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DOLLAR & SENSE PODCAST
Africa's roadmap for long-term economic growth
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DOLLAR: Hi, I'm David Dollar, host of the trade podcast, "Dollars and Sense." Today, my guest is Landry Signé, a senior fellow in the Africa Growth Initiative at Brookings. We're going to talk about his recent book, "Unlocking Africa's Business Potential." A lot of headlines we see about Africa often focus on negative events, but we're going to talk about the long-term potential for Africa. So welcome to the show, Landry.

SIGNÉ: Thank you very much, David, for having me.

DOLLAR: So let's start with the general argument in your book. Why are we optimistic about the business potential for Africa?

SIGNÉ: Yes, that's an extremely important question. I think that Africa has tremendous economic potential and offers rewarding opportunities for local and global businesses with favorable returns as well as a high societal impact. So in my book, I examine economic, business, and investment opportunities and also the overall transformation in sectors with the highest potential returns on investment such as consumer market, agriculture and agri-industry, information and communication technologies, manufacturing and industrial development, banking, among others. So those sectors will foster economic growth and diversification, job creation, including for women and youth, and improve general welfare throughout the continent.

I identify about 13 core trends which justify why we should be optimistic about the potential of African economies. The first one is the fast population growth which is aligned with the growth of the middle class and household consumption. As a matter of fact, by 2030, Africa will have 1.7 billion people and a combined consumer and business spending of 6.7 trillion U.S. dollars. So about 50 percent of the population will be in seven countries: Nigeria, Egypt, Democratic Republic of Congo, Ethiopia, Tanzania, Kenya, South Africa, among others. And it's also true that over 50 percent of the combined consumer and business spending will also be located in three countries such as South Africa, Nigeria, and Egypt.

So those are the first factors: fast population growth, which is extremely important, combined with the growth of the middle class and household consumption and sustained business spending in the area. The largest sector of business spending, for example, includes agriculture and agri-processing, manufacturing, and construction. But you also have household consumption, food and beverages, housing, health care, among other sectors.

The fourth point, which is extremely important here, is the fast urbanization that we see on the continent. By 2030, Africa will have 17 cities of more than five million inhabitants from about six a few years ago, in addition to five cities of more than 10 million inhabitants in comparison to about three in 2015.

So the fifth important point is also the rise of industries, especially industries without smokestacks. I will come back to this point later, but it is true that when people look at industrialization in Africa, they mostly observe manufacturing, traditional manufacturing. Because of that, people will be speaking about the industrialization on the continent. When we look at industries without smokestacks we see that the growth is phenomenal. I'll be happy to further discuss it later, but in addition, the manufacturing output will be reaching one trillion dollars within the next decade, which is also an important increase.

The sixth point is the effort to bridge, or to close, the infrastructure gap. So we all know that it's extremely important to have quality infrastructure to unlock economic potential. The African Development Bank, for example, has created the African Investment Forum and mobilized billions of dollars to fund infrastructure development on the continent. But we also have an initiative with the African Union and the African Union Development Agencies – previously New Partnership for Africa's Development and the Program for Infrastructure Development in Africa (PIDA), which also has made tremendous progress during the past few years in unlocking infrastructure potential.

The seventh point is the innovation to unlock agriculture and resource wealth. And I'll come back to that point later, but we have about 60 percent of the world's available and unused arable land on the continent. And we see also a trend with many foreign direct investors looking for opportunities in Africa.

The eighth point is the fast digitalization and increased technological innovation. As you know, David, by the late 1990s, New York City had more mobile phone subscribers than the entire continent of Africa. But now, we have on the continent more than 700 million mobile phone subscribers. Some countries are leading the way in terms of innovation, including technological adoption. We see Zipline, for example, in Rwanda, which, of course, after developing drone innovation for the delivery of medical supplies was not authorized in California, but was authorized in Rwanda, and now has expanded in many other African countries.

We also see an increasing number of African countries among the most competitive economies globally. So we have in some sectors, in the financial sector, for example, M-PESA has been leading mobile payment, or mobile money, among other factors on the continent.

The ninth point is the increased stability on one hand, but also the increase in accountable governance and democratic development. More than 77 percent of Africans are really committed to stability, to democracy, and to accountable governance. And many including over-effective government. So accountability has been one of the drivers of overall stability.

So the tenth point is the improved business environment. As you know, David, five of the top 10 outperformers in terms of progress in ease of doing business a few years ago are located in Africa. And we continue to see countries – whether led by accountable leaders or less accountable leaders – we continue to see these countries improving and committing to improve the ease of doing business despite the numerous challenges which remain on the continent.

The 11th point is the fast regional integration including with the African Continental Free Trade Area which was first signed in 2018 and then a sufficient number of countries ratified it for it to come into force by the end of May 2019. Although the AfCFTA was supposed to come in to come into force more formally with countries starting trading as of July of this year, it has been postponed due to COVID-19. But despite the postponement, the Secretary General, who was already appointed, is playing a critical role in helping African economies dealing with trade issues.

The 12th one is the critical importance of the diaspora playing a role in trade, investment, research, innovation, technology transfer, among others. As well as remittances, which I currently use increasingly for consumer spending, but we also see a diversification and a redirection of those remittances toward investment.

The 13th point, which is an extremely important point, is the competition between the established powers and the emerging countries, including the United States with Prosper Africa, with China, with Russia, India, Turkey, and the Emirates, among other countries – which contribute also to increase the level of foreign direct investment on the continent. And when well-used, they really contribute to unlock African business potential.

So those are quickly some of the key trends which made me really think that Africa is home for tremendous business opportunity. COVID-19 will likely affect the performance, as it is the case around the world, but as history has also shown, Africa is more resilient now than before and will also recover at a faster pace. So it's the time to invest and to do business with Africa.

DOLLAR: So, Landry, there's a lot of fascinating material there. Thank you. Just a couple of quick reactions. Africa has more than 50 different countries, so some of them inevitably are rather small economies. So your point about the regional trade integration, free trade agreement, just to remind our listeners that for small countries free trade is particularly important because trying to build all the diverse aspects of the economy in one small location is inefficient. Right? American states specialize in different things in trade among each other – same way African states should be specializing and trading. So that was very interesting.

Then I noticed you started with the rapid population growth. Africa is the last major place on Earth where we have this rapid population growth. Africa needs to create about 20 million jobs per year, I calculated, and that's a challenge but it's also an opportunity. So if these countries meet this challenge, then you're going to get this rapid growth. And you have the other factors that you brought in as well. So that's very interesting.

You cover eight sectors in the book. We don't have time to go into all of them, but let's take a couple. Let's start with agriculture. So with this expanding population, is Africa going to be able to feed itself? Are there prospects for agriculture to become more of an export commodity for Africa? What do you see?

SIGNÉ: Thank you very much, David. Although the percentage of the working-age population in Africa, if I connect with our intervention, we have about 20 million people who will reach the working age on the continent every year. So probably not all of them are going to the job market. Approximately half of them will go to the job market. So probably the number of jobs needed is probably lower than the percentage of the population which will reach the working age.

I really appreciate your reaction and you pointed out some core elements. In terms of agriculture, as mentioned before, Africa home of about 60 percent of the world's unused arable land. I personally think that it is inadmissible that the continent is still a net importer of food – most of the countries are net importers of food – as well as the percentage of people who are under-nourished people; famine remains one of the core challenges on the continent. So this is a little bit in contradiction as one of Africa's fastest growing sectors has been agriculture. Agriculture, agri-industry, food, beverage, is also a sector which will be home of both the fastest, or the largest, consumer spending, but also the largest business-to-business spending.

This mismatch, this challenge that we see on the continent, also presents of a tremendous opportunity if solved. And you see countries such as China, India, Saudi Arabia, South Korea, which will be buying or leasing lands for crops. You see many countries which are particularly interesting in terms of investment, especially the coastal countries with large amounts of uncultivated crop land including Cote d'Ivoire, Ghana, Nigeria, Cameroon, Angola, Sudan, Ethiopia, Kenya, Tanzania, among others. You also see some landlocked countries with large amounts of uncultivated crop land. Perhaps the costs of exportation may be slightly higher in these countries.

Definitively, I think that the continent has tremendous potential in terms of agriculture industry, agri-processing. Horticulture, for example, is one of the fastest growing sectors in many countries, including Ethiopia, providing jobs for moderately skilled workers. You also have some opportunities that are presented when primary inputs in the form of farmland, green house, seed, fertilizer equipment, crop protection, in terms of production and processing, weather food packaging, vegetable protein, food processing, among others. Also in terms of transformation and infrastructure. So the potential is clear. Now we need a leader who will be creating a more conducive environment for investors, as well as entrepreneurs and investors who will seize the right opportunity so that Africa reaches food safety or security.

DOLLAR: So let's shift gears and talk about manufacturing. That's really been the entree into the world market for a lot of successful developers. The East Asian countries, they all tend to be resource scarce. So it's kind of natural for them to move into labor-intensive manufacturing. Africa has more natural resources, but it has this growing population we were talking about. So how do you see the prospects for manufacturing? There is a kind of gloomy view that it's not going to play the role in the future that it played in the past because of automation. How do you see the role of manufacturing and manufactured exports in Africa's future?

SIGNÉ: Yes, this is an extremely important question and it is part of the strategic work that we are doing with the Africa Growth Initiative, including with my colleague and now Vice President of the Global Economy and Development Program, Brahima Coulibaly, who has also used this as a priority when he was leading the Africa Growth Initiative.

So, manufacturing in Africa. Let me speak broadly: Industrial development on the continent is critical. As stated before, Africa's manufacturing sector is projected to double in size by some would say 2025 – it can go up to 2030 now because of COVID-19 now to reach one trillion dollars. So the projected number is one trillion dollars by 2025. By 2030, Africa will reach, as mentioned before, 6.7 trillion dollars of combined consumer and business spending. In the manufacturing sector in particular, business spending will reach not far from 700 billion dollars. So those are important.

With the adoption of the African Continental Free Trade Area, which aims at creating a continental free trade zone, a continental market, the African manufacturing sector will also definitely see its development accelerated for a couple of reasons. First, when African countries deal with the rest of the world, they mostly export commodities. So only about 17 percent of products are manufactured. But when African countries deal with one another, they export about 42 percent of manufactured product, which means that accelerating trade between African countries will also contribute to accelerate, to unlock, the manufacturing potential.

As you also know, about 70 percent of the manufacturing value added is concentrated in about four countries: South Africa, Egypt, Nigeria and Morocco. The industries without smokestacks that I mentioned earlier, those industries are extremely important. Another point that I want to mention here when speaking about industries without smokestacks is the fact that those industries share these same characteristics as traditional manufacturing. They are labor intensive, they absorb a high proportion of moderately-skilled workers who also have the trainability and exportability, and they are high productivity. So I definitively believe that industries without smokestacks represent an alternative path to development on the continent. Between 1998 and 2015, exports of industries without smokestacks products or services have grown six times faster than exports of traditional products or manufacturing products on the continent.

DOLLAR: It would certainly be nice if Africa in some ways could leapfrog the smokestack industries. We're not going to have time to get into tourism, but that's obviously a very important market for Africa. You've got that beautiful natural environment still in many locations. So if you can leapfrog the smokestack industries and find other niches in manufacturing and services, that's probably a good development path.

SIGNÉ: Absolutely, and we financial services. We have as well horticulture, agri-industries, and tourists, which will also rebound. So those areas are definitively very dynamic.

DOLLAR: I did a little bit of work on Africa for the World Bank back in the day, and my impression was that the investment climate varied quite a lot across African countries. You have some better performing countries attracting more investment and generating growth and poverty reduction, and then we have some laggards. So at the moment, I'm curious who you see as particularly good examples of developing an investment climate and prospering. Then we can talk a little bit about laggards.

SIGNÉ: Absolutely. I think this is extremely important. Usually I classify African economies in three categories based on their past performance. So the first group comprised countries with relatively steady economic performance over the past few decades. This group will include fast growers, such as Rwanda and Ethiopia, and slower but relatively consistent growers such as Morocco. I also think that those countries will definitively mostly outperform during the post-COVID recovery. Some of the characteristics include the implementation of pro-growth policies, improving the ease of doing business and governance effectiveness, as well as your relations with donors and global investors. I'll be happy to expand on those countries later if necessary, but they are definitively – many of them are among the most competitive African countries.
The second group of countries will include Côte d'Ivoire, Ghana…countries which have had a GDP growth rate which was significant for the past decade.

So in the first category we have a longer performance, about a couple of decades, but a strong structural transformation of the economy, improvement macroeconomic management, ease of doing business, among others. The second group of countries has seen a better performance but in a much shorter period, which means that the post-COVID era will definitively tell us a lot about if those countries are well-structured enough to continue with their great performance. In the case of Cote d'Ivoire and Ghana, for example, the commodity shock, especially the drop in demand of cocoa as well as of the cost, may definitively have an impact there. So those are some of the countries with important potential.

It is true that, as I study in my book, there are eight sectors. Different countries will have different potential. For example, if people are interested in the size of the market, we have three countries which will be home to over 50 percent of the combined consumer and business spending, including Nigeria, South Africa, and Egypt. If people are more interested in investment in the mining and oil and gas sector, they will also choose a different set of countries. But overall, we can clearly see that across sectors some countries are outperforming others.

DOLLAR: Landry, in line with your book I wanted to focus our discussion on long-term issues of unlocking business potential, which is a largely positive story. But obviously, the coronavirus is having a very negative impact right now. So last question for you is how can African countries deal with this recession from the virus and come out of that and continue unlocking this business potentially you focused on?

SIGNÉ: Thank you very much, David. That is an extremely important question. There are a couple of things that I want to highlight. The first one, before doing a deeper dive in all the vulnerabilities on the continent, I want to highlight again the fact that African economies are more resilient than most people think. The first element of resilience is the global competitiveness. We have more than 10 African countries which are in the top 100 Global Competitiveness Index. Better ranking countries include South Africa, Morocco, Seychelles, Tunisia, Algeria, Botswana, Egypt, Namibia, Kenya and Rwanda. We also have, as I mentioned before, that increased consumer spending and accountable governance; the fast regional integration; the increased foreign direct investment, which will be affected among other factors; and the fourth industrial revolution. Many African countries are capitalizing on the fourth industrial revolution and leapfrogging technologies such as the Internet of Things, artificial intelligence, biotechnology, 3D printing and other technologies. Having said that, there are three to four ways COVID-19 has affected African economies. The first one is related to the healthcare vulnerabilities. So we have the challenges of healthcare systems on the continent: initially limited preparedness; the high incidence and mortality for both communicable and non-communicable diseases; and the high social cohesion. So those factors of vulnerability. The first healthcare factors were very important, and they are important because they are connected to the other factors. As African countries we are not strong enough. They have to invest and to redirect your resources to those sectors.

So the second factor is the exogenous factors with the disruption of the global value chain which has resulted in the direct impact on the endogenous factor as well with the destruction of economic activities in African countries with income loss for both the formal and informal sector employees. When we add to this also the commodity shock and the drastic loss of revenue, especially for resource-rich countries, many scholars have been alarmed.

On the other hand, we have also seen many initiatives which have been taken, but which should be accelerated to really address the adverse impact of COVID-19 on the continent. So I think I will perhaps classify them in two main categories. The first one is inclusive of the measures to protect income for the public and private employees, which means the formal sector. And the second one that I will also be discussing later includes specific measures for the informal sector. So what government should definitely really be doing to protect the formal sector is to avoid and limit arrears to private firms from the public sector, especially in supply chains for critical sectors like health, education, as those will limit effects that will delay the recovery.

The government should also provide finance for the private sector in Africa to save jobs, to unlock the business potential, and to continue the momentum of the past couple of decades. When I speak about government, I'm also including multilaterals. So governments and multilaterals. In particular, bilateral and multilateral development, financial institutions, need to provide and inject sufficient resources for new capital to increase risk tolerance, among others factors, so that the economic actors will receive enough resources to continue their activities. Some actors such as the African Development Bank have already started with those measures.

The government should also finance the overall private sector through tax waivers and extended deadlines for tax filing. So we have seen that in some countries, but not all. So central banks should lower and stabilize interest rates and provide special funding resources to public and private banks, as well as ease regulations to reduce the cost of borrowing and make access to capital easier and faster for private businesses. Those are important measures which have to be adopted for the formal sector. But as the informal sector represents over 70 percent of hours worked in Africa, it is also critical for the government to adopt measures which will contribute to support informal sector livelihoods. Donors and international financial institutions have, for example, provided substantial funds to support the public sector budget and the health sector, but support for the informal sector so far is scant and government cannot ignore the damages already occurring to the livelihoods of those millions of people.

So, concretely, policymakers should maintain household consumption. Among the bottom 70 to 80 percent of households will have very limited savings. Those measures will limit short-term household welfare damages as well as speeding up the overall economic recovery.

The second factor is to protect the incomes of urban wage and salary employees. This is important because although wage and salary work accounts for a small share of total non-farm employment. Those tend to be the ones spending and providing resources to small traders/sellers of goods and services which will overall support the informal sectors.

Another measure includes protecting the health of informal sector workers with measures which are as simple as access to soap, water, and alcohol-based sanitizers, as well as to reduce food spoilage, support income, and declaring transport of food from the farm gate to the market as essential services. So overall, it is really critical that the security forces, in particular police, protect the livelihoods of informal vendors and service providers, especially in the urban areas, rather than using this COVID-19 emergency to harass them.

Overall, we have seen African countries, many African countries, learning from the experience of countries such as China, or the United States, or European countries which were affected first, and taking serious measures. I think about South Africa, Rwanda, and Morocco, for example. So those developments are positive, but much more needs to be done because at the beginning of the crisis many African countries did not have the capacity to test for COVID-19, for example. However, they are learning. Through regional collaboration they have accelerated their response and they continue to provide insight to policymakers.

DOLLAR: I'm David Dollar and I've been talking to Landry Signé from our Africa Growth Initiative at Brookings. Mostly we've talked about long-term issues that he takes up in his book "Unlocking Africa's Business Potential," but we also got into some of the short-run challenges of COVID-19 and how countries have to deal with that immediate crisis in order to start to untap that potential. So if you want more details, you're going to have to buy his book from Brookings Press. Thanks very much, Landry.

SIGNÉ: Thank you very much, David. This is the time to be in Africa, to invest, to be involved in trade, and to do business in Africa. Thank you very much for your attention.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, make sure to subscribe on Apple Podcasts or wherever else you get your podcasts and stay tuned. Dollar & Sense is a part of the Brookings Podcast Network. It wouldn't be possible without the support of Shawn Dhar, Anna Newby, Fred Dews, Chris McKenna, Gaston Reboredo, Camilo Ramirez, Emily Horne, and many more.

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