THE BROOKINGS INSTITUTION

SAUL/ZILKHA ROOM

AFRICA'S LIONS:
GROWTH TRAPS AND OPPORTUNITIES
FOR SIX AFRICAN ECONOMIES

Washington, D.C.

Thursday, November 3, 2016

PARTICIPANTS:

Moderator:

STELLA DAWSON
Head of Communications
Consultative Group to Assist the Poor

Featured Speakers:

HAROON BHORAT
Nonresident Senior Fellow
The Brookings Institution

FINN TARP
Director, UNU-WIDER
Professor of Economics
University of Copenhagen

* * * * *

P R O C E E D I N G S

MS. DAWSON: Good evening. Thank you very much for coming out tonight. My name's Stella Dawson. I'm the communications lead at the Consultative Group to Assist the Poor, which works on financial tools, financial access to improve the lives of the poor. We're housed at the World Bank.

We're here to discuss an excellent book that has just been published, *Africa Lions: Growth Traps and Opportunities for Six African Countries [sic]*. And I'm delighted that we have the authors with us to talk about it. The book provides an excellent overview of the remarkable improvement in the macroeconomic environment, the fundamentals of six countries in Africa more broadly over the past 25 years. But importantly, it doesn't stop there. It goes and looks in some depth at the key constraints to growth and, importantly, equitable growth.

So I'm delighted to introduce, starting on my far left, Finn Tarp. He is a professor of economics at the University of Copenhagen and he's director of the U.N. University of the World Institute Development Economic Research.

And to my immediate left Haroon Bhorat. He is a senior fellow, visiting fellow, here at The Brookings Institution, and he's a professor of economics and development policy at the University of Cape Town. So welcome. Thank you.

Finn, would you like to start by painting the bigger picture of the theory of development and in what ways these African economies are bucking the trend?

MR. TARP: Thank you very much, Chair. And thank you for being with us tonight. I mean, how do we as development economists sort of think of development? Well, we do that at various levels, but, I mean, if you sort of just for a second think just about the very aggregate, you think about growth as sort of one big aggregate thing, well, when we do that we sort of think about savings, we think about investment, we think about resources, we think about how we invest those resources and how sort of growth happens. And this is the way in which you're getting rising income and improved welfare and better employment.

But the minute where you start opening up that box and sort of recognize that there are actually several sectors in the economy -- you have agriculture, you have manufacturing, you have services, you have a formal sector, you have an informal sector -- the minute where you start opening up, then you have to think about development in a slightly different way. And what do we typically as economists do?

Well, we think about development as a movement of labor from low productivity agriculture into higher productivity manufacturing. And in that way, that move kind of leads to increased income, increased welfare because manufacturing is higher productivity than the low productivity agriculture. And we perfectly know that there may be more subsectors and that this is a very schematic thing, but this is sort of the way in which one is thinking about movement of labor and eventually the rising incomes and better welfare. It may take time, but this is sort of the broad process.

Another aspect we discuss a lot, and today with us is Nguna, who is the author of the Kenya study, I mean, the informal sector. And many people started talking about that in 1971, having looked at how the labor market in Kenya actually looked and sort of it became obvious that there's an informal sector. So development process is often associated with a move from being more informal to be more formal.

Why is that important? Well, because you tend to be able to tax the formal sector, which is more difficult in the informal one. Right? Why do you want to tax? Well, because there is a state that needs to exercise a series of functions.

So this process we refer to as structural transformation. That's kind of how we see development. This is, of course, only one part of development, but this is an important part, at least when you look at with economist glasses on.

Is this what is happening in Africa? The answer is, no, that's not what is happening. We do see growth from very low levels, but we do not see this process of movement of labor from low productivity into higher productivity sectors. We see some movement of labor from agriculture. Yes, people do move, but where do they move to? They typically move into the services sector, which is low productivity and often not very much higher productivity than agriculture.

So, does that generate increasing incomes? Well, if you move from a low productivity to a low productivity, then that increase in income which was kind of part of the story does not materialize. This means that the increasing welfare that you were expecting is not taking place. What you can sort of say is that the link between the macro growth and the disaggregated structural transformation story, that link gets broken, so to speak. Maybe not broken completely, but it sort of doesn't work as we would have thought.

If you sort of take Mozambique as an example, and this is a country I know quite well, you're actually seeing -- and we've studied this over a period of time -- you're actually seeing that the movement of agricultural labor into the services sector now leads to the services sector productivity going down, essentially because so many start joining that sector. This, therefore, means that, on the one hand, you have very high productivity mining sector that cannot really absorb very much labor, that's going up, and then you have a very low productivity services sector. So then you see dispersion in productivity between the few and the many. That's not what development is about. Development is about seeing convergence among productivity between different sectors.

And then, of course, this is important in relation to, for example, issues of gender. It's very important because where do we find women working? They are very often the ones in that low productivity and falling productivity services sector.

There's a demographic challenge that's looming, which I won't refer to, but I do wish to say that there is a series of policy implications here that I would love to discuss in more detail, but I think my five minutes are up. (Laughter) Thank you, Chair.

MS. DAWSON: Thank you. Haroon, so perhaps you could list the six African lions that you're discussing. And with that backdrop that Finn has given us, what are the challenges that these countries face and why are they missing -- what are the reasons they're jumping over the manufacturing stage and what are the dangers of doing that?

MR. BHORAT: Yes. So the six countries, I mean, if we start from the South, it's South Africa, Mozambique, Kenya, Ethiopia, Nigeria, and Ghana. So those were the six African lions. Of course, they don't represent necessarily all the African lions, but they constitute what we think in various ways are economically dominant or high-growth economies.

But I think what's important is to understand what the trigger was for the book, and it really starts out with the following sort of juxtaposition. On the one hand, you've got, as this audience knows all too well, the theme of Africa rising, you know, this is the African century and these high-growth economies. The economists' sort of famous data point that 6 of the 10 fastest-growing economies since 2000 have been African economies. So you have that story which is, for want of a better phrase and with due respect, sort of the media line in a sense.

But the economic work, particularly around growth, poverty elasticities, and I'll assume most of the audience are familiar with that, which is the relationship between economic growth and poverty reduction, suggests that in Sub-Saharan Africa, that relationship is less -- or is far more tenuous than for the rest of the developing world.

The elasticity is 1-to-4 in the context of developing countries, but for Sub-Saharan it's 1-to-3. So a 1 percent increase in growth results on average in a 3 percent reduction in poverty in Africa, but it's a 4 percent reduction for the rest of the developing world. So there's something going on. If you have this high growth and it's Africa's decade, why is poverty not falling faster in the African context?

And essentially, what the book pursues are three lines of inquiry, and we call them our three storylines, if you like. And these are not the only storylines, but these are the three that we look at. And I know the chair's worried about time, so I won't get to all of them.

MS. DAWSON: No, no, no. Please go through all three.

MR. BHORAT: Yes, I'll give you a quick sort of overview of them. The first is the idea of resource dependence and what that's done to the growth-poverty relationship. The second is a little bit of what Finn's mentioned, which is this absent manufacturing sector. And the third is the informalization of labor or, if you like, the move from agriculture to low productivity services.

The resource dependence one is particularly interesting because what it does suggest and the data does show that as many of these fast-growing African economies actually grew rapidly on the back of the commodity super cycles, so what you effectively had was a resource-driven growth. With the dampening of China's growth, what you've seen is a decline in commodity prices and, as a consequence, pick an African economy -- Nigeria, Zambia, not on our list, but others -- you see a decline in growth. And that's really what's pursued in detail in the country chapters.

Why is resource dependence not useful or not a powerful enough mechanism for poverty reduction? There are a whole series of reasons, some of which Finn has mentioned already. They include the fact that it's a very capital-intensive form of production. It's not a large employment generator. Mining is not going to generate the large number of low-wage jobs. Right?

It also, in the economic literature, is known for inducing what is called "Dutch disease." So what happens is the exchange rate appreciates and it becomes much harder to export or become competitive in export markets.

Probably the most pervasive, at least, again, in the public discourse, problem with the resource dependence is that it generates governance failures, so it undermines institutions and governance. And in that process, undermines long-run growth and development prospects. I can talk a little bit about that later.

And then just very quickly on the second reason around the manufacturing malaise, what you've seen, if you look at shares of GDP since the 1980s to the present by three main sectors -- agriculture, manufacturing, and services -- manufacturing's share of GDP in the 1980s stood at about 11.3 percent. In the 1980s. And currently it's 10.6 percent. So think about that. So you've got over three-odd decades, what you've got is either flat-lining of manufacturing share of GDP despite this rapid growth or, in some contexts, actually an erosion of manufacturing. So some of the country chapters actually yield to the fact that you've seen a decline in manufacturing as a share of GDP.

There isn't as yet an example in development economics of an economy, and so I'll be slightly controversial given the current debates, of an economy that's managed to move from low-income to high-income country status without manufacturing at the core of that growth strategy. I don't see Africa -- I know there's a story about services. I don't see Sub-Saharan Africa being different. Manufacturing, for me, still remains at the core of Africa's development strategy or structural transformation. There are a whole host of reasons around which we can sort of peg various theories about why manufacturing's failed and that would be useful to pick up in the discussion.

The final point is around informalization of labor. So if we stick with that structural transformation story, agriculture share of GDP has declined, manufacturing has flat-lined, and the role of services has increased. So we see the share of GDP in the services rising, but, as Finn has said, this is not dynamic, high-end, high-productivity services. It is low productivity, basically urban retail-based services. So the growth in services is actually not a growth strategy at all. It is a movement of workers from rural to urban areas in search of jobs. And unable to find jobs in wage employment, the lowest barrier to entry is in the informal sector.

And so, in essence, the resource dependence story, the manufacturing malaise, and this growth in informal sector employment collectively, we think, does suggest that perhaps we're trying to sell books, that the African lions still need to grow up.

MS. DAWSON: Slumbering.

MR. BHORAT: Slumbering, exactly.

MS. DAWSON: A massive amount to unpack there. One thing that did strike me in the figures on employment is how the agriculture employment went down as the productivity went up, but everything is staying pretty much the same. And so, hence you see that shift of people into the informal sector.

There's some discussion in the development community that we tend to see in the informal sector as a negative. It's low wage, that it doesn't contribute to the taxation base, there's not the public good there. But there's another viewpoint that's starting to emerge because, in actual fact, maybe the informal sector is highly creative, entrepreneurial, and that further investment in ways to bring those who are starting small enterprises into a more formalized economy is one way to go.

What are you finding from your work?

MR. TARP: I mean, if you take -- thank you. I mean, it's a very, very pertinent point and it is an important discussion in the development debates. I mean, if you take a look at the Mozambique chapter, you see a very strong plea for the latter interpretation, that while -- I mean, of course, in the longer term, you cannot sort of think that you're going to have development if everything is just informal because there are aspects of the informal sector which implies that it's not an integrated part of, for example, collecting taxes, and every modern society will have to collect taxes. So, of course, you can't have that as a long-term vision.

But people also have to survive. So while the focus on the informal sector cannot be the long-term development strategy, people still have to pursue a livelihood. And, therefore, it's not good policy if governments actively discourage people from engaging, from creating, from producing, and so on. And you do see, for example, in the case of Mozambique, that the present government -- I should stress and say actually not so much the present, actually more the former government -- has actively discouraged informal sector activity in ways which have prevented people from pursuing their livelihood, which is, of course, not a sensible thing to do.

So in that sense, I fully agree with you that it's important to think about ways in which you can get that creativity in the informal sector to be unleashed and then eventually make it reasonable for, for example, informal enterprises to become formal; be that through provision of credit, be that through provision of support services, and so on and so forth.

MS. DAWSON: Let me be provocative about your remark that no country has skipped the manufacturing stage. We're moving very fast into the digital economy. Africa, particularly Kenya or East African countries, have been aggressive in adopting mobile technologies.

Can they use that as the entry point to achieve not traditional heavy manufacturing, but the new technologies as the new engine to plug that manufacturing hole you're talking about?

MR. BHORAT: So I think partly the reason I stress manufacturing is really to avoid the notion that you can somehow get on to a development path without some notion of productivity capabilities, which is really -- my shorthand version of that is manufacturing. So I don't necessarily mean --

MS. DAWSON: It's not the smokestack type of manufacturing.

MR. TARP: Yes, so it doesn't necessarily have to be large factories with large numbers of low-wage workers. It can be, but doesn't necessarily have to be. But it's very difficult to conceive of an economy that's able to progress without productive capabilities that involve the utilization of -- let's take agro-processing. So if we want to convert, the famous example I've been using because it's stuck in my head is grapes, right, for the last three days, so if we want to move from growing grapes in an arable part of one of our African lions to exporting to market, there is absolutely no way that you can do it without fertilizers, parasites, killers, veterinarian scientists, roads, infrastructure, storage, warehousing, ports. And in all of those components, in order to provide that you need some manufacturing capabilities. So what starts out as let's (inaudible) productivity, let's move towards high productivity and agriculture, you've actually ended up talking about agro-processing or, in actual fact, manufacturing.

So in that conception, technology's an input, actually, in generating a more competitive agricultural sector. So I guess I put manufacturing back in. Rather than think of it as a low-wage route in the East Asian sense, it may be, but certainly it's the notion that I don't see how without those productivity capabilities that somehow one can conceive of as being manufacturing in nature, can lead one to a development path. I think you must have those capabilities.

MS. DAWSON: I want to touch on one other issue before we open it up to questions. You discuss a little bit the demographics. We hear the demographics is destiny. You look at the demographics of Africa and it's absolutely remarkable: 30 percent of a young population, aged very small. You contrast that with China, which is our growth star, and it's completely and utterly the opposite.

Is Africa capable of capitalizing on that youth population and using that for growth in the way that we've seen in China or is this potentially a huge risk because of economic disruption, political disruption you get as a result of the inability to provide employment for young, increasingly educated, and healthier youth?

MR. BHORAT: So, again, I mean, the demographic dividend story, we need to be cautious about it at two levels. One is that it's not an Africa-wide phenomena. So, in other words, you do see some economies on the continent, particularly in Southern Africa, who's demographic dividend has actually gone and it's passed, South Africa being one of them. So, in other words, this rapid growth, this young potential labor force that's coming on stream on the continent, it's not really on the continent. It's certain economies.

And the second thing is those numbers that one talks about are essentially driven by four or five economies. It's quite a reminder, a statistical reminder, that five to six economies on the continent constitute 51 percent of the region's population. So of those five economies, you've got over half off, right, so the remaining 45, 46 economies are, in fact -- they share that 50 percent. So you've very few demographic drivers on the continent actually.

So the question for the audience really is what's going on in those five or six economies in terms of the demographics?

MS. DAWSON: And in the six you studied, would you single out one or two that has the potential for the demographic dividend?

MR. BHORAT: That's Nigeria.

MR. TARP: Yes, exactly. I mean, Nigeria's clearly a case. Mozambique potentially is also a case that could have that. But the point is here, that here that will depend a lot on whether the education investment that has been made is then actually going to be giving a return through people actually being employed. And that is -- I mean, at the very core of the book is this issue of is the labor market going to actually work? Because the very limited high-end mining sector is not going to solve the problem. So what this means is that one has to somehow figure out a way of making sure that the labor market in relation to the other sectors of the economy actually starts absorbing that labor in productivity ways.

MS. DAWSON: Am I right that I'm hearing that one of the critical steps that is required of government policy is the investment in infrastructure in order to catalyze the growth potential? Is that number one?

MR. BHORAT: I mean, I would say yes, because one buys into this capability story. It is about infrastructure, but I think one needs to be clear that it's a specific type of infrastructure. So there has to be a focus on a particular product or a particular export strategy. And, again, if you think it's going to be from cocoa to chocolates or from grape to wine, whatever it may be, that's the infrastructure that you've got to focus on.

MS. DAWSON: And, Finn, you've got a different --

MR. TARP: No, I mean, the infrastructure is absolutely critical and it's also critical to that point that Haroon mentioned in the low elasticity of growth being converted into poverty reduction. If you compare typical African country and Vietnam, you'll have a much higher elasticity, so you get much more bang for your buck for a specific policy in Vietnam than you do in a typical African country. So it's not because African policymakers are not clever, but it's simply because the characteristics of their economies are such that it's harder to translate that growth into poverty reduction. And that's where the infrastructure sits, at the very core of that.

MS. DAWSON: So infrastructure core. Give me another -- number two as a takeaway as what are the policies that can catalyze these potentials into sustainable growth?

MR. TARP: Well, I would say, if I may give two --

MS. DAWSON: Well, three max.

MR. TARP: I mean, I would say that there is absolutely no question that the agriculture sector has to be at the core, as well, because this is actually where still much more than half of the African population lives. So for them to have access to income and so on, that has to get going in a very different way from what we've seen so far.

But it is, also, as we just discussed, how do you help the informal sector to get going? And then thirdly, it is to try to figure out ways in which that manufacturing sector, be that of the smokestack type or the without smokestack, but you have to get that manufacturing. It's just that you cannot expect that the manufacturing by itself will solve the employment problem, but it is critical for all these other learning effects and capabilities effects that the economy overall will need.

MS. DAWSON: Excellent. Let me open it up to questions from the audience. We do have a microphone here and I'll take them in bunches, so let's have a couple of questions. There's a gentleman here and another gentleman at the back there.

Let's take those two to start.

SPEAKER: Good evening. Thank you for the brilliant presentation, but may I know why poverty is not falling in these six countries? These countries have high growth since the beginning of this century, but the poverty in those countries are not falling. We don't see the effect of growth in all these countries. In South Africa, in Nigeria, Mozambique, we don't see it. Instead, poverty's even growing. Why?

SPEAKER: Yes, thank you.

MS. DAWSON: I have someone down here.

SPEAKER: Can you touch a little bit upon the issue of implementation of policies, like, you know, you will have winners and losers? And when it comes to implementing all these policies, sometimes we can see that nothing happens, and maybe you can give us some examples where it happens and how policies were implemented. Thanks.

MS. DAWSON: Two interconnected questions there. Why are we still seeing this massive inequality where you get growth and yet poverty continues to rise? And I think that's about inequality, the Gini coefficient is still there. And I think the gentleman's looking for some more specifics, a little bit more prescriptive policy suggestions.

You want to start, Finn?

MR. TARP: Yes. I mean, let me maybe just begin by saying that as economists typically would define it, it's simply not correct to say that poverty's not falling. I mean, the relative share of the population in poverty in Africa is going down. I mean, it is. And there are lots of studies to say that. We can then in some specific countries discuss whether the absolute number of people who are below the poverty line is going down as much as we would like to see or is maybe even stable. In other words, it depends on how you look at it, but if you are thinking about the incidence of poverty, then that is going down.

Take Mozambique as an example. We have just launched the fourth National Poverty Assessment in Mozambique, and where 5 years ago, 56 percent of the population were in poverty, it is now well below 50, so there has been a decrease. And, in fact, Mozambique, which is often mentioned as an example where poverty has not gone down as much as we want, it has achieved the Millennial Development Goal of 2015 of halving poverty from 1990 to 2015.

MS. DAWSON: It's a morality story.

MR. TARP: So poverty measured as we would do when we're talking about absolute poverty is going down. It's not going down as quickly and as much as we would want.

Now, what is happening at the same time is that we're having inequality increasing and that, of course, means that the growth is not translated into as much poverty reduction as we would like to see.

And they do hang together. And that's, of course, one of the key challenges. And I don't know, Haroon, maybe you can take the policy from there.

MR. BHORAT: So, I mean, just to add, the point about the elasticity is that it is negative, so poverty is falling with growth, but it's not falling as fast as in the rest of the developing world. So that's really the storyline is that it's not that it's zero. It's that it's not sufficiently low relative to what's happening in other developing countries.

So Amadou's question is interesting. I'll use -- I mean, one can pick any policy area, but the one that's striking is around resource dependence. And, for example, if one takes the case of Norway as the gold standard for how to deal with an unexpected resource wealth, namely oil, and all that they manage to do with that, and you look at many of the African economies where, in fact, you see policy failures.

So the average, and this is generalizing, but the average response to resource wealth is provision of licensing to associates of the ruling party, so corrupt tendering procedures and those of massive governance failures. And with that, the inability or the failure to, as Norway did and others, in the Middle East, for example, even to set up wealth funds. So, in other words, to protect the revenue flow from natural resources and invest that revenue flow either into social protection or education, earmarked funds on basis of the revenue flow and it's earmarked funds that are supposed to be good for development. The experience with resource wealth and the governance of resource wealth on the policy front in Sub-Saharan Africa is littered with how not to do it.

MS. DAWSON: Is there one country you can point to that is doing something right?

MR. BHORAT: Yes, so in that context Botswana is -- so we've written other papers, like one of my co-authors is in front there, around Ghana, for example, Botswana, where you have seen good governance procedures around resource wealth. But remember that it's not a necessary, but not sufficient condition for pursuing a development partner.

MS. DAWSON: Okay. More questions? There's a hand here, yes, and one in the back. The gentleman in the back and then the gentleman in the blue shirt here.

SPEAKER: I just had a question related to you just mentioned Norway. And knowing that there's a lot of energy reserves in some of these economies you're talking about in terms of coal or oil, different petroleum products, I've heard speakers at this venue -- not today, but other days -- talk about how Africa should avoid tapping into the energy reserves because it would be harmful for climate. And I'm just wondering what you think because while it might be harmful for climate, that hasn't stopped Norway, that hasn't stopped the United States and fracking, that hasn't stopped any number of countries.

And so I just wanted to hear your point of view in terms of why shouldn't Africa be encouraged and why shouldn't people facilitate tapping into that, which is, in fact, a source of wealth and would fuel manufacturing? Because it would provide cheap energy sources.

MS. DAWSON: Sir?

SPEAKER: Yes. You talked a number of times about the need to reduce resource dependency, and I think that's well known among a lot of us is the desire to increase productivity and to go into more manufacturing and more high value added sectors. To what extent do you think countries' ability to do that or their difficulty in doing that rests within their own policy frameworks and within their own systems and their own institutions as opposed to the global economic system and what happens globally as the countries sort of interface with the rest of the supply chain?

I think in particular examples I read about in Nigeria, where Nigerians seems to be clambering to get more into the refining end of the oil business and the more downstream end of the oil business. And they seem to be getting resistance from the oil companies in doing that. So I'm just wondering if that's typical, if that's really the case, or what the real story is.

MS. DAWSON: Interesting. Okay, the advantages of tapping into the energy sources?

MR. TARP: I can take that one. That's very sort of good and it's also a very, how can you say, concrete example. The way in which I normally sort of approach it -- and I've been working in and on Mozambique since 1980, and obviously I now know a number of the key policymakers very well, and, I mean, the Mozambican finance minister, he asked the same question. My reaction is that if there is a tradeoff, and I hope you understood them saying now if there is a tradeoff, between climate and African people's development and welfare, then obviously the finance minister would have to go for the welfare of his people. I mean, that for me is the fundamental starting point for the conversation.

The question, however, is, is it actually a good idea for a Mozambican finance minister to invest heavily in coal and petroleum that may very soon have prices that won't stay high? Because there's a process of energy transition going on in the world where those traditional sources, the dirty ones, they may get out of business quicker than we think. And then that Mozambican finance minister may not want to be locked into a path for too long. So what I'm concluding here or what I'm ending up saying is that the tradeoff is maybe not exactly that choice either/or or something.

Now, the second point that one should keep in mind is if the developed world really wanted for Africa not to use the dirty sources and wanted to try to promote a cleaner climate, well, maybe we should start figuring out whether we do not have the sufficiently large pockets to actually make sure that we support these efforts to making sure that cleaner, more sustainable, and probably longer-term, better kinds of resources are developed.

So, I mean, that's sort of how I'm kind of seeing the discussion, so to speak.

MS. DAWSON: Yes. Okay, so what's driving resource dependence? Is it the internal rent-seeking poor governance or is it the greed of global capitalism?

MR. BHORAT: So I think it's mainly to do with institutions, if that's the choice. I think there's much more going on. I mean, just a quick example is in the 1930s in Texas, when Texas was exporting oil, a chemist figured out that the residue from oil could be used to make petroleum jelly. Nigeria, right, 50 years after discovering oil, imports petroleum jelly. And so, you know, the downstream beneficiation, right, and the conception of that should be moving from oil to petroleum jelly. Right? But yet, Nigeria's unable to build the capabilities that Texas was able to, right, in the '30s in order to produce the next closest product in that value chain, right, which is petroleum jelly.

Why that is happening is due to a range of factors, part of which include the inability to use revenues for, for example, for investing in petroleum jelly. That's partly because there's a political economy story around the use of oil revenue. But I think it's also a failure of capabilities in general, right, because if you listened to my story correctly, I assume that we have a chemist, right, that could actually figure out that there's a product opportunity there.

And one of the things we haven't mentioned is the role of human capital in growth.

MS. DAWSON: That Nigerian chemist is probably working in Texas.

MR. BHORAT: Exactly.

MS. DAWSON: Part of the problem in not coming back home. Excellent.

I have a gentleman here in the pink tie and somebody waving their hand at me. Can we take these two?

SPEAKER: So I was just wondering how significant you find the role of establishing property rights in terms of on the need for moving from the informal sector into the formal sector?

MS. DAWSON: Somebody just back behind you. And I think there was one other hand waving. Yes, and the person in the corner there. But don't forget this gentleman.

SPEAKER: In relation to one of your lions, Ethiopia, how much is the development or the status of being a strong lion related to investments and loans from China that may be -- certainly they are partially geopolitically versus straight-up economically related? And as China's in the slight difficulty now, will that result in more difficulty for Ethiopia?

MS. DAWSON: Thank you. And the person in the baseball cap.

MR. FANUSIE: My name is Yaya Fanusie with the United States of Africa 2017 Project Task Force. It's very interesting that what you are talking about we stopped talking about at the 1970s. So what new idea you have to transform the barriers for capital expansion and exponential growth of these countries in Africa? I want to hear what new idea you have because we just keep getting old talk.

Oh, by the way, I have a Ph.D. in that area, so I can assess you.

(Laughter)

MS. DAWSON: Right, okay. Property rights, I'll take one more, but property rights, Ethiopia, and we've talked about the resource curse quite enough. Is that a summary? Property rights, the role of property rights.

MR. TARP: There's no question that property rights have a key role to play in this process. The problem that sometimes occurs is if you sort of take for granted that there may not already be certain rights that are functioning pretty well under traditional conditions. They may well function well under traditional conditions, but it's clear that once you see the increasing market-based systems getting introduced, then property rights obviously become important because people will not invest. And, I mean, we do have tons of studies that show that that investment is not taking place if you do not have a reasonable safe guarantee that you're actually going to be able to harvest the returns from that. Companies are not going to invest if they cannot be sure that they are moved away just by the risk or whatever.

So, I mean, property rights have a key role to play and it is clear that in a number of cases, the fact that the property rights are not in place, means that things are being basically slowed down. Things are not happening as fast as we would like to.

MS. DAWSON: Role of China's investment, Ethiopia being a good example, that's a big issue.

MR. BHORAT: Well, it's also a nice example because it's not resource-dependent, right? So there is a manufacturing story to talk about. But, you know, again, in scale terms it's still very small, right? And I think, you know, on the China side, China's exposure, global exposure to Ethiopia is miniscule, it's irrelevant. And so in that sense -- for China, exactly.

So the question them is whether challenges for China translates into a reduction in the exposure to Ethiopia. My sense, at least from an Ethiopia-centric point of view, I think the bigger question is whether the little bit of manufacturing capability that's been built, say in leather, a little bit in cut flowers -- that's been taken away from Kenya -- can lead to great things for Ethiopia. I think that's the real story for me.

MS. DAWSON: But is China going to continue in your view as a critical investor in Africa that can help it move into this manufacturing sector or it doesn't want to do it because it's competition for back home in China?

MR. TARP: Yes, I mean, maybe I should try to be a bit provocative. I actually consider China's presence in Africa to be great. It's fantastic. We have competition. We typically like to think that competition is a good thing. Don't believe that Western countries are just behaving nicely. Don't believe that they don't have geopolitical and other ambitions and interests. It's kind of nice that African governments have at least some possibilities for balancing and choosing and thinking about how to develop their own countries, I mean, quite frankly.

Now, China is, of course, going to stay involved. It's probably not going to be at exactly the same level it is now because you're right. But it's not that China is worried about the African competition in some of these sectors because the point is that wages are going up in China to the point now that it is opening up. Some jobs that are now going to be part of the solution or part of the window of opportunity that African countries have is not going to be the full solution. It's only going to be one part of it, but it's not that China is afraid of that part of the labor market. That's not where the issue is.

MR. BHORAT: I mean, China's role is also very different, the traditional sort of Western investors. So that's an interesting dynamic. So it's a bit of resource extraction in exchange for bricks and mortar, right, infrastructure provisions. So that's an interesting story.

And I think Finn is right, I mean, the political economy of foreign investor interaction in Africa is consistent across all foreign investors. It's just a different strategy is taken. So I think the more the merrier.

I mean, I think what's also interesting is the rise of Japan now as a consequence almost of China's involvement in Africa. And, you know, the recent events in Nairobi, the TICAD event was very clear. The entire top echelon of the Japanese cabinet were present in Nairobi, seeing Japan's role in Africa expanding, as well. And I think managed carefully that's good for Sub-Saharan Africa.

MS. DAWSON: Picking up on the gentleman's point about what else other than resource to focus on, can I pick up on a little bit more about manufacturing? One of the things that you point out is that the cost of labor, even though there's a lot of labor, the cost of labor in Africa, or the countries that you have studied, is too high to be, in most instances, for it to be a place that manufacturing will relocate to. What's driving that and what could change that?

MR. BHORAT: So the data we have shows that average manufacturing wages in the selection of African economies are higher than competitor economies for a variety of factors, I mean, mainly to do with skill shortages. So the fact that you've got chronic skill shortages in these average African economies means that there's a higher wage premium.

There are all sorts of other factors that creep into overall unit labor costs, such as the cost of transport and other forms of infrastructure that are far more expensive in the African context. So --

MS. DAWSON: So education would be a critical part --

MR. BHORAT: Exactly, exactly.

MS. DAWSON: -- of changing that dynamic. Okay, let's do another round.

MR. TARP: Sorry, may I jump in here?

MS. DAWSON: Sorry, yes.

MR. TARP: Maybe I could be a bit kind of direct in trying to respond to our Ph.D. in economics. Let me just say that, honestly, one of the issues that the development discourse suffers from is when there has to be something new. It's only the new, the latest fad, that is what is interesting. Very often there are actually lots of the things in the old stuff that you really should revisit and try to understand.

Now, then you may add a new element here or there, but development is not something which is just about getting constantly new ideas. Development is also about understanding and putting that understanding in the actual present context and then doing it right. But, I mean, mobile phones are new, technology is new, how you adjust to that is new. Industries without smokestacks we certainly did not discuss 10 years ago, and so on. So, I mean, you will, when you go through the country case studies, you will find a lot of these kinds of factors incorporated in and addressed.

And I think it's very, very important to keep stressing that insights from development experiences and lessons is not always going to be something that's just a new idea.

MR. BHORAT: Could I just -- this growth without smokestacks, I mean, it worries me. Just a very simple example is we know that Rwanda's building this massive drone factory I think it is, right? But note that they'll be able to deliver cell phones to everybody in Rwanda and Central Africa, but they won't be able to deliver milk, right? And that's because they don't have the infrastructure. They don't have the manufacturing capability to actually deliver milk.

MS. DAWSON: Yes.

MR. TARP: No, I agree.

MS. DAWSON: Yes, so you might be able to order the milk on your cell phone, but --

MR. BHORAT: Exactly, it may not come.

MS. DAWSON: You're going to have to have the cow, too.

Gentleman in the front here, the checked shirt gentleman, and I see somebody with glasses back there.

SPEAKER: Yes, hi. Could you please speak a little bit about the role of the African Diaspora in the context of development? And also, if you could talk a little bit more about data because, you know, in order to make informed decision-making for policymakers is important to have reliable and disaggregated data. And it seems to be a challenge and how could you address that? And also, the whole issue of, you know, symmetry in terms of data supply and demand, how do we stimulate demand for data at the domestic level?

MS. DAWSON: Okay, checked shirt.

SPEAKER: I'm just curious to learn more about the influence of the World Bank in the development of Africa and how they're transitioning to supporting homegrown financial institutions being the source of those funds instead of the World Bank. Is there a transition that's taking place? And is that sector being strengthened in the development process?

MS. DAWSON: Thank you. One more, please.

SPEAKER: I have a question about the so-called wheelers and dealers in the economy. So these are the friends of cousins of presidents who could get permits really quickly, who are number one on the bank loan list. Are they a problem or more of a solution?

MS. DAWSON: Okay, three very difficult questions. The role of the African Diaspora and the paucity of reliable economic data.

MR. TARP: I mean, should I take the Diaspora?

MR. BHORAT: We can do them all.

MR. TARP: I mean, the Diaspora is very important in a variety of ways. One of the important ways is that they transfer quite a bit of money back to the families. I mean, the sum of that money is now the order of four times aid flows. So, I mean, obviously the Diaspora is very important in that sense.

Now, then sometimes you hear the argument, oh, so then we don't need aid. And that's a complete de-linking of the argument because the point is that the Diaspora would send back private money to private people, often in relatively small amounts. That will solve some problems, but it doesn't solve the provision of public goods and that's where the official aid money is required.

So the Diaspora is important in the sense of, for example, being a source of financial flows. They can also be important in terms of knowledge, access, and so on and so forth. So there are many sort of ways in which this can be done.

There is, of course, also some potential negative sides is that, well, I mean, should highly qualified, African university graduates be driving taxis in New York City? I mean, there are, of course, also those types of concerns that need to be factored in, but that the Diaspora has an important role to play, I think, is indisputable.

MR. BHORAT: Just in terms of data, I mean, for me there are three areas of concern, and it's important to recognize the differences. One is availability, right? So we know that some of the big demographic drivers on the continent have not had a Census in the last decade, right? Over the last 15 years, there are only 5 African economies that have had more than one labor force survey. I mean, you know, that sort of record of availability of data is abysmal.

The second is the quality. So when the data is available, the quality can be really poor. My famous example is of seeing the earnings distribution with due respect of Kenya that looked like it came out of a statistical textbook. It was a perfectly normal distribution and there's clearly quality issues.

Access is a problem. African researchers working in Africa find it harder to get access to African data sets and always shave a nice tussle with the World Bank, who have wonderful data, but they can't release it for various reasons.

I think that the data revolution as part of the SDGs, it's built into the SDGs as an important part of the response to data. For me, going into a country and running a survey is not the answer. It's about building statistical capacity.

And I think often -- Finn can reflect on the foreign aid and the donor sort of budget support to African countries often overlook that and, you're right, the return is huge, potentially very huge, for just simply figuring out appropriate information systems.

While I've got the floor I'll answer the other two questions very quickly. I think you're right that the -- I mean, debt markets have changed dramatically since the old structural adjustment days. So what you have now is Zambia or Kenya going to sovereign wealth funds or going to private equity to source infrastructure financing or debt financing.

So the IFC, it's a partner to the World Bank, is only one player in that market. I think there's still -- the interesting thing is the changing role of the Bank now. And the World Bank now, it's comparative advantage ironically lies in its knowledge support, its technical assistance. So what follows after, okay, we'll finance the building of this dam, is a whole bunch of technical assistance that nobody else can provide a sovereign wealth fund or private equity, and neither can the BRICS Development Bank, for example. So while there are new players, it does give alternative sources of finance to an Africa country, the Bank has this comparative advantage of technical assistance and so on, and that's an interesting new dynamic. I don't think we've discussed it enough, but there's some new thinking about that.

And then finally, I mean, I think the patronage is incredibly bad, right? The fact that -- I thought it was a very softly put question. I thought it would be that's a really bad thing that the daughter of the Angolan president will have access to the license for the telecommunications company.

But for me, we spoke about resource dependence, but more broadly it's really about how corruption or abuse of power and governance failures exist in license-based industries in general, so resources -- in other words, the license for the mine, it's not that it’s a good mine or a platinum mine. It’s the fact that you can get a license through patronage.

And that is the same for the telecommunications sector because, you know, Nigeria issues four telecommunications licenses. An average country will have three or four providers of cell phone services. So in that context when the license is provided, it’s either good governance that will make sure that the auction is fair and credible or you will have governance failures. And you can pick any sort of license-based industry and test whether they’re governance failures or not.

MS. DAWSON: Did you have one more thing?

MR. TARP: Could I kick in just on sort of the data issue and just sort of say that I completely subscribe to what Haroon said about the difficulties of data, but don’t think that this implies that you can say nothing. I mean, informed country-based understanding and linking that with some of the basic regularities that we have can often take you part of the distance.

Let’s take the sort of discussion about growth inequality and poverty just as one example. I mean, these three are definitionally linked. You may not have perfect data on the three of them, but if you have some information on two of them, you can make conclusions about the third. So, I mean, the data issue is not to say that everything goes or that you can say nothing. And I think that is quite important because, I mean, at least it’s sort of -- when I see the public debate, that conclusion, oh, then you can say anything or then -- but that’s not how it is in actual practice.

And then maybe just to kick in on the World Bank thing, yes, the influence of the World Bank is falling. I mean, clearly it is. And I guess that I see that as a pretty good thing. I mean, there’s a more natural relationship, which is evolving. The African Development Bank is how kicking in with a much bigger, important, and much bigger role, as should happen. And it's very clear that the World Bank is struggling to try to figure out what is its role in this new world. I mean, this is clear. And obviously, that process is on now.

MS. DAWSON: Great. Both of us have a train to catch, so, in summary, I think that they've certainly convinced me that Africa cannot leapfrog over the manufacturing stage; a lot to be done on that front in order to achieve sustainable and equitable growth. Amongst some of those factors is investment in infrastructure, skills, which obviously refers to education, but that manufacturing might look quite different from what we've seen in other countries, which I think is a very interesting insight, that it could well build on the digital economy and clean energy. So new manufacturing could be an exciting new frontier for Africa.

And we can't turn our backs on the problems associated with resource-dependent growth; still huge issues there remain to be tackled that provide an opportunity for Africa to move forward.

Finn Tarp, Haroon Bhorat, thank you very much. Please pick up a copy of the book, *Africa Lions*. We also have one of the gentlemen who's written the Kenya [*sic*]. Would you like to stand up, sir? Who's contributed to the book, who's also with us. (Applause)

Thank you so much and please do continue the conversation outside.

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016