Is Africa at a Historical Crossroads to Convergence?

Amadou Sy[1] *Senior Fellow, Global Economy and Development, Africa Growth Initiative, The Brookings Institution*

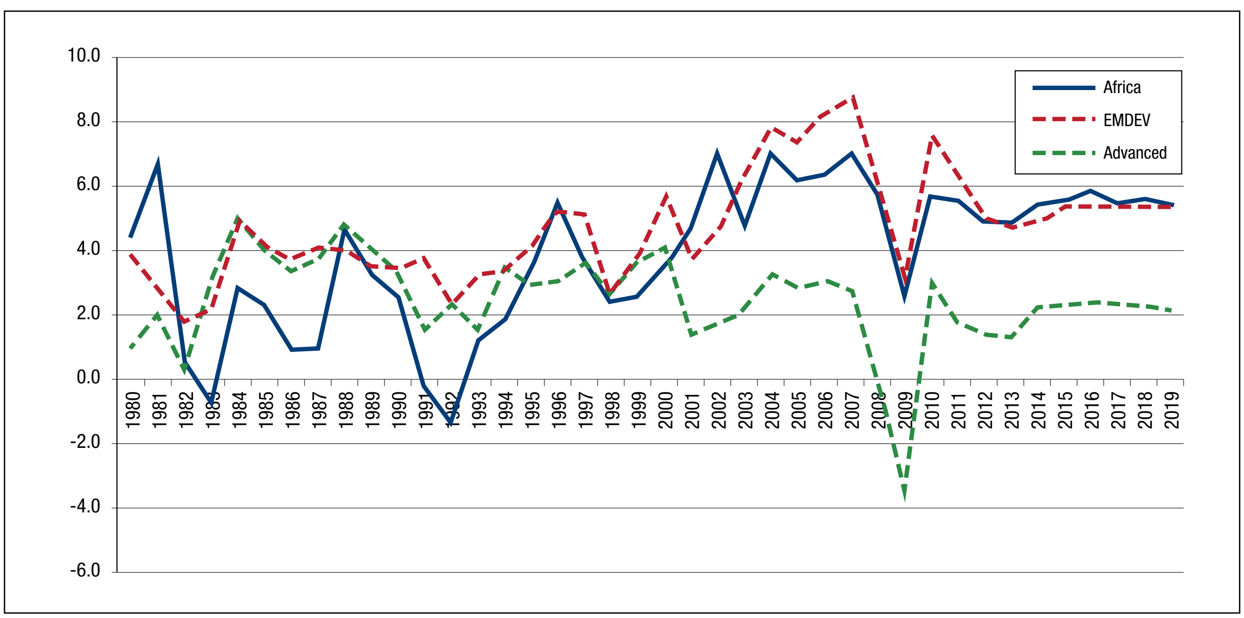
Africa's Growth

In 2008, the Growth Commission established a list of "growth miracles," countries that had experienced 7 percent or more growth in their GDP for 25 years or longer. The list of 13 countries included only two from Africa: diamond-rich Botswana and the island-nation of Mauritius. Five years later, more than half of the new 16 "growth miracles" are expected to happen in Africa and in countries as diverse as Angola, Equatorial Guinea, Ethiopia, Liberia, Mozambique, Rwanda, and Sudan. The list could even include Ghana, Nigeria, and Tanzania if they manage to slightly accelerate their growth.[2]

Africa's recent growth performance can be attributed to both a favorable global external environment and improved economic and political governance (Figure 1). 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 reallocate international investment and portfolio flows to the continent. But it is clear that improved economic governance, increased investment and positive total factor productivity—for the first time since the early 1970s—and better political institutions have also played a role in the continent's recent economic performance.[3]

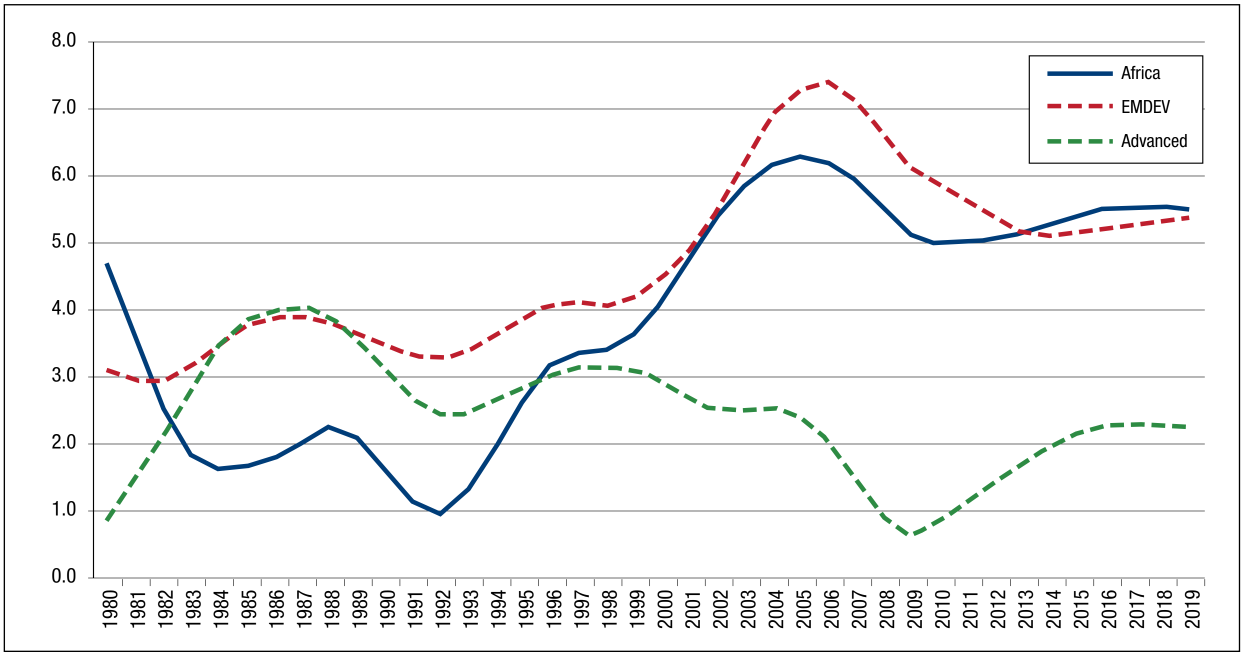
Africa's impressive growth performance has led to unprecedented optimism about the continent's economic prospects. However, separating the long-term trend of growth from its cyclical movement shows that Africa's growth took off in the early 1990s, about a decade later than other emerging

FIGURE 1. GDP GROWTH (%), 1980-2019 (PROJECTED)



Source: IMF WEO, April 2014.

FIGURE 2. TREND COMPONENT IN GDP GROWTH (%), 1980-2019P



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

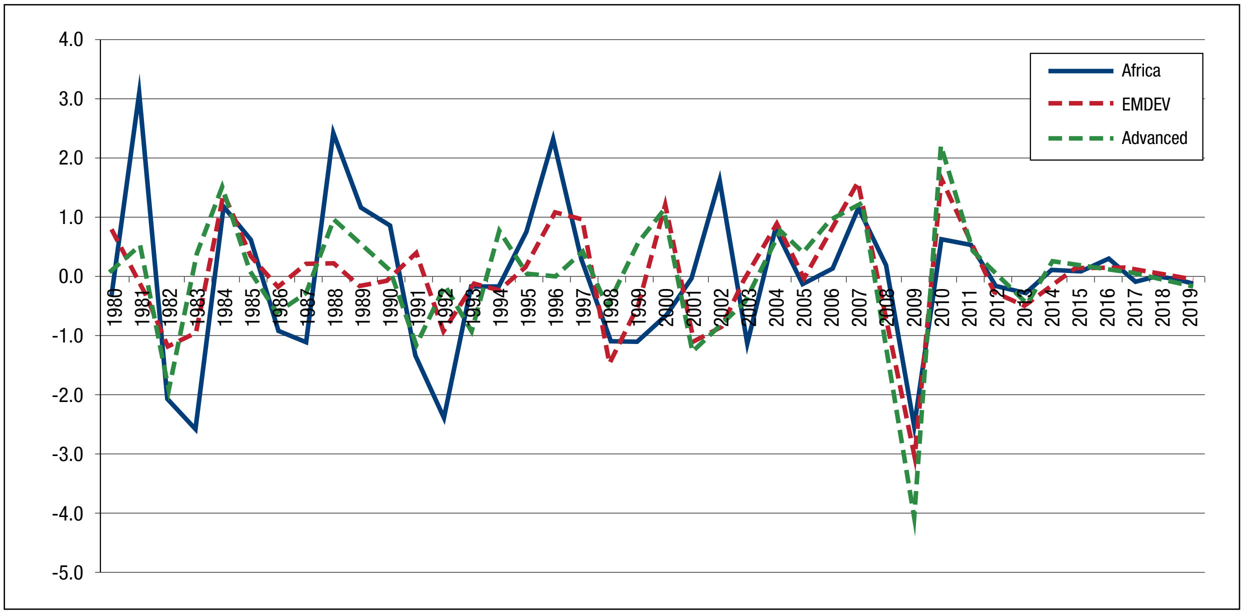
markets and developing countries (EMDEV) (Figure 2). Furthermore, although Africa has been growing at a rapid pace since the 1990s, it grew systemically at a slower average pace than other emerging markets and developing countries. However, Africa could slightly overtake them if IMF forecasts for 2014-2019 are realized.

The cyclical component of Africa's growth shows that the interdependence with advanced economies that other emerging markets and developing countries have experienced has changed. Prior to the Asian crisis, Africa's cyclical interdependence with advanced economies was stronger than other emerging markets and developing countries, with periods of global booms and busts amplified in the region (Figure 3). After the Asian crisis, however, Africa's cyclical interdependence seems to have been lower than other emerging markets and developing countries. Africa's growth was even countercyclical in the early 2000s and was more resilient to the effects of the 2008-2009 crisis, although it recovered less strongly than the rest of the world. The typical channels of emerging markets and developing countries cyclical interdependence include trade, financial markets and spillover channels.[4] However, African countries are significantly less financially integrated to the rest of the world than other emerging markets and developing countries, given their relatively low financial depth. This does not mean that they are immune to global financial crises but that the severity of financial shocks has typically been less.

In fact, an increasing channel of Africa's integration to the rest of the world is its rising trade with emerging markets and developing countries, 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: In 2013 it amounted to over $200 billion. However, China started from a smaller base but has seen much more explosive growth—moving from $10 billion in 2000 to over $170 billion in total trade in 2013. Japan trails the U.S. in its total trade with Africa but, unlike Japan, the U.S. has actually seen its total trade decline in recent years, in 2013 amounting to about $60 billion—importing about $40 billion from the continent and exporting around $20 billion.

Rising Chinese investment in the continent is another channel of Africa's integration to the global

FIGURE 3. CYCLICAL COMPONENT IN GDP GROWTH (%), 1980-2019P



Source: IMF WEO, April, 2014.

economy. The stock of FDI in sub-Saharan Africa (SSA) from the EU, China, Japan and the U.S. grew by nearly five times between 2001 and 2012, from $27.2 billion to about $132.8 billion. This growth was primarily driven by China, whose FDI grew at an annual rate of 53 percent, compared with 29 percent for Japan, 16 percent for the EU and 14 percent for the U.S. China's stock in SSA amounted to $18.191 billion in 2012.[5] In addition to China, other partners such as Brazil, India, Malaysia, Mauritius, Singapore, South Africa, and the United Arab Emirates are increasingly investing in the continent.

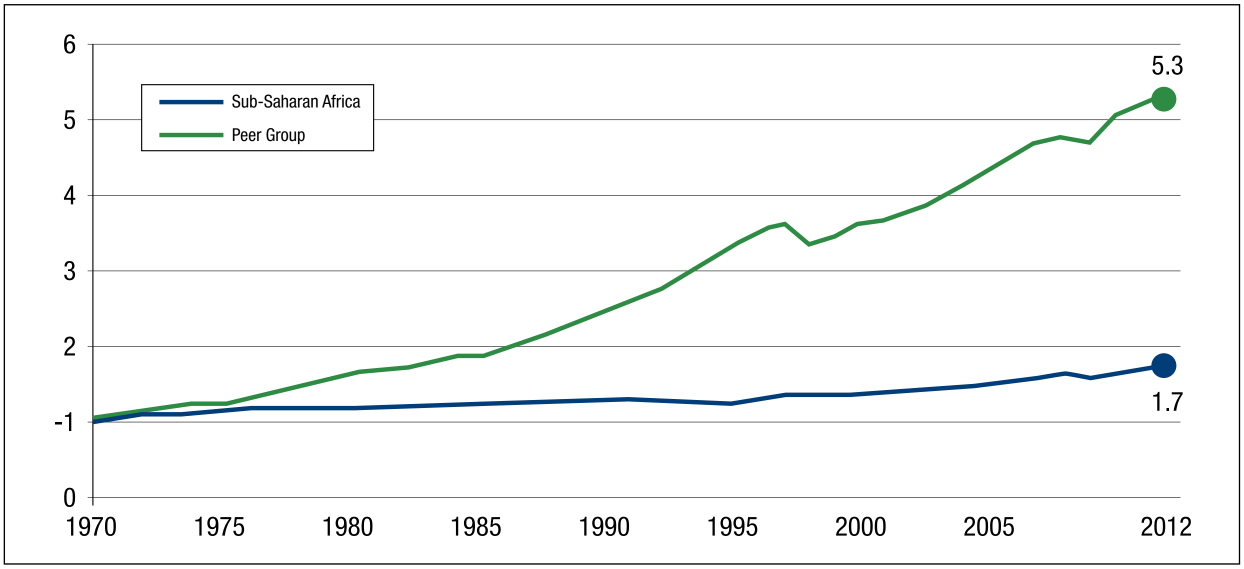
As Africa becomes increasingly integrated to the global economy through China and other emerging markets and developing economies, it is likely that its cyclical interdependence with the rest of the world will depend more on Chinese economic developments and policies. For instance, a rebalancing of the 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. Furthermore, Africa could become more or less cyclically interdependent with advanced economies depending on how China amplifies or dampens shocks in such countries.

Africa's Convergence

Having taken off both at a later stage and at a slower pace than other emerging markets and developing countries, Africa has made less progress than these countries in reducing its relative per capita income gap with advanced economies. Actually, Africa's GDP per capita has not even grown fast enough to converge to the level reached by "earlier transformers" such as Brazil, Chile, Indonesia, Malaysia, Singapore, South Korea, Thailand, and Vietnam. 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".[6]

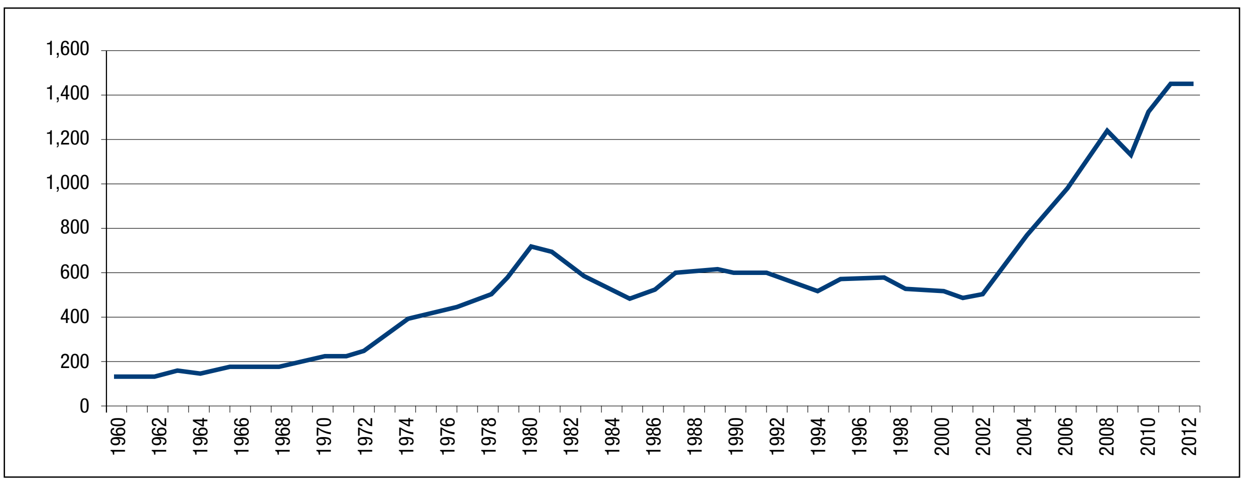
Africa has experienced previous episodes of per capita income growth take-offs, but they have, unfortunately, ended in busts. The first growth episode immediately after independence in the 1960s lasted about 20 years but was halted and even reversed in

FIGURE 4. SUB-SAHARAN AFRICA AND EARLIER TRANSFORMERS: GDP PER CAPITA (1970 =1)



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

FIGURE 5. AFRICA'S GDP PER CAPITA, 1960-2012



Source: World Bank Development Indicators.

1980, in the aftermath of the oil crises of the 1970s. It took a little 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.

These aggregate figures mask the fact that some countries may have grown poorer (on a per capita income basis) than they were at independence in 1960. For most of these countries, conflicts (some which are ongoing, as in the Central African Republic and eastern Congo) have had severe negative effects on per capita income. In others, the deterioration of terms of trade reversed the gains of the years immediately after independence. Even within countries, income disparities across regions can be high, fueling internal conflicts such as in Nigeria.

When viewed through the prism of the conditional convergence literature, Africa has made progress in lowering some of the country-specific obstacles that have previously held it back.[7] There is of course room for improvement in "growth fundamentals" (levels of investment, human capital, and quality of policies) and it is important that policymakers not only continue improving economic and political governance but accelerate the pace of reforms. The current Ebola crisis in West Africa is a stark reminder that underinvestment in health infrastructure bears heavy human and economic costs.

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, the literature on Africa's convergence is focusing increasingly on dual-economy models, which center on the role of structural transformation and industrialization in the growth process of the continent.

The policy debate is therefore moving toward the possible drivers of Africa's transformation.[8] A starting point in this debate is to ask whether Africa can benefit from the same drivers of growth as other emerging markets and developing countries. For instance, Derviş (2012) discusses the potential for emerging markets and developing countries to catch up based on (i) labor reallocation from low- to high-productivity firms; and (ii) their relative demographic advantage (except for China).

Reallocation of labor from low-to-high productivity firms

However, the debate is still open as to whether these drivers of growth can be used. The structure of African economies has not changed much since the 1980s and most African economies remain dependent on extractive industries and low-yield agriculture. The dependence on export and fiscal revenues from commodities means that many African countries remain vulnerable to a sharp reversal in the prices of such commodities. For instance, about 20 African countries derived more than a quarter of their total merchandise exports in 2000-2011 from natural resources (Figure 6). In fact, Africa's dependence on natural resources is increasing with new discoveries of oil, gas, and coalin many countries (such as Kenya, Uganda, Tanzania, and Rwanda in the Eastern African Community, Mozambique, and Ghana) as about 30 percent of global oil and gas discoveries in the last five years were in sub-Saharan Africa (Figure 6).[9]

African policymakers will face a number of potential economic challenges stemming from the presence of natural resources. These challenges include a loss of competitiveness in potentially dynamic, non-natural resource sectors leading to a narrowing of the production base; excessive government on reliance on revenues derived from commodities and export earnings; too much macroeconomic and financial volatility; and rent-seeking behavior that can undermine governance and exacerbate the difficulty of building robust, growth-enabling institutions. They will need to look beyond the so-called resource curse and put into action innovative policies and institutions to confront these challenges.[10]

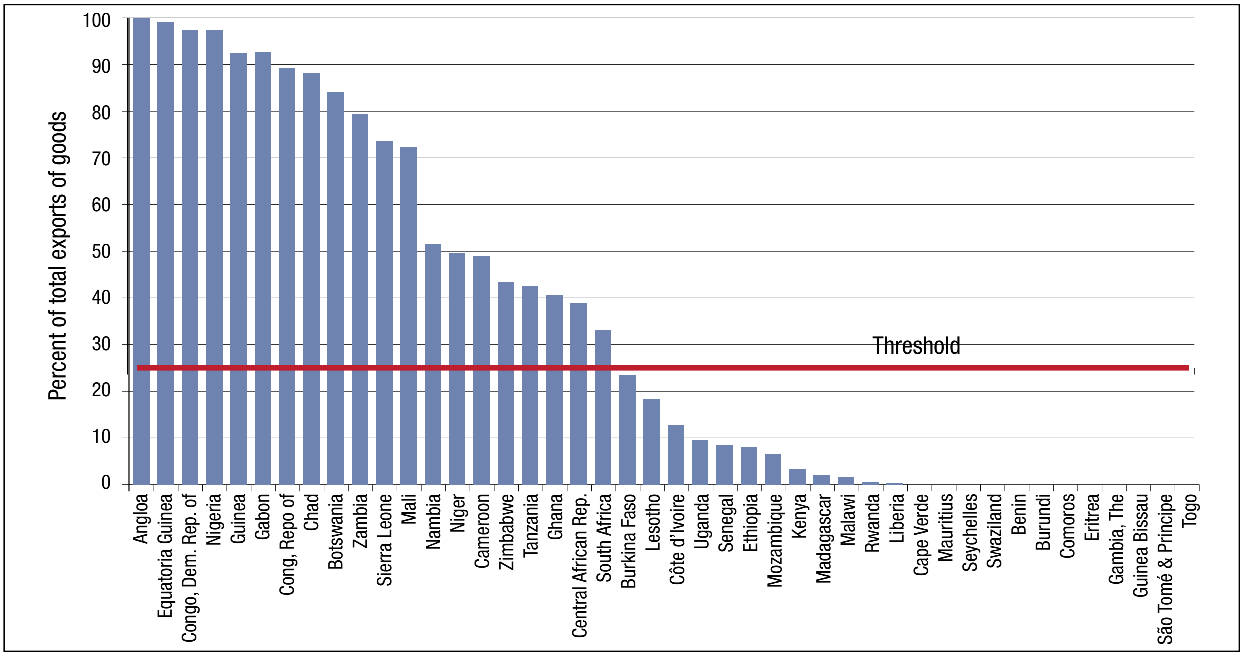
The contribution of manufacturing—mostly dominated by small and informal firms—to output is negligible and the services sector includes a large share of informal activities in urban areas. Industrialization in Africa is now lower than in the

TABLE 1. TYPOLOGY OF GROWTH PROCESSES

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

Source: Rodrik (2014).

FIGURE 6. SUB-SAHARAN AFRICA: NATURAL RESOURCE EXPORTS (AS A PERCENT OF TOTAL EXPORTS OF GOODS)



Source: Thomas and Treviño (2013) and IMF.

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.[11] Africa's slow pace of industrialization means that African economies are not likely to replicate the convergence dynamics of Asian countries and European industrializers. 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 into 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) estimate 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. So although there is a consensus that structural change is happening in Africa as the agriculture sector is shrinking and the manufacturing sector is barely growing, there is no conclusive message about the activities that are expanding.

Which activities are expanding to absorb the labor force moving out of agriculture? MacMillan (2014) cautions that "without knowing more about these activities, it is difficult to make predictions about the sustainability of Africa's recent growth." Rodrik (2014) is quite skeptical about African service productivity and cautions that 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. He stresses that services tend to require relatively high skills compared to manufacturing and have "typically required steady and broad-based accumulation of capabilities in human capital, institutions, and governance."

Current policy advice on how to achieve a structural transformation of African economies that would lead to convergence tends to focus, as in Rodrik (2014), on the need to generate growth by reviving manufacturing and putting industrialization back on track; generating agriculture-led growth based on diversification into non-traditional agricultural products; generating rapid growth in productivity services; and leveraging growth based on natural resources.

Similarly, ACET (2014) advocates economic transformation or "growth with DEPTH" which involves the diversification of production and exports; export competitiveness; productivity increases; technological advances; and human well-being—by expanding formal employment and raising incomes. ACET (2014) identifies four pathways to transformation reminiscent of Rodrik (2014): (i) labor-intensive manufacturing; (ii) agro-processing; (iii) oil, gas, and minerals as part of a portfolio of assets; and (iv) tourism.

The rebasing of some African economies such as Kenya and Nigeria (and previously Ghana) also gives a sense of the ongoing structural transformation in the continent. The rebasing of Nigeria's economy (changing the base year from 1990 to 2013) elevated the country to the world's 26th largest economy from 33rd and to the number one spot in Africa above South Africa as the new statistics better incorporate the informal sector and include new industries. In particular, the contribution of the services sector increased to 52 percent of GDP from 29 percent prior to rebasing and that of the telecommunications sector rose tenfold to about 9 percent from 0.9 percent. In contrast, value added by the agricultural sector fell to 22 percent from 35 percent. Interestingly, Nigerian manufacturing now contributes about 7 percent of GDP rather than 2 percent previously. Oil and gas value added fell to about 14 percent from 32 percent.

Well-designed policies in agriculture merit more attention given their potential to enhance growth and create jobs. First, high-value crops increase productivity in rural areas (a good example is horticulture production in Kenya). Second, linkages between agriculture and manufacturing can develop when agricultural products are transformed and even exported. Third, increased productivity of staple food crops can lower food prices and real wages, thereby making the manufacturing sector more competitive. Solutions will need to be tailored and, at the same time, involve many dimensions. As noted by McArthur (2014), employment challenges can be broken down into typologies by predominately rural, predominately urban, and mixed between rural and urban economies. As a result, highly tailored approaches to job creation based on economy type should be the focus of African policymakers trying to improve the employment situation for young people.

So in conclusion, something is happening in Africa's economies but economists are not sure what exactly. They know that Africa's growth model is different from earlier models used in Asia or Europe but they do not know enough about the drivers of the continent's growth. It is therefore crucial to investigate further the ongoing structural transformation of the continent so as to guide policy in the best possible direction, especially as the continent is going through rapid demographic changes.

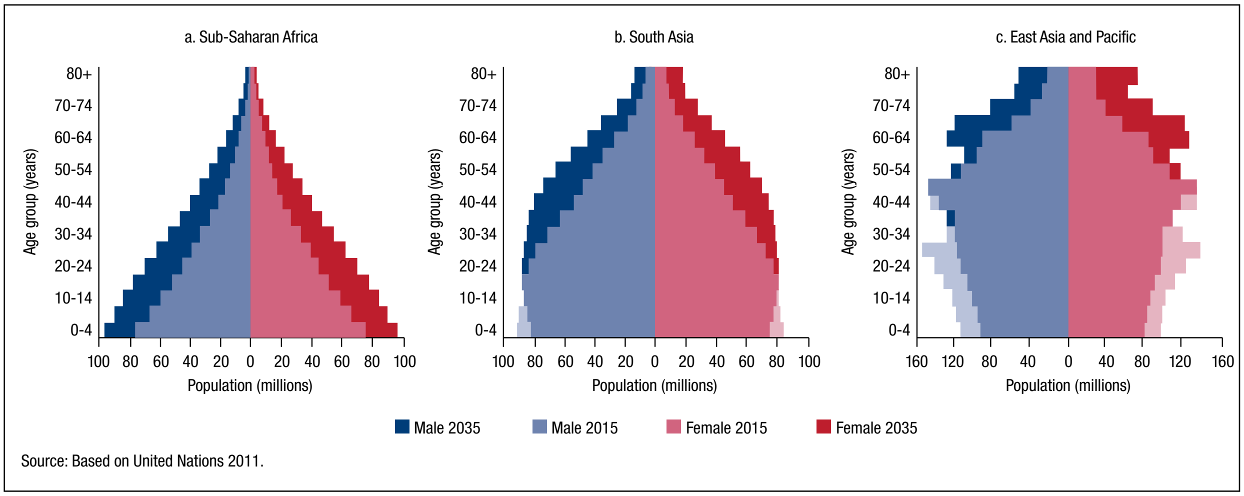
Relative Demographic Advantage

As mentioned above a relative demographic advantage is a potential driver of convergence for emerging markets and developing countries. It is, however, not clear that this is the case for Africa as the recent episode of growth was not accompanied with significant job creation.

Africa's population is without a doubt growing. The World Bank notes that half of Africa's population is under 25 years of age. Each year between 2015 and 2035, there will be 500,000 more 15-year-olds than the year before. In contrast, the population structures in other regions are or soon will be aging. The challenge for Africa will be to transform this youth bulge into an opportunity or risk potential unrest, as exhibited during the Arab Spring. So far, sub-Saharan African countries have not been doing a good job of capitalizing on their young, dynamic populations, and time is running out fast.

Even the narrative around a middle class rising in Africa should not divert policymakers' attention

FIGURE 7. THE STRUCTURE OF SUB-SAHARAN AFRICA'S POPULATION IS DIFFERENT THAN THAT IN OTHER REGIONS



Source: World Bank.

from the urgency of transforming the region's economy to provide sustainable and inclusive growth. Indeed, a rising middle class creates an "expectation revolution" that has to be managed. As noted by Derviş (2014), in Chile, Brazil and Turkey last year, the young and parts of the aspiring new middle classes were in the streets demanding respect, greater equality, less corruption and a greater say in their own lives.

Income Inequality

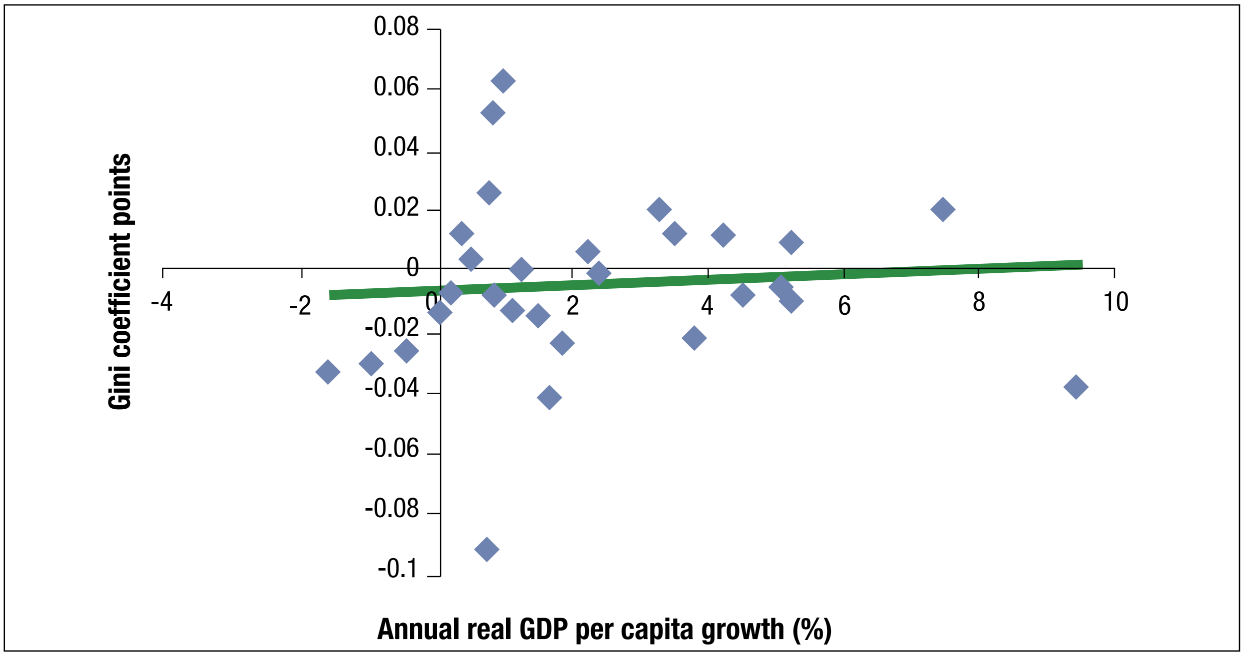
Data limitations make it difficult to assess the extent of income inequality in African countries. The quality of national accounts and poverty data (e.g. surveys on daily consumption; measuring yields of crops) can be challenging and has led to calls for a data revolution by the High Level Panel of Eminent Persons on the Post-2015 Development Agenda. Technological advances such as the use of mobile and geospatial technologies appear promising if they are accompanied by improved national statistical development strategies.

Interestingly, economists seem to know more about Africa's extreme poverty than the rest of the income distribution. Twenty years of falling per capita income growth in the 1980s and 1990s combined with very weak initial conditions have made it difficult for Africa to reduce extreme poverty relative to the rest of the world. For instance, Chandy et al. (2013) show that in spite of Africa's relative success in reducing extreme poverty, the continent will account for a significantly higher share of global poverty because it is growing "too slow" and/or starting "from too far behind." The authors stress that in 1990, 56 percent of Africans lived on under $1.25 a day, accounting for 15 percent of those in poverty worldwide. Over the subsequent 20 years, the region's poverty rate dropped to 48 percent. However, given the superior pace of poverty reduction elsewhere and Africa's faster population growth, Africa's share of global poverty doubled. A continuation of these trends would lead to Africa's poverty rate falling further to 24 percent by 2030, representing 300 million people. But Africa's share of global poverty would balloon to 82 percent.

What about the rest of the distribution? With the data caveats in mind, estimates show a small but positive association in sub-Saharan Africa between less inequality—measured by the Gini coefficients—and growth between 2000 to 2010.

At the outset it should be noted that there are different ways to define "middle class" in Africa. For certain economists (Kharas, 2010), the middle class is defined as the number of households with

FIGURE 8. INCOME INEQUALITY AND GROWTH IN AFRICA (2000-2010)



Source: Gini numbers from PovalNet. Annual growth rate of Gini coefficient for countries with end point in the 2000's decade. GDP per capita from WDI.

average daily income per capita between $10 and $100 in terms of purchasing power. According to this definition, middle class Africans represent 32 million people (2 percent of the world's middle class population) with a total overall consumption of $256 billion. This population growth is expected to exceed 107 million people with a total consumption of $827 billion by 2030. On the other hand, according to the African Development Bank, a daily consumption per person between $2 and $20 is enough income to be considered as middle class.[12] That equates to 350 million people (or 34 percent of the African population) in this category as of 2010 up from 126 million (or 27 percent of the African population) in 1980. For other analysts, a range of $15 to $20 would be a better criterion due to the fact that an income amount of $2 is far too close to the defined poverty line.

What is certain is that the growth of the African middle class could be the highest in the world. The World Bank estimates that the strong economic growth of African countries (of more than 5 percent per year) is driven by the consumption of household goods. We can therefore expect future investments targeting the mobile phone market as well as electronic products and banking services.

Conclusions

Over the past 10 years, sub-Saharan Africa's GDP grew at about 5 percent per year, and at this rate, it can double its size before 2030. Over the same period, the world economy grew by 3.2 percent per year. The impressive growth rate of sub-Saharan African countries since the early 1990s has led to an unprecedented optimism about the continent's economic prospects, illustrated by the numerous media stories about "Africa Rising." However, a contemporary look at the continent's growth performance leads to the conclusion that Africa is at a historical crossroads, which could lead to convergence with emerging markets, and ultimately with advanced economies.

For Africa to converge, policymakers need to quickly address three key issues. There should be a sense of urgency as Africa has a young population and the fight against extreme poverty is not yet over. First, they need to continue strengthening growth fundamentals and pay particular attention to resource management. Better economic and political governance will lay the foundations for growth and help the continent manage shocks. Second, achieving a successful economic transformation will help capitalize on improved growth fundamentals and achieve high and sustained per capita growth rates. However, for such a process to yield lasting benefits, it is crucial to better understand the ongoing structural changes taking place in Africa. This is an important task for economists studying Africa and, in addition to achieving a "data revolution," both meta-analysis and case study methods can be useful complements to the current body of research on the continent. Finally, policies should aim to take full advantage of the increased cyclical interdependence with China and other emerging markets and developing countries. Globalization for Africa increasingly means rising trade and investment with these countries, and understanding the nature and evolution of their linkages with both Africa and with advanced economies will be essential to benefit from upswings and manage downswings.

References

African Center for Economic Transformation (ACET). 2014. Growth with DEPTH—2014 African Transformation Report, Accra, http://acetforafrica.org/

African Development Bank. 2011. "The Middle of the Pyramid: Dynamics of the Middle Class in Africa" http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf

Arezki Rabah, Thorvaldur Gylfason, and Amadou Sy. 2012. "Beyond the Curse: Policies to Harness the Power of Natural Resources." 08 July 2012. http://www.voxeu.org/article/policies-harness-power-natural-resources

Commission on Growth and Development. 2008. "The Growth Report: Strategies for Sustained Growth and Inclusive Development." http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf

Chandy Laurence, Natasha Ledlie, and Veronika Penciakova. 2013. "Africa's Challenge to End Extreme Poverty by 2030: Too Slow or Too Far Behind?" The Brookings Institution, Washington D.C. April 2013, http://www.brookings.edu/blogs/up-front/posts/2013/05/29-africa-challenge-end-extreme-poverty-2030-chandy

Derviş Kemal. 2012. "Convergence, Interdependence, and Divergence." Finance and Development, Vol. 49, No3. IMF. Washington DC, September. http://www.imf.org/external/pubs/ft/fandd/2012/09/dervis.htm

Derviş Kemal. 2012. "The Expectation Revolution is Rattling Chile, Turkey, and Brazil." New Perspectives Quarterly, Vol. 31, Issue 2. April. http://onlinelibrary.wiley.com/doi/10.1111/npqu.11452/abstract

Filmer, Deon and Louise Fox. 2014. "Youth Employment in Sub-Saharan Africa." Africa Development Series. Washington, DC, World Bank

International Energy Agency (IEA). 2014. "Africa Energy Outlook." World energy Outlook Special Reports, Paris, http://www.iea.org/publications/freepublications/publication/africa-energy-outlook.html

International Labour Organization (ILO). 2014. "Global Employment Trends 2014: The Risk of a Jobless Recovery." Geneva. http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_233953/lang--en/index.htm

Kharas Homi. 2010. "The Emerging Middle Class in Developing Countries." OECD Development Centre Working Paper No. 285, Paris, France, January. www.oecd.org/social/poverty/44457738.pdf

Mc Arthur, John. 2014. "Pushing the Employment Frontiers to Africa's Rural and Urban Youth." Foresight Africa 2014, The Brookings Institution. http://www.brookings.edu/research/reports/2014/01/top-priorities-foresight-africa

McMillan, Margaret. 2014. "What is Driving the Africa Growth Miracle?" http://www.voxeu.org/article/what-driving-african-growth-miracle

McMillan, Margaret and Ken Harttgen. 2014. "What is Driving the Africa Growth Miracle?" NBER Working Paper No. 20077, April. http://www.nber.org/papers/w20077

Rodrik Dani. 2014. "An African Growth Miracle?" NBER Working Paper No. 20188, June. http://www.nber.org/papers/w20188

U.N. Economic Commission on Africa (UNECA). 2014. Economic Report on Africa 2014, Addis Ababa, http://repository.uneca.org/unecawebsite/eroa/pages/era-2014

Thomas Alun and Juan P. Treviño, 2014. "Resource Dependence and Fiscal Effort in Sub-Saharan Africa." IMF Working Paper WP/13/188, Washington DC. www.imf.org/external/pubs/ft/wp/2013/wp13188.pdf

Endnotes

1. Amadou Sy, Africa Growth Initiative, The Brookings Institution. I thank Karim Foda for excellent research assistance.
2. See Derviş and Kharas, 2014, TT20 introduction.
3. Rodrik (2014)
4. Derviş (2012)
5. UNCTAD (2014)
6. ACET (2014)
7. Rodrik (2014)
8. See for instance, Rodrik (2014), McMillan and Harttgen (2014), ACET (2014), UNECA (2014)
9. IEA (2014)
10. See for instance Arezki, Gylfason, and Sy (2012)
11. Selected 11 countries, Rodrik (2014)
12. African Development Bank (2011)