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Is Africa Rising? Why Excessive Optimism is Misplaced

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The financial press, international financial institutions, the OECD, African Development Bank and many experts on Africa have fallen for the hype: apparently the whole of the African continent is currently experiencing economic growth, giving grounds for great optimism. Average growth in Africa, we are told, is higher than in the booming Asian economies. Consulting firms extol the massive potential in Africa. Africa is supposed to be the growth region of the future. Yet other institutions and numerous researchers have not yet found evidence of any breakthrough.

So what is the hype about? Eight key arguments are presented as evidence that Africa is on the rise:

1. GDP growth rates have been relatively high for the last eight to ten years.
2. African export levels are rising significantly. Africa is effectively the world's new leading export economy.
3. Income per capita has risen and poverty levels have fallen. A middle class is emerging.
4. The digital revolution is already a reality in Africa.
5. Production has become more diversified and Africa is industrialising.
6. Foreign direct investment volumes have increased, creating a technology transfer.
7. Agricultural growth has fresh momentum.
8. Africa's potential lies in its young population and natural resources.

I am not disputing the fact that most countries have positive growth rates, that the business climate has improved in most countries, and that the continent is back on investors' radar. Africa finally seems to be turning the corner after many long and difficult years. All the same, let us avoid excessive optimism.

When evaluating the region's potential, we should consider the following issues. First, Africa's markets are very volatile: variations in demand and prices have a direct impact on the economy. As such, we need to look at the long-term trends, rather than seeing every market shift as a sign of Africa's rise or a major crisis. Second, the continent should not be seen as a single unit: it comprises 54 very different countries, each with its own history and political aspirations. Every country has very different strengths. Third, many studies are constructed as though Africa were divorced from international competition. Comparative studies also need to be carried out to determine whether Africa is doing well and on the rise, or in crisis and failing. Comparisons with developments on other continents – or even with individual countries – will provide a clearer picture of Africa's performance than looking at short-term developments. Let The Economist take note: the magazine has gone from describing Africa as a "hopeless case" less than two years ago to speaking of "Africa rising".

I would like to comment in more detail on each of the eight points:

1. GDP growth over the last decade: Economic growth rates vary considerably. Fragile states (around 25% of all African countries) report growth at below 4%, growth in middle-income countries (approximately 15%) is 4%, while low-income states report 5-6% growth and commodities exporters just over 6%.

2. Export growth and diversification:

Many countries have been able to boost exports substantially, achieving growth rates far in excess of the global average. Many, but certainly not all, states have seized the opportunities created by rising commodities prices and the dramatic increase in demand for commodities and energy from India and China. These factors accounted for 4% of export growth in sub-Saharan Africa in recent years, compared with just 1% generated by exports to OECD countries. However, the marked rise in trade with the BRIC states has left sub-Saharan African exports focused primarily on energy, commodities and agricultural produce.

Although many countries have been able to consolidate their position on the international commodities markets, the volume of finished goods exports is very low and has actually fallen over the past 30 years, from 1.6% in 1980 to 0.8% in 2010. There has not been any further industrialisation in most sub-Saharan countries. High trading and transaction costs are hindering a real industrial revolution.

3. Income per capita, poverty and the middle class:

Large sections of the population are now better off than ten years ago. However, massive population growth means that income per capita has not been able to keep pace with GDP growth by any means. Average annual income per capita in sub-Saharan Africa is less than USD 750. Africa has certainly made some progress in implementing the Millennium Development Goals (MDGs), with improved school enrolment levels, life expectancy and access to healthcare services. Nevertheless, most education and health systems are very weak and quality is low.

Africa is a long way from achieving the target of halving poverty. Although the proportion of the population living in poverty has fallen in relative terms, the number of people earning less than USD 1.25 a day has risen in absolute terms, to approximately 350 million. Roughly 70% of the population still lives on less than USD 2 a day. One in two Africans currently lives in extreme poverty. Optimists believe that this figure could fall to 30% by 2030. Yet no one disputes that Africa will be home to the majority of the world's poor in 2030. Strong population growth is a major unresolved issue and a barrier to reducing poverty: the trend negates all productivity improvements and is effectively perpetuating poverty.

A growing middle class is emerging in Africa: it is small at present but has expanded significantly over ten years of constant economic growth. The middle class is recognised by its distinctive consumer behaviour and consumption patterns: spending on higher quality consumer goods, education and healthcare. However, indicator to define the group of middle class has proved problematic. According to figures produced by the African Development Bank, the middle class already encompasses everyone who earns over USD 2 a day.

4. Digital revolution:

Africa has allegedly already leapfrogged and experienced the digital revolution. This assessment bears little relation to reality, because Africa is actually lagging behind other continents when it comes to digital technologies. Mobile phones took off much earlier in all other continents. However, it is not the number of mobile phones and Internet cafés that counts: it is server capacity. Africa generally has slower servers with less storage capacity – and far fewer than anywhere else in the world. Even South Africa is bringing up the rear among its peers when it comes to information and communication technologies.

5. Industrialisation:

There has been virtually no progress on this front. Very few countries have achieved industrial growth. Africa is the continent with the lowest level of industrialisation. Small industry clusters are appearing in the cities, but Africa is still a long way from seeing structural change. Agriculture, the informal sector and commodities industry continue to dominate the African economy, while industrial development and SMEs stagnate.

6. Foreign direct investment:

Increased volumes of foreign direct investment (FDI) in sub-Saharan Africa may be an indicator that the region is gaining ground on the world stage, although it still receives a fraction of global investment (2% in the 1990s, 3% in the last ten years). However, FDI flows are concentrated on a few resource-rich countries and the extractive industry. There is still no real sign of an uptrend in industrial investment.

7. Agricultural growth:

Agriculture has not really benefited from the economic boom in the last decade. Worker productivity has stagnated at low levels since the mid-1990s. Compared with other developing regions, agriculture is actually falling further behind.

8. Young people and natural resources:

Africa is said to be the continent of the future because it has a young population. Perhaps a crystal ball might show us what the young population could achieve, but for the time being, it mainly generates childcare and education costs. The only way of tapping into young people's potential is to have sufficient employment and plans to create more jobs. This will not happen in the current environment, because the booming commodities sector is not creating new jobs, nor are SMEs. It would be naive and foolish to hang our hopes on these sectors.

Is the growth achieved in recent years sustainable? Is sub-Saharan Africa really the continent of the future? Our study on economic growth in Africa (Kappel & Pfeiffer, 2013) concluded that the Seychelles and Mauritius were the star performers, as measured using performance index for Africa (PIA) scores. These countries have been successful high achievers for many years. South Africa, Botswana, Cap Verde, Namibia, Gabon and Lesotho also scored highly. Nigeria which is heavily populated came in around the middle. Landlocked and fragile states tended to achieve lower scores than coastal nations, non-fragile states and countries with extensive natural resources. The highest scoring countries have implemented economic and political reforms for many years. Income levels are relatively high and their economies are much more broadly diversified. Poor and landlocked countries came in at the bottom of the rankings. Most of these countries also qualify as fragile states and are in the throes of civil wars.

The top-scoring countries also tend to offer the best environment for investors and business activities. All the leading countries also come out top in the ease of doing business (EDB) rankings, while countries with a low PIA score tend to appear at the bottom of the EDB rankings. This is particularly noticeable among fragile states. In contrast, Kenya, Uganda, Nigeria, Ethiopia and Ghana performed well in the EDB rankings.

What should the policy priorities be for African states?

1. Most countries begin the catch-up process with very low levels of prosperity. Even with high growth rates of per capita income, most of the countries will only catch-up slowly. In our view, catch-up will only be achieved in countries with a high PIA score. However, it is very clear that most sub-Saharan countries lack the conditions necessary for catch-up. Sub-Saharan Africa is actually falling behind many other developing countries. Consequently, overly optimistic assessments of the region's potential are way off target.

2. The growth process is the key factor here: in most countries, growth is driven by rising demand for natural resources and agricultural produce, which is good news for countries with those assets. They then have the financial resources to promote diversification strategies. A few countries have exploited their extensive natural resources, as in the case of Botswana, but most are caught in the commodities trap. They fail to diversify and the economy succumbs to what is known as Dutch disease, in which industrial development and agriculture are neglected. Hardly any nation has achieved structural change without first undergoing an industrial revolution.

Growth in countries with valuable natural resources is always at risk and does not generate any spillover effects. Consequently, very few countries have sustainable and inclusive growth. Even South Africa, which is one of the star performers in sub-Saharan Africa, is struggling to generate broad-based growth.

3. As yet there has been no clearly identifiable domestic market growth in the key agriculture and SME sectors. SMEs are seeing minimal growth and productivity is conspicuous by its absence as a factor in agricultural growth. Yet increased productivity is an essential element for competition and sustainable growth.

4. Aside from trade in energy and commodities, sub-Saharan Africa is virtually irrelevant in the global economy. The continent's isolation severely limits the scope for boosting international trade: greater integration – in global value creation chains, for example – would increase demand for African labour and create new opportunities for local businesses. It is impossible to predict if and when international investors might turn to sub-Saharan Africa in response to higher labour costs in China, India, Brazil or even Vietnam, or attracted by African economic growth. At present, most FDI targets countries with natural resources.

5. The infrastructure in most countries is inadequate, although modest improvements have been made in recent years, as in the case of Internet access. Physical infrastructure – roads, ports, railway, electricity – is often poor, which limits domestic market growth as well as exports and imports. This is a major barrier to sustainable high growth in sub-Saharan Africa. Landlocked countries are particularly vulnerable, as their geographical isolation is compounded by weak institutions and high trading costs.

6. Institutional conditions have improved in many countries over the years, reducing political risk. However, political tensions do tend to recur, sometimes creating extreme situations, as demonstrated by the conflicts in South Africa, Mali, Nigeria and Kenya. Overall, the business climate has improved in a few sub-Saharan countries, but the institutions in many countries remain very weak.

7. Productivity in sub-Saharan Africa has improved significantly in recent years. However, progress has not been consistent across the board: some countries have actually seen productivity decline. Sub-Saharan Africa has been unable to begin the process of catching up with China and other emerging economies. As demonstrated by the fact that efforts to increase industrialisation levels, improve technology, and increase labour market and company skills have been unsuccessful so far. Low levels of FDI in the processing and technology-based industries mean that there has been little or no transfer of technology. As a result, the overwhelming majority of African countries are lagging behind emerging countries in terms of technology.

8. If we compare sub-Saharan Africa's performance with that of other developing countries, we find that the six leading African nations are on a par with other emerging economies. However, the performance index shows that the vast majority of sub-Saharan states are trailing behind most Asian and Latin American countries. For most countries, there is no sign of a productivity catch-up.

9. The growth prospects for sub-Saharan Africa are dependent on meeting a series of conditions:

- If the global economy continues to grow, then that will sustain competition for commodities and boost export income in sub-Saharan countries that export natural resources. Africa needs to become more industrialised and more direct investment needs to be channelled into industry. This is the only way to generate sustainable growth, which will trigger growth in the agroindustrial sector, light industry, industrial areas and ultimately SMEs. Only then will it be possible to create the jobs needed for the considerable young population and to reduce poverty.
- The continent needs more open markets, guaranteed property rights, better infrastructure, lower trading costs and less red tape. All of which is dependent on macroeconomic and political stability: something that is currently lacking in at least one-quarter of all African nations.
- In addition, governments and economic elites must demonstrate the will to modernise the economy, to promote long-overdue structural change, to create political and macroeconomic stability, and to build confidence. This would then attract local and foreign companies to invest in Africa. ■

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