BROOKINGS | QUALITY. INDEPENDENCE. IMPACT.

Convergence or Divergence: Discussing Structural Transformation in Africa

Amadou Sy

Senior Fellow, Africa Growth Initiative, The Brookings Institution

Africa's Convergence

Outline

1. Economic growth: A closer look at Africa's performance.

2. Convergence: Is Africa reducing its per capita income gap with the rest of the world

3. Transformation: Is there an African growth model?

4. Conclusions

A closer look at Africa’s growth performance

- “Growth miracles” are countries that have experienced 7 percent or more GDP growth for 25 years or longer (Growth Commission, 2008).
- In 2008, two out of the 13 “growth miracles” were from Africa: diamond-rich Botswana and the island nation of Mauritius.
- In 2014, more than half of the new 16 “growth miracles” are expected to happen in Africa in countries as diverse as Angola, Equatorial Guinea, Ethiopia, Mozambique, Rwanda and Sudan.
- The list could even include Ghana, Nigeria and Tanzania if they manage to grow slightly faster.

A closer look at Africa’s growth performance

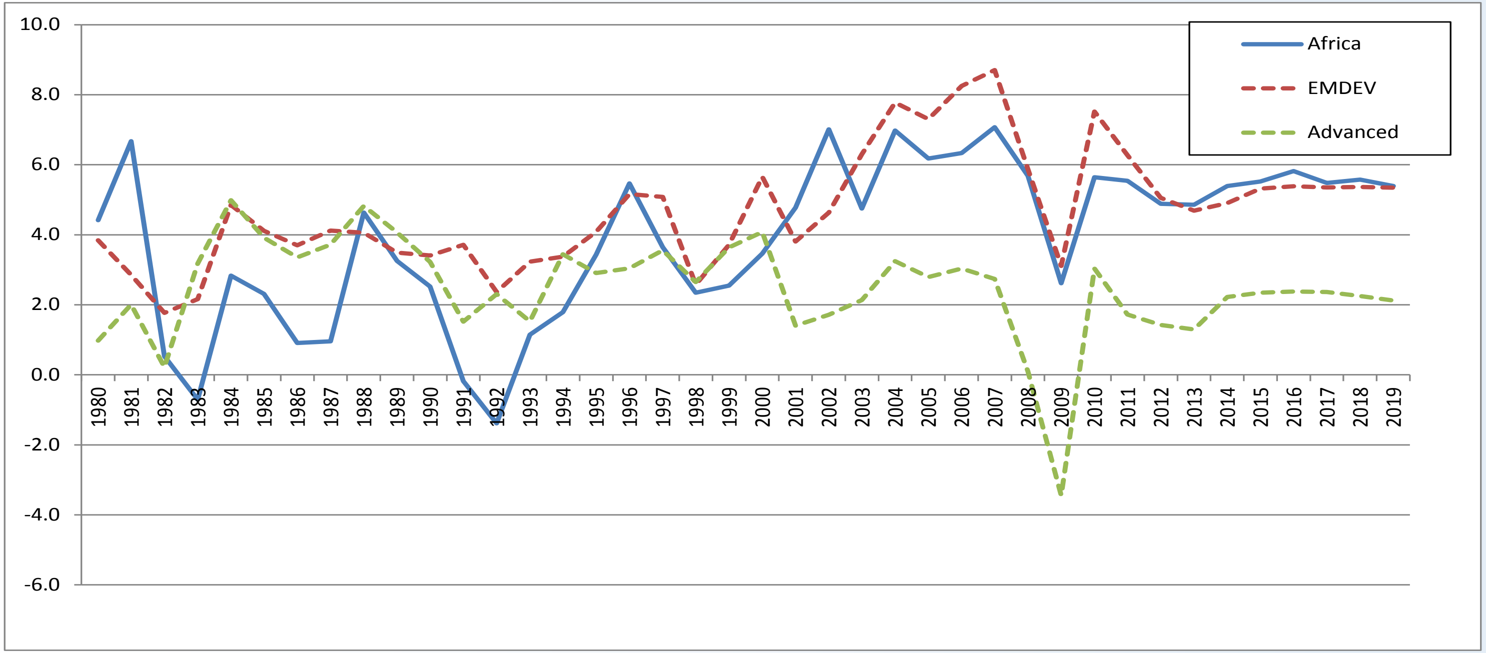
- Africa’s recent growth performance can be attributed to both a favorable global external environment, and improved economic and political governance.

- The so-called commodity “supercycle,” in part fueled by China’s demand for natural resources, has led to higher export and fiscal revenues for commodity exporters. Low global interest rates have helped reallocated international investment and portfolio flows to the continent.

- But it is clear that improved economic governance, increased investment, and positive total factor productivity and better political institutions have played a role in Africa’s recent economic performance.

A closer look at Africa's growth performance

GDP growth (%), 1980-2019p



Source: IMF WEO, April 2014

A closer look at Africa’s growth performance

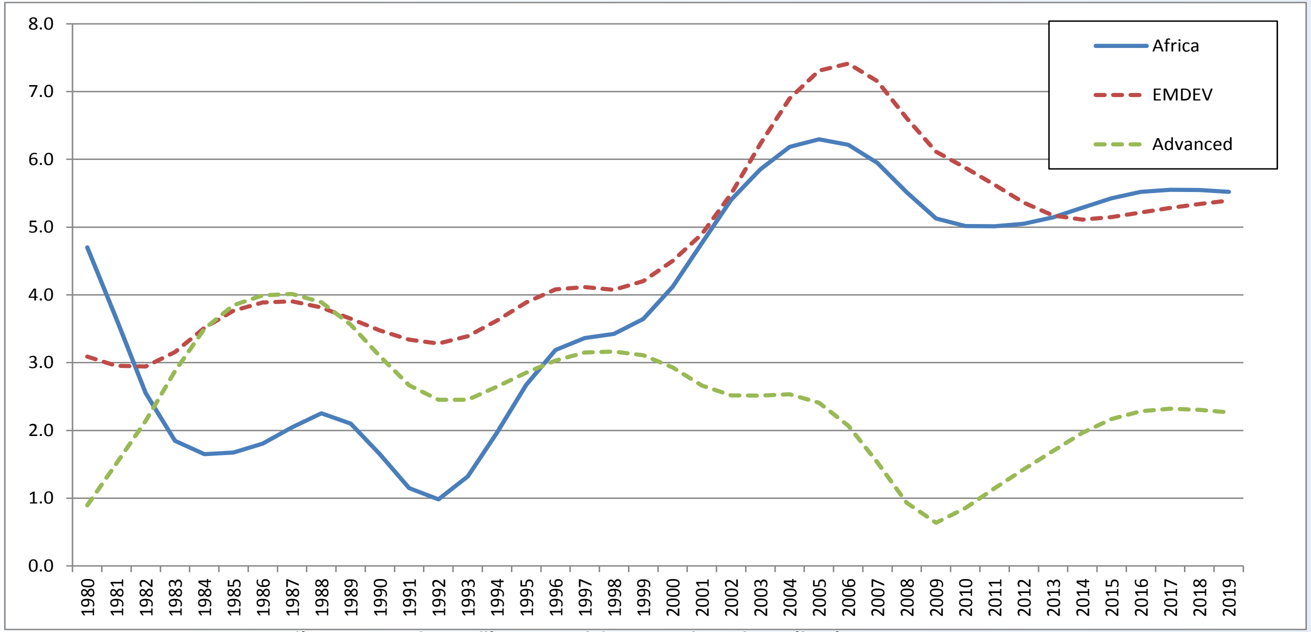
- Africa’s impressive growth performance has led to unprecedented optimism about its economic prospects.
- However, separating the long term trend of growth from its cyclical movement shows that:

i. Africa’s growth took off in the early 1990s, about a decade later than other emerging markets and developing countries (EMDEV).

ii. Although Africa has been growing at a rapid pace since the 1990s, it grew systematically at a slower average pace than other EMDEV.

A closer look at Africa's growth performance

Trend component in GDP growth (%), 1980-2019p



Source: IMF WEO, April 2014 and HP filter used for trend and cyclical components.

A closer look at Africa’s growth performance

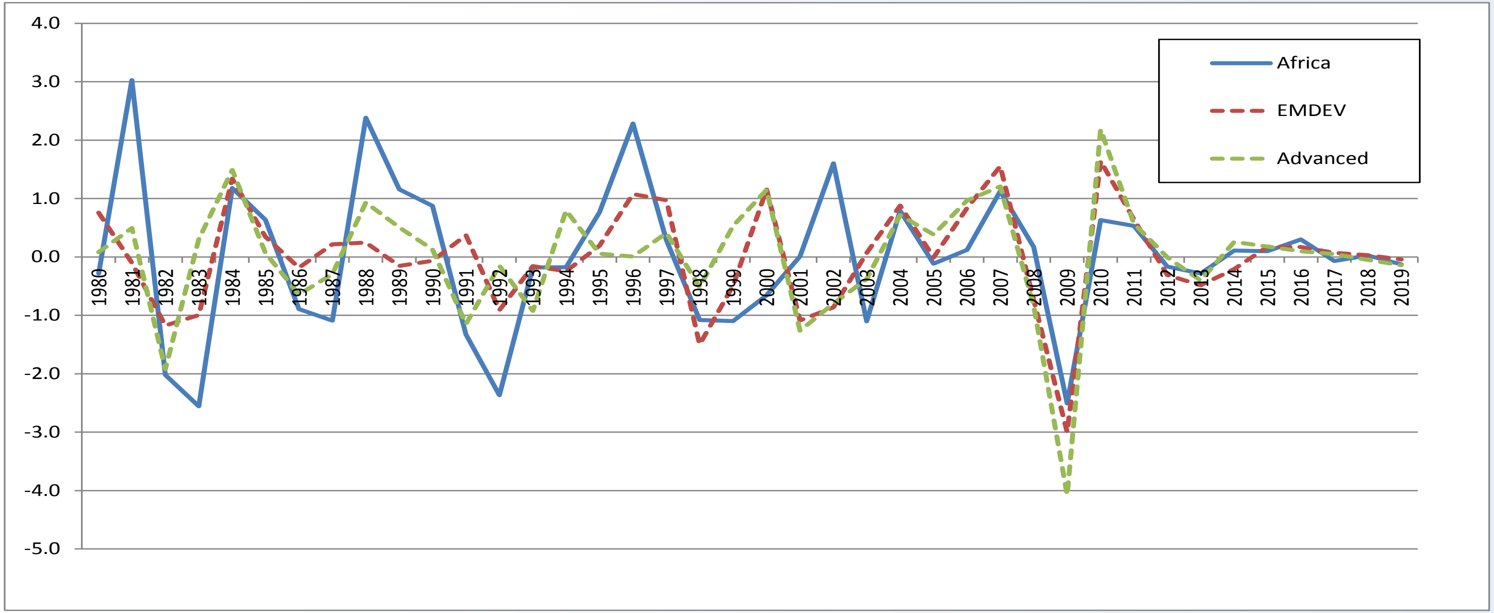
- The cyclical component of Africa’s growth shows that:

i. Up to the Asian crisis, Africa’s cyclical interdependence was stronger than other EMDEV, with periods of global booms and busts being amplified in the region.

ii. After the Asian crisis, however, Africa’s cyclical interdependence seems to have been lower than other EMDEV. Africa’s growth was even countercyclical in the early 2000s and was resilient to the effect of the 2008-2009 crisis.

A closer look at Africa’s growth performance

Cyclical component in GDP growth (%), 1980-2019p



Source: IMF WEO, April 2014 and HP filter used for trend and cyclical components.

A closer look at Africa’s growth performance

- Actually, an increasing channel of Africa’s integration to the rest of the world is its rising trade with EMDEV, and in particular China.

- The EU has been a major traditional trading partner of Africa and over the last decade its trade with the continent has more than doubled to over $200 billion in 2013.

- However, China started from a smaller base but has seen much more explosive growth to over $170 billion in total trade in 2013 from $10 billion in 2000. The US has seen its total trade decline in recent years to about $60 billion in 2013. Rising Chinese investment in the continent is also another channel of Africa’s integration to the global economy.

A closer look at Africa's growth performance

- As Africa becomes increasingly integrated to the global economy through China and other EMDEV, it is likely that its cyclical interdependence with the rest of the world will depend more on Chinese economic developments and policies.

- For instance, a rebalancing of the Chinese economic engine from investment towards domestic consumption could spur increased Chinese investment in Africa, with positive-growth-enhancing opportunities.

- At the same time lower demand for commodities in China could soften their prices with a negative impact on the growth of many African countries.

Africa’s convergence

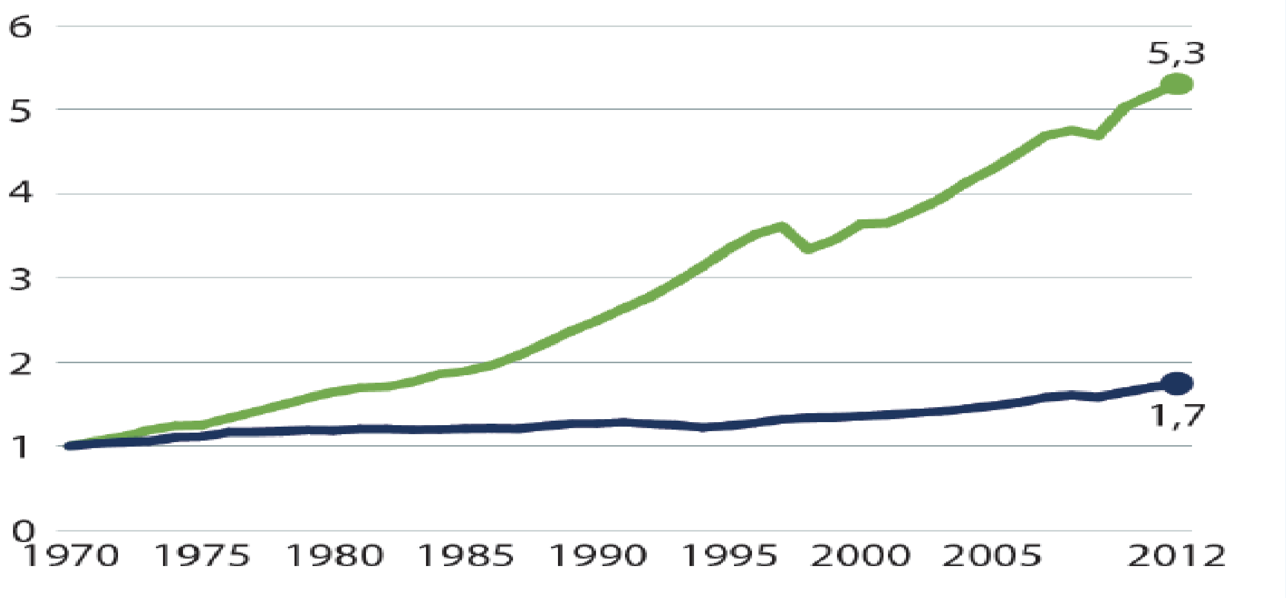
- Having taken off both at a later stage and at a slower pace than other EMDEV, Africa has made less progress than these countries in reducing its relative per income gap with advanced economies (convergence).

- Actually, Africa’s GDP per capita has not even grown fast enough to converge to the level reached by “earlier transformers” countries such as Brazil, Chile, Indonesia, Malaysia, Singapore, South Korea, Thailand and Vietnam.

- Hypothetically starting from a similar starting point of $100 in 1970, Africa’s GDP per capita would have grown to only $170 in 2012 or about three times less than the $530 per capita income that would have been achieved by the “earlier transformers” (ACET 2014).

A closer look at Africa's growth performance

Sub-Saharan Africa and earlier transformers: GDP per capita (1970=1)



Source: ACET (2014); Earlier transformers countries include Brazil, Chile, Indonesia, Malaysia, Singapore, South Korea, Thailand, and Vietnam.

Africa’s convergence

- Africa has experienced previous episodes of per capita income growth take-offs, but they have unfortunately ended up in busts.
- The first growth episode immediately after independence in the 1960s lasted about 20 years but was halted and even reversed in 1980 in the aftermath of the second oil crisis.
- It took slightly over 20 years for per capita income to recover and surpass its 1980 level, in 2003. Since then, per capita income has been growing at a rapid and sustainable pace of about 3 percent per year.

Africa’s convergence

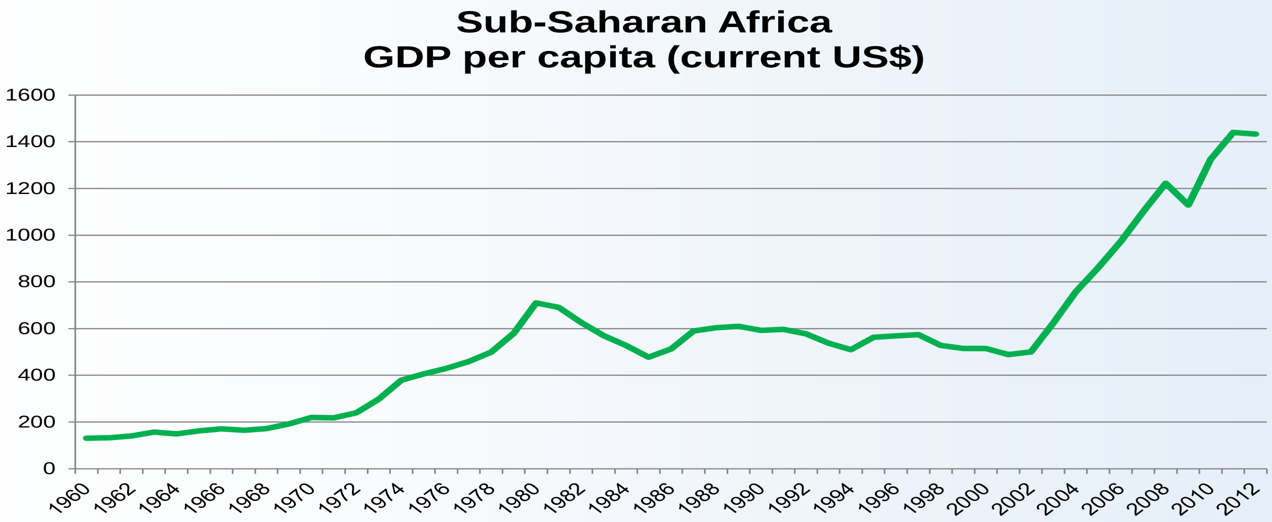
- These aggregate figures mask the fact that some countries may have grown poorer (on a per capita basis) than they were at independence in the 1960s.

- For most of these countries, conflicts have had severe negative effects on per capita income. In others deterioration in terms of trade reversed the gains from years immediately after independence.

- Even within countries, income disparities across regions can be high, fueling internal conflicts.

A closer look at Africa's growth performance

Sub-Saharan Africa: GDP per capita, 1960-2012



Source: World Bank Development Indicators

Africa's convergence

- Africa has made progress in lowering some of the country-specific obstacles that was holding it back. There is of course room for improvement in levels of investment, human capital, and quality of policies ("growth fundamentals") and it is important that policymakers not only continue improving economic and political governance but accelerate the pace of reforms.

- But as noted by Rodrik (2014), investment in "growth fundamentals" alone has not been shown to lead to rapid and sustainable growth. As a result, economists are increasingly focusing on dual-economy models which focus on the role of structural transformation and industrialization in the growth process of the continent.

Africa’s transformation

- The policy debate is moving towards the possible drivers of Africa’s transformation: Rodrik (2014), McMillan and Harttgen (2014), ACET (2014), and UNECA (2014) for instance.
- A starting point of this debate is to ask whether Africa can benefit from the same drivers of growth as other EMDEV. However, the debate is still open as to whether these drivers of growth can be used.
- Africa’s de-industrialization or its slow pace of industrialization means that African economies are not likely to replicate the convergence dynamics of Asian countries and European industrializers.

Africa's transformation

Typology of growth processes

Typology of growth processes/outcomes	Structural transformation, industrialization		
Investment in fundamentals (human capital, institution)		Slow	Rapid
	Slow	(1) No growth	(2) Episodic growth
	Rapid	(3) Slow growth	(4) Rapid, sustained growth

Source: Rodrik (2014)

Africa's transformation

- The structure of African economies has not changed much since the 1980s and most countries remain dependent on extractive industries and low-yield agriculture.
- The contribution of manufacturing—mostly dominated by small and informal firms—to output is negligible and the services sector includes a large share of informal activities in urban areas.
- Industrialization in Africa is now lower than in the 1970s. Manufacturing industries' share of employment is now below 8 percent and their share in GDP has fallen to 10 percent from about 15 percent in 1975 (selected 11 countries data).

Africa's transformation

- The problem as noted by Rodrik (2014) is that African labor is migrating from agriculture and rural areas, but instead of moving to formal manufacturing industries, it is being absorbed largely in the services sector, which is not particularly productive and dominated by informal activities.

- African agriculture is its least productive sector and has the lowest income and consumption levels. McMillan and Harttgen (2014) estimates that the share of the labor force engaged in agriculture fell by about 10 percent during 2000-2010 while services and manufacturing employment grew by 8 and 2 percent, respectively.

Africa's transformation

- What exactly are the expanding activities that are absorbing the African labor force moving out of agriculture?
- "Without knowing more about these activities, it is difficult to make predictions about the sustainability of Africa's recent growth," McMillan (2014).
- "In spite of the enthusiasm for the productivity-enhancing benefits of mobile telephony and mobile banking, services have not traditionally acted as an "escalator sector" like manufacturing," Rodrik (2014).

Africa's transformation

- Current policy advice on how to achieve a structural transformation of African economies that would lead to convergence tends to focus on the need to generate growth by:

i. Reviving manufacturing and putting industrialization back on track;

ii. Generating agriculture-led growth based on diversification into non-traditional agricultural products;

iii. Generating rapid growth in productivity in services;

iv. Leveraging growth based on natural resources.

Africa’s transformation

- The rebasing of some African economies such as Ghana, Nigeria, and Kenya gives a sense of the ongoing structural transformation in the continent.
- In Nigeria, the contribution of the services sector increased to 52 percent of GDP from 29 percent prior to rebasing, and that of the telecommunication sector rose tenfold to about 9 percent from 0.9 percent.
- In contrast, the value added by the agricultural sector fell to 22 percent from 35 percent. Interestingly, Nigerian manufacturing now contributes about 7 percent of GDP up from 2 percent previously. Finally, oil and gas’ value added fell to about 14 percent from 32 percent.

Africa’s transformation

- In conclusion, for Africa to converge, policymakers need to address four key issues:

i. They need to continue strengthening growth fundamentals. Better economic and political governance will lay the basis for growth and help the continent manage shocks.

ii. Achieving a successful economic transformation will help capitalize on improved growth fundamentals and achieve high and sustained per capita growth rates.

Africa’s transformation

iii. However, for such a process to yield lasting benefits, it is crucial to better understand the ongoing structural changes taking place in Africa. At the moment, we simply do not understand enough.

iv. Policies should aim at taking full advantage of the increased cyclical interdependence with other EMDEV, especially China.

Thank you

asy@brookings.edu