9

SUPPORTING AFRICA'S GROWTH TURNAROUND

By John Page

After three decades of low and volatile growth, Africa's economic performance has markedly improved in recent years. Since 1994, its average economic growth has been close to 5 percent a year. Today Africa's per capita income is rising in tandem with that of the rest of the world.

THE GLOBAL CONTEXT

What explains this dramatic turnaround? Africa's long-run growth masks a striking pattern of offsetting booms and busts. Between 1975 and 2005, the average African economy grew more than 3.5 percent a year a quarter of the time but contracted by about 2.5 percent another quarter of the time. This pattern changed in 1995, when the booms began to be more frequent and the busts became much rarer, thanks to two factors: good luck—resource-driven growth booms—and fewer mistakes—avoiding busts.

High export prices for virtually all of Africa's commodities have meant that the continent's resource-rich economies have had significantly more growth booms in the past 10 years than their non-resource-rich neighbors. But good policy has also played a part. Macroeconomic management has been strengthened. Fiscal deficits and inflation have declined dramatically since 1995. Exchange rates have become more flexible and competitive. Political and economic institutions have also improved, and the number of conflicts has declined. These changes have contributed significantly to a sharp fall in growth collapses for the resource rich and resource poor alike.

THE CHALLENGE

The issue now is to sustain growth. Though there is no single prescription for success, Africa's leaders are likely to face five major challenges to varying degrees:

> **Using natural resources well.** If the history of the resource-rich countries in Africa is any guide, rather than bringing prosperity, oil and other minerals may well leave a legacy of weak public institutions, boom-to-bust macroeconomic management, economic stagnation and inefficient public expenditures. Strengthening the institutional foundations of natural resource revenue management—in particular checks and balances on revenue contracts and public

expenditures—is critical for turning natural resource wealth into sustained growth.

> **Creating an export push.** For economies without substantial natural resources, the rapid growth of nontraditional exports offers an important way to boost growth. African exports, however, particularly nonoil exports, are growing slowly and are highly concentrated in a few products. To generate new dynamism in nontraditional exports, Africa will need an "export push," supported by appropriate trade and exchange rate policies, by effective export promotion institutions and by efficient, trade-related infrastructure.

> **Strengthening the private sector.** Private investment in Africa is low, and except for foreign direct investment in resource-rich countries, it has not increased since 1995. Despite recent reforms, Africa remains a high-cost, high-risk place to do business. It is essential to improve Africa's investment climate by reducing excessive regulation and corruption, building up its essential business services and closing its infrastructure gap with the rest of the world.

> **Building new skills.** Africa has scored a major success in primary education; the gross primary school enrollment rate stood at 92 percent in 2004. But there have been no comparable increases in secondary and tertiary school enrollments. The lack of expanded access to and improved quality in postprimary education has serious implications for long-term growth. Africa needs new skills to compete and new approaches to postprimary education.

> **Enhancing resilience.** Africa will perhaps suffer the most from climate change because of its size, large impoverished populations and stage of development. Without integrating climate risks into development planning, Africa risks undermining its growth. For example, in some African countries agricultural yields could drop as much as 50 percent by 2020. For a region heavily reliant on agriculture for overall growth, these projections make a compelling case for the need to climate-proof vulnerable cities, populations and sectors.

AMERICA'S OPPORTUNITY

Africa's long-run success ultimately rests on the actions of its people and their leaders, but the United States has an important role to play in supporting their efforts. The new U.S. administration can take a number of steps to support Africa's growth turnaround:

> **Supporting global standards for natural resource management:** Given how central the effective use of natural resources is to Africa's prosperity, the next administration should support developing international standards and codes of conduct to promote transparency and accountability covering issues such as mineral rights, tax regimes, fiscal rules and public investment. International norms can both support reformers in the resource-rich economies and encourage responsible behavior on the part of extractive industries.

> **Confronting rising protectionism:** International trade is fundamental to sustaining growth in Africa. An export push needs market access. Yet according to a recent *Wall Street Journal* / NBC News poll, 60 percent of voters nationwide agreed that "foreign trade has been bad for the U.S. economy." In the face of such adverse public opinion, it will be difficult but imperative for the new administration to strengthen the Africa Growth Opportunities Act. Imparting new energy to the Doha Round of multilateral trade talks is also critical; many of Africa's most promising trade partners are newly industrializing members of the World Trade Organization.

> **Supporting the private sector:** The United States can help empower the private sector to do business in Africa. The U.S. Overseas Private Investment Corporation can help U.S. businesses invest in Africa by mitigating risk. The Millennium Challenge Corporation can foster stronger linkages with the African private sector. America can also take the lead in forging a consensus in the international donor community to support building up skills for competitiveness.

> **Promoting peace and security:** Poverty is both a cause of insecurity and a consequence of it. Fragile states can explode into violence or implode into collapse, imperiling their citizens, regional neighbors and the wider world as livelihoods are crushed, investors flee and ungoverned territories become a spawning ground for global threats like terrorism, trafficking, environmental devastation and disease. The new administration should intensify efforts to support effective collective solutions—through the African Union and the United Nations—to conflict across the region. There is also a role for unilateral efforts. The U.S. Africa Command created in 2007 should continue to strengthen the capacity of its African counterparts but at the same time avoid expanding its mandate into the realm of humanitarian assistance.

> **Redefining the aid agenda:** The new administration will have an important opportunity to change the priorities for U.S. assistance to Africa. Aid volumes to Africa have increased, but the bulk of the United States' $4.6 billion in aid to Africa in 2005 has gone to technical assistance and emergency relief. The highest priority should instead be to meet the Group of Eight's Gleneagles commitment to

double aid to Africa by providing more assistance directly to projects and programs that support long-term growth and human development. Funding priorities should target projects that are carbon neutral and build resilience to the adverse effects of climate change. The new administration should also challenge the rest of its G8 partners to make similar outcome-based aid commitments.

> **Building bridges to new donors:** China is building a hefty bilateral development assistance program in Africa: providing $5 billion in preferential loans and export credits in the next three years; doubling aid from 2006 levels by 2009; and establishing a $5 billion China-Africa Development Fund to encourage Chinese direct investment. And China is not the only new donor. India, a number of other Asian countries, and several large foundations are also involved in Africa. To date, these new donors have been reluctant to coordinate their efforts with Africa's traditional development partners. The U.S. can help improve the effectiveness of all aid to Africa by leading efforts to build greater communication, collaboration and coordination among all development partners and African governments.

WANT TO READ MORE?

Arbache, Jorge Saba, and John Page. *More Growth or Fewer Collapses? A New Look at Long Run Growth in Sub-Saharan Africa*. Policy Research Working Paper 4384, World Bank, 2007.

Brainard, Lael, and Derek Chollet, eds. *Global Development 2.0: Can Philanthropists, the Public, and the Poor Make Poverty History?* Brookings Institution Press, 2008.

Brainard, Lael, and Derek Chollet, eds. *Too Poor for Peace? Global Poverty, Conflict and Security in the 21st Century*. Brookings Institution Press, 2007.

Easterly, William. 2007. *How the Millennium Development Goals Are Unfair to Africa*. Brookings Global Economy and Development Working Paper 12, www.brookings.edu/papers/2007/11_poverty_easterly.aspx.

Go, Delfin, and John Page, eds. *Africa at a Turning Point? Growth, Aid, and External Shocks.* Africa Development Essay, World Bank, 2008.

Rice, Susan E. and Stewart Partrick, "Index of State Weakness in the Developing World," The Brookings Institution, February 2008. http://www.brookings.edu/reports/2008/~/media/Files/rc/reports/2008/02_weak_states_index/02_weak_states_index.pdf

Rice, Susan. "The Threat of Global Poverty. The National Interest," 2006, www.brookings.edu/articles/2006/spring_globaleconomics_rice.aspx.