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An African growth miracle?

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Sub-Saharan Africa's economic potential, along with its nearly 3-percent annual growth rate of per-capita gross domestic product (GDP) since 2000, serves as a beacon of hope and inspiration for many. But how realistic are these promises? Taking into account the slowing down of emerging markets including China, which invests in the African economy, author Dani Rodrik of the Institute for Advanced Study argues in "An African growth miracle?" (National Bureau of Economic Research, working paper no. 20188, June 2014) that neither the traditional engines of economic growth nor other potential high-growth scenarios are likely to fulfill these promises of high economic growth.

The author begins the investigation with an assessment of several traditional growth engines: natural resources, institutions, democratization, and industrialization rates. He characterizes much of Africa's economic growth today as a result of the continent's rich supply of natural resources, but with the slowing down of the Chinese, American, and European economies, the sustainability of this model is in doubt. Noting the absence of the driving presence of these economies, the author considers the role of institutions and observes that improvements in the quality of institutions have only modest growth payouts. Also, China's remarkable growth rates with what the author calls the country's pervasive "corruption and cronyism" demonstrate the possibility of high growth despite a lack of strong institutions.

Looking beyond institutions, the author considers democratization more broadly. He cites recent research that shows complete democratization accounts for a 20-percent increase in GDP. However, this increase is across a 30-year period, and the annualized effect of 0.6 percent fades away after those 30 years.

Manufacturing, the author asserts, is held as a traditional productivity escalator sector and a dominant force in past economic miracles in Asia, Europe, and the United States. However, the manufacturing share of African GDP actually is down from 15 percent in 1975 to around 10 percent today as the small, informal firms that dominate African manufacturing do not have much access to productivity-boosting technology, markets, and sources of finance. Moreover, manufacturing's share of employment in Africa is under 8 percent. This not-very-promising story is summarized with World Bank statistics that many countries in Africa, including Senegal, Zambia, and the Republic of the Congo, are in fact poorer today than in 1960.

Is it all gloom and doom? The author does introduce several possible high-growth scenarios, but he adds caveats. The first scenario is that a revival of manufacturing in Africa remains possible. The scale of Asian economies and poor business climate in Africa pose problems. Specific policies, such as a real exchange rate depreciation of 20 percent, which would amount to a 20-percent subsidy, could remedy these challenges. Nonetheless, a revival of manufacturing dismisses the global demand fluctuations to services and trade liberalization. Furthermore, the primary beneficiary of urban growth today is services and not manufacturing.

The second scenario, one of agriculture-led growth, is inconsistent with historical trends of economic development. In fact, economic development correlates with export diversification away from the agriculture sector. Furthermore, global urbanization trends and technology intensive farming methods only accelerate outmigration from agricultural areas.

The third scenario is one of rapid growth in the productivity of services. This scenario takes advantage of this urbanization trend, yet the author laments that there are few examples of services as a ladder to higher growth. Services that act as a productivity escalator tend to demand high skills of their employees. As the author explains, it is easier to turn a farmer into a factory worker than into a call center operator. Lastly, growth based on natural resources remains highly capital intensive, difficult to manage, reliant on a ravenous (often unstable) demand, and absorbs little labor, thereby having a lessened impact on the economy.

In short, the author’s growth expectations remain moderate at an average of 2 percent per year. He notes that bold assumptions about phenomenal growth for sub-Saharan Africa appear currently unrealistic. So while the author supports the possibility of higher growth based on some new miracle, until that miracle arrives we are advised to curb our enthusiasm.