DRIVING AFRICA'S GROWTH THROUGH EXPANDING EXPORTS

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An important source of potential growth for African economies in 2011 is through the exploitation of export opportunities, both regionally and internationally. There is a consensus that increased export growth leads to overall economic growth. Indeed, the experiences of the Asian Tigers and more recently of Brazil, China, India and South Africa support this observation. Increasing exports is also associated with other gains, like access to larger markets which in turn enables exploitation of economies of scale, efficiency gains from technological spillovers and better resource allocation, employment generation and foreign exchange earnings. By following the market and trade liberalization reforms of the 1980s, African exports rose from 22 percent of GDP in 1983 to an average of 32 percent during the last two decades. Likewise, real GDP growth rose from an average of negative 3 percent in 1983 to an average of over 4 percent during the past two decades. The evidence suggests that there is a strong correlation between economic growth and export performance.

Even though Africa's export revenues have been rising in the last two decades, its overall export performance as a share of the world total has been persistently declining during this same period. Specifically, Africa's share of total world exports plummeted from 4.1 percent in 1981 to 1.7 percent in 1998, only rising slightly to 2.4 percent in 2009. Over this entire period, Africa has on average only accounted for about 2 percent of total global exports, of which 30 percent is attributed to South Africa. Africa's export performance is in sharp contrast to that of China's. In 1980, China's export revenue was 28 percent of that of Africa's. But by 2009, that same ratio had risen to 408 percent. While China's exports accounted for 1.1 percent of total global exports in 1981, its share had risen to 9.8 percent by 2009.

Africa's exports are constrained by several problems. First, African exports are not diversified, with 80 percent of its exports concentrated in oil, minerals and primary agricultural commodities. Fuel and minerals alone account for over 50 percent of Africa's total exports. Broken down by country, it is clear that the region's exports are consistently dominated by primary agricultural commodities, natural resources and minerals. For example, in Angola, 94 percent of exports are in crude oil; in Burundi, 72 percent of exports are in coffee; in Equatorial Guinea, 99 percent of exports are oil and gas; in Malawi, 55 percent of exports are in tobacco; in Nigeria, 82 percent of exports are in crude petroleum; in Sierra Leone, 90 percent of exports are in diamonds; in Zambia, 70 percent of exports are in copper. Africa's lack of export diversity and dependence on commodities are further compounded by its share of industry to total GDP, which declined from 37 percent in 1981 to 33 percent in 2010.

Primary commodities are vulnerable to changes in world prices, leading to deterioration in the terms of trade. Experience from the recent global financial crisis shows that less diversified African countries—particularly those that are natural resource-rich and depend on oil and minerals such as Angola, Botswana, Equatorial Guinea—were affected most during the crisis. Those African countries that are more diversified tended to be more resilient during the global financial crisis (Ghana, Senegal, Tanzania and Uganda) or recovered faster (Kenya, Mauritius and South Africa).

The second problem constraining Africa's export growth is that the destinations for Africa's exports are also less diversified. About 70 percent of Africa's exports go to the United States and the European Union, while less than 10 percent is traded within Africa. Evidence from the recent financial crisis shows that countries that are more dependent on the U.S. and EU markets for exports were more negatively impacted by the crisis than those countries that depended on intra-regional trade within Africa. Thus, in addition to expanding exports, there is need for African countries to exploit intra-Africa trade for sustainable economic growth.

Other issues constraining Africa's capacity to increase its exports include high levels of corruption, high costs of doing business due to poor institutions and infrastructure and trade protectionism in the form of non-tariff barriers on Africa's exports.

To exploit the exporting opportunities, African countries should prioritize infrastructure development and establish functioning special economic zones and export processing zones. Implementing these actions should help improve the investment climate, encourage foreign direct investment and ultimately help African countries diversify their production. African countries must also increase intra-regional trade through the expansion of regional trade blocs and the elimination of regional trade barriers. Finally, due to unfavorable and deteriorating terms of trade faced by African primary commodity exports, there is a need to focus on adding value to primary commodities.

Developed countries can help support the growth of African economies more effectively through provisions of preferential market access for African goods rather than just through giving aid to African countries. In addition, agricultural subsidies from developed countries act as significant barriers for African agricultural exports to penetrate the markets in these countries. Well-designed market access policies can have a significant impact on the growth of African economies but the continued subsidizing of agriculture by developed countries will be a difficult constraint to Africa's growth in 2011.