to generate the insufficient amount of liquid resources to pay outstanding debt. The reason I'm giving you this whole story is because to link it with the reforms issues that we were talking before. There is not a single instrument that becomes the policy to solve the problems. If you think okay I have flexible exchange rates and at the same time I have an increasing amount of debt because international capital market has started giving me more loans or buying more of my debt precisely because they have flexible exchange rates I may actually be in trouble and may have to accumulate more reserve than before. So again on the quality of reform that's the most difficult part. And finally to quickly answer the question on Ebola yes Ebola in Brazil has not only had a bad effect and all that but has complicated an epidemic in Brazil because it had to deal with the huge health issue that it involves.

MR. SY: Thank you. So we'll take another round.

SPEAKER: Hello before I ask my question I would like to say I'm talking from the perspective that I'm from Liberia and Somalia and like he mentioned 10 years growth and graduation and then Liliana talked about this ability about convergence and divergence. Now from where I come from that divergence is mostly due to instability because how can you build on an unstable platform. Like if you have 10 years growth it sounds great but because of the political system you can support a government for 10 years and then after 10 years a different government comes in and then that disappears and most of the educated people exit and that is the problem. So I've not read the book but I think I'm excited about the peer to peer learning that you talk about for like technology apprenticeship because (inaudible) deficiency in skill sets.

MR. KLINE: Yes Robert Kline from the export in Burbank. I have a question for Liliana. In the context of dollarization which I think you have some expertise in when I look at the rand area and I look at countries like Namibia and I think a lot of the points that you brought up are very salient a concern that I have as a quasi dollarization regime where there is fundability between the domestic currency and the rand do you see that as posing specific risk to the financial sector and what do you see as the linkages between financial sector risks and fiscal risks and is the standard solution of dollarized or pegged regimes which is simply a sovereign default and then move on and start over again going to work in regime or is the confidence risk from these quasi dollarization regimes particularly problematic?

MR. SY: Thank you maybe one last question.

MR. MEMMA: Yes my name is Ms. Memma and I'm an analyst from the Center for Advanced Defense Studies. I'd like to know if you made any sort of observations on the Democratic Republic of Congo or in any case Angola because these are social rich countries which to me appears to be mentioned or listed anywhere within your research thank you.

MR. MANSOOR: On the DRC we just recently interviewed the former governor of the Central Bank of DRC. It's on our website so it is mostly about dollarization and other issues like that but it might be useful to have a look.

MR. SY: So we have three questions rand area and I wonder why you call it quasi dollarization and not Randization. And then we have another question about instability and it probably deals with governance.

MS. ROJAS-SUAREZ: Okay I'll start. On the dollarization think another currency as your currency. This has always or in most cases presented the huge problem of currency mismatches at the end of the day. Now in the book basically the numbers that we're shown were basically a government debt. But I don't know what is happening with the private sector. The reason why I'm raising this issue is because not only in Latin America but I've seen a number of many other emerging markets like Turkey and South Africa. The government debt rations have decreased significantly but private sector debt has increased enormously. And this has a lot to do with the each of the trade and interest rates in advanced economies so you borrow in cheap dollars and then invest in higher interest rates in the local currencies. Your question is for the financial sector and I'm not referring to private sector debt. Why because you could have a financial sector that is not heavily inducted in foreign currency at all. But if the private sector is the source of the client of the local banks so if there is a problem in this currency mismatches and there is this inability of the private sector to service an external debt then you're going to also have problems in the financial sector. So I have that problem in the back of my mind. I would then coerce the others to take a look at what is the situation with the private sector because that has become the latest issue in international indebtedness for emerging market economies.

MR. MANSOOR: The key question is really not so much whether politicians come and go but whether the technocrats stay and I think there is a mixed history here. Many of these countries have had the same party in power for a long time which some people argue as good for having a long term reform. Mauritius is at the other extreme. I think the rule has been since 1995 with one exception that every election the electorate wants a different government. The one exception incidentally is following the major reforms which were put in place in 2006 which I would like to claim helped to give the government with the reforms a vote of confidence from the people and I think one of the reasons for alternation in between and since is because lack of progress with reforms to unlock shared prosperity. So both models are workable and I don’t think we can make any conclusion on that but the key thing in all of them is you must have a good civil service. I think this goes to the point of Liliana. The point isn't to dismantle the civil service as Bill Clinton said the problem isn't big government or small government the problem is effective government. Now very often effective government will be smaller because if there are efficiency gains and unless you want to invade a few more countries you don't need more people as you become more efficient. But I think the objective should not be in terms of the size of the government the discussion as Liliana framed it should be in terms of how do we get an effective government and an effective government rests on continuity in the civil service of people who are competent and well trained and then can be given direction by policy makers and I think that is where we need to invest.

MR. SY: Thanks. Now I would like to invite Anne-Marie Gulde who is deputy director, African department to give us her final thoughts on this.

MS. GULDE: Thank you very much. We have very quickly come to the end of today's stimulating event. Before closing let me just take a minute to thank the Brookings Institution for hosting today's event. Bringing it to outside of 19th street really opens another channel of communication and conversation with a broader group of people here in Washington who are interested in Africa. Thank you of course also to our panelists for a very, very stimulating discussion and look at from different angles at the issues that were discussed in the book I found that very, very enlightening. In concluding let me just very briefly share with you what were the main takeaways that I have at this stage. It seems to me that we all agree that the environment in which SMIC's operating are subject at this stage to very strong head winds. We have the commodity price shock that has hit them very hard. The situation is aggravated by the fact that the SMIC's are exposed to various spill overs including the slow-down in South Africa, the lower growth in China, tighter global finance conditions and severe weather conditions that limit energy productions and will probably put pressures on food prices. With these head winds closet moderating currencies have come under pressure of financial sector risks may emerge and the macro risks is to the downside. We heard that it was mostly fixed exchange rate regimes, policy adjustments will need to rely very heavily on fiscal measures mobilizing revenue, controlling non priority spending and importantly increasing the efficiency of spending through appropriate structural reforms. Needless to say that social spending must be protected. We also discussed about smallness and we seem to hear that smallness does really bring additional challenges but experience also shows that those constraints can be overcome and small countries can grow to advance the economic status to achieve these policies in small middle-income countries need to compensate for some of the particular key constraints of smallness. Hence an emphasis on trade openness, investment, research and development and capital all of which will boost productivity and competitiveness given rest this meek group is today. There was also broad consensus that the countries need to rethink their growth model and implement the next wave of reforms to fully unlock their growth potential. Among these reforms clearly more efficient government and those advances of development of the private sector as seen as most critical to diversification. With broad agreement on the diagnostics a final important question that has been raised is how to best support reforms. Here getting a better understanding of the often very thorny political economy constraints is critical. Meaning building what we in the fund often call broad ownership of reforms. There are many elements of what could be done but just in picking up what some of the panelists have said we have tried a new approach in writing this book with the authorities from this mix and having other regular engagement with them as a group. This has fostered a peer discussion and peer learning process for this mix to look at policy reforms within their own group and I would say importantly also opening a parenthesis and looking at other countries such as a Latin American experience has clearly been a way of deepening the engagement and building credibility where otherwise you come across maybe sometimes more as preaching then as convincing. So with this let me close today's events but as I said not close the ongoing discussions with our SMIC members on the best way forward for them. For today all that remains for me is to once again thank everybody here up on stage and especially also you for coming and spending the lunch hour with us. I think it has been a stimulating discussion and we would hope if you have additional questions we hope to hear from you on that. Thank you very much.

MR. SY: We can continue the discussion. We have a blog on our website which is very easy to read using your smartphone and you can post questions and comments and we'll be happy to follow up the discussion. Thank you Andy, Liliana, Ali and we will see you when we discuss the African upper income countries in a few years hopefully.

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