

The Quality of Growth in Africa

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Introduction

- The book being launched today is the latest volume to emerge from the collaboration between JICA and IPD on policy analysis and research on Africa
- Earlier volumes are: “Good Growth and Governance in Africa: Rethinking Development Strategies” and “Industrial Policy and Economic Transformation in Africa”
- I believe that these three volumes, with contributions from leading academics and policy makers from across the world, represent an important contribution to understanding African economies—mostly Sub-Saharan—and framing the economic policy options for the region
- I will sketch some of the highlights of the latest volume, focusing on its broad sweep, to give a flavor and to entice you to read it

The Global Setting

- The world has experienced phenomenal economic growth since the end of World War II, notwithstanding an assortment of economic crises and missteps, notably the crisis that exploded in the US and engulfed the world in 2008
- The benefits of this growth have not been evenly shared
 - Global averages conceal many alarming counter-tendencies
 - Rising tides do not lift all boats
- Growth often appears to be socially, economically, and politically unsustainable
 - Important questions raised, for instance, about globalization, financialization, and climate change

Growth with Discontent

Thus last year I published “Globalization and Its Discontents Revisited,” with substantial additions in the revisit to my book published in 2002

- In that 16-year period, the discontents felt by many people in developing countries, especially in Africa, were joined by large swathes of the working and middle classes in advanced economies
- **The quality of growth** has emerged as an issue of considerable concern all over the world
- Life expectancy in the US is down: There are increasing numbers of “deaths of despair.” Death by suicide in the United States rose by nearly 30 percent between 1999 and 2016, during which time nearly 45,000 Americans committed suicide and another 42,000 died from opioid overdoses
- These and other manifestations of distress and despair are widely attributed to a deterioration in the quality of economic growth, reflected in growing inequalities and insecurities

Fall and Rise of African Growth

- This deterioration reflects, in part, mismanagement of globalization, notably on the part of the Washington Consensus and its excesses of faith in unfettered markets and its neglect of distributional and social concerns
- Africa arguably paid the highest price for the mistaken policies and conditionalities of the WC with a “lost quarter century,” during which there was a fall in per capita income and deindustrialization. The former did not recover to its previous peak in the late 1970s until the early 21st century
 - In such a large and diverse region there was, of course, much inter-country variance
 - Botswana e.g. was the fastest growing economy in the world from 1960 to 2000, and some other countries had reasonably good growth for extended periods
- Growth resumed in the late 1990s. In this century it has averaged around 5%. And between 2000 and 2010, 6 of the 10 fastest-growing economies were African. However, with the notable exception of Ethiopia and Rwanda, they were dependent on booming commodity prices and new hydrocarbon discoveries
 - At an annual rate of around 10%, Ethiopia’s growth matched that of China’s during 2000-2018, and Rwanda was not far behind

Africa's Impressive Growth Recovery

After a resumption of growth, the issue of its quality has moved to the forefront of African policy discourse. There are a range of inter-related concerns

- Income distribution
- The impact of growth on non-income dimensions such as employment, health, education and security
- Structural transformation to move away from low-productivity primary commodities and an informal sector to modern industry (including industrialized agriculture) and services
- Management of urbanization
- Climate crisis and environmental sustainability

All these issues are covered in the volume

Inadequacies of GDP

- At the book's outset, Fioramonti examines the limitations of GDP as a measure – e.g. the neglect of the depletion of environmental and natural resources (particularly important for Africa) and its obtuse relationship with well-being
 - Following along the analysis of the international Commission on the Measurement of Economic Performance and Social Progress
- The upshot is to recommend supplementing GDP with a dashboard
- This draws attention to improving the capacity of statistical agencies in Africa to generate more and better data

Poverty, Equity, and Fragility

- The next chapter (McKay) carefully examines trends in growth, poverty, equity and political stability at various levels of disaggregation rather than just regional averages
- There is much variability across countries. And in many growth was volatile. Both falling incomes and high volatility were associated with conflict
 - From 1990-2015: in 14 countries in Africa, per capita income rose more than 2.5% a year
 - From 2006-15: this rate exceeded 5% in 4 countries while in 19 countries it ranged from 2.5 to 4.9%
 - At the other extreme, incomes fell in 6 countries

Inequality and Poverty

- Analysis of trends in equity vitiated by paucity and quality of data. Everywhere, the incomes of the richest are understated, particularly in developing countries where data sources are household surveys
- Gini coefficients available for 15 African countries:
 - 3 countries have extremely high inequality by international standards, with a Gini greater than 60 (South Africa, Namibia, and Botswana)
 - Another 5 have very high inequality, with Gini between 50 and 60 (Zambia, Lesotho, Swaziland, Guinea-Bissau, and Rwanda).
Conversely,
 - 7 countries have fairly low inequality, with Gini between 30 and 35 (Niger, Sierra Leone, Guinea, Barundi, Mali, Mauritania, and São Tomé and Príncipe)

Poverty

- While the share below the poverty line has been falling in most countries, the absolute numbers have been rising, which reflects rapid population growth
- Varied experiences even among largest countries
 - Good performance on both growth and poverty reduction (Ethiopia, Ghana, Malawi, Rwanda, and Uganda)
 - Good growth but limited poverty reduction (Burkina Faso, Mozambique, Nigeria, Tanzania, and Zambia)
 - Poor growth and poverty reduction (Cameroon, Côte d'Ivoire, Kenya, Madagascar, and South Africa)

Employment

- Projections assuming no dramatic shift in the demographic transition in Africa (medium-case scenario) have Africa's labor force rising by 2.1 billion during 2010-2100, which exceeds the global increase of 2 billion. Africa's share of the world's working-age population will accordingly rise significantly from 13% in 2010 to 41% in 2100
 - The projections are uncertain: Africa is undergoing a demographic transition with falling fertility rates and falling infant mortality rates that reflect the rise in education rates, especially for women, improved health, and increasing urbanization. This may well accelerate
- Whether this is a demographic dividend or disaster depends on what happens to employment –
 - a task made more daunting by technological trends that dampen global employment in manufacturing and the ability to emulate the East Asian model of labor-intensive manufacturing export growth
- Hence concern with employment runs through most of the volume

Employment

- One chapter (Mahmood), noting that unemployment or employment growth are not good metrics in countries where the bulk of the population is too poor to afford to be wholly unemployed, focuses on the **quality of jobs**
 - The good news is that the proportion of the working poor (below \$1.90 PPP) fell from 54% of the labor force in 2000 to 36% in 2015, while the share of wage and salaried workers rose from 25% to 30%
 - The bad news is that the number of job seekers will grow at a much faster pace, with youth employment of particular concern
- Dealing with the challenge requires, above all, **economic transformation** for sustained rapid GDP growth and **acceleration of the demographic transition**
 - The latter is also crucial for dealing with climate change and other environmental issues

Economic Transformation: The Necessity of Changing Global Rules

- The transformation required is the next theme of the volume. First is a chapter on the global rules constraining it (Andreoni, Chang and Estevez)
 - These have reduced the policy space for developing countries to pursue policies such as those in successful East Asian transformations
- Reform priorities pertain to
 - changing the targets for global rules in the SDGs to pay more attention to, for example:
 - Intellectual property rights
 - Investment agreements (ISDS)
 - Time-frame for infant industry protection
- Bilateral agreements have become a major factor
 - These agreements outside the multilateral framework should be curtailed
 - African countries sign these under a nexus of trade, aid and investment relationships with a paucity of experts in the complex issues involved
- Major changes in global economic landscape underway, Africa will have to adapt

Global Rules and Lessons

- African countries are also not using the policy space they do have
 - Partly out of fear of retaliation
 - but also because of an “ideological environment” that inhibits adoption of such measures as the industrial policies pursued so successfully in East Asia
- Jomo emphasizes the **continuing relevance of East Asian lessons for Africa**
 - notwithstanding the significant changes in context, including the spread of globalization and of global value chains, and changes in global rules
 - Among the policies that Jomo advocates are those that pay particular attention to encouraging domestic investment
 - partly because savings are not independent of investment as the East Asian experience shows, where powerful incentives to invest led businesses to save more.

Learning Capacity, Infrastructure and Institutions

- The contribution by Hosono points to the literature emphasizing that **development is about transforming the productive structure of the economy and accumulating the requisite capabilities.**
- Learning capacity, infrastructure, and institutions (along with the standard factor endowment) are critical determinants of **dynamic comparative advantage**
- Hosono identifies in some detail strategies for enhancing these determinants by providing examples of programs and projects, many supported by JICA

Industrialization of Agriculture

- A deliciously titled contribution – “Oranges are not only fruit” – by Cramer and Sender argues that the categorical distinctions **between sectors has broken down**
 - Due to both “servification” and industrialization of “freshness”
 - Modern agriculture, especially its globally traded products like fruits, vegetables and flowers, is not “only like industry but is industry”
 - The “just-in-time” method famously developed in Japanese industry is now fundamental to the competitive success of much internationally traded agriculture
- The scope this offers for generating growth, transformation and employment in Africa is enormous and all the more welcome because of the above-noted constraints on traditional industrialization

Manufacturing Complexity

- Bhorat, Kanbur, Rooney and Steenkamp use tools of complexity analysis to provide a granular picture of Africa's manufacturing sector
- Today: low complexity and productive capabilities
- Potential: Employment generation has a high elasticity with respect to rising complexity in Africa
 - The tendency of higher capital intensity for more complex manufactures would suggest an inverse relationship between complexity and employment
 - But greater complexity means greater enhancement of capabilities and speed of development and transformation
 - The evidence is that the dynamic effects dominate the static effects

GVCs and Local Production Systems

- Building production capabilities are constrained by the recent tendency for African industrialization to be heavily reliant on integration into global value chains (GVC)
 - Mainly led by the penetration of transnational corporations, according to Andreoni
 - In most African economies, this new industrialization model (GVCs) has not led to increasing domestic value addition or any significant transformation of the local production systems (LPS)
- Hence, Andreoni argues for refocusing industrial policy in Africa from GVC integration to LPS development
 - emphasizing production system linkages
 - increasing value additions and linkage development in the LPS, coupled with strategic integration into regional and global value chains
 - shifting incentives from importers and rentiers to producers,
 - disciplining rents allocation and reducing rents and power concentration.

Competition and Agriculture

- Roberts's chapter brings out the importance of **competition policy** for quality growth, notably for agriculture and agro-processing
 - Noting that Africa is a substantial net importer of food and noting the growing demand for processed food as the region urbanizes, Roberts focuses particularly on the combination of oligopolistic markets and collusion among producers that accounts for fertilizer prices being much higher than international benchmarks
 - This is dramatically illustrated by prices of urea during 2012-2014 in Malawi, Tanzania and Zambia, which were well over double the benchmark
 - Low fertilizer use is a major contributor to low agricultural productivity and the consequent reliance on food imports.
 - Given the importance of agriculture for poverty reduction and the potential for industrializing agriculture noted above and also emphasized by Roberts, the salience of the issue for quality growth is obvious

Competition Policy

- Roberts calls for going beyond addressing anticompetitive conduct through the conventional instruments of competition agencies
 - Framing the agenda in terms of the ways in which industrial policy and economic regulation can reshape markets to generate competition
 - The chapter elaborates on what is required for doing so

Climate Crisis

- The climate crisis is arguably the most important issue facing the world
 - The latest and Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) finds a significant warming trend in Africa
 - The report notes that this trend will continue with particularly sharp rises in average temperatures in the more arid sub-regions
- Orlove's contribution documents this climate crisis confronting Africa and its serious implications not just for the quality but also the quantity of growth
 - Countries in the region do not do well on indicators of preparedness for adaptation

Mitigation

- Moving from **adaptation** to **mitigation**
- Climate change is a global public “bad,” to which Africa’s contribution has been minimal
 - The moral imperative for international assistance to the region to deal with the consequences is overwhelming
 - Although mitigation is largely the responsibility of developed and emerging economies, Africa should also take mitigation seriously
 - the continent’s emissions are growing
 - and low-carbon energy sources represent major opportunities, particularly given the great potential of hydropower and solar power
- African countries’ contribution to mitigation has emerged as a concern in the region
 - e.g. Ethiopia’s ambitious Climate Resilient Green Economy (CRGE) strategy aims to achieve rapid economic growth without increasing emissions
 - Especially important because region has enormous energy needs, which can have significant emissions

Responding to the Climate Crisis Can be a Source of Development

- Shimada's chapter reinforces the conclusions about the adverse effects of climate change on Africa, but his main focus is not so much on adaptation as mitigation
 - Climate policy can be a source of development
 - He explores the possibilities of green industrial policy both for mitigation and as an instrument to leap frog and promote development
- Environmental regulations do not adversely affect or even enhance the competitiveness of industries in some developed countries
 - Example: The Japanese automobile industry, in which meeting more stringent environmental standards spurred innovation and enhanced competitiveness
 - Shimada analyzes whether there is a reasonable probability that that can also be the case in Africa

Urbanization and its Challenges

- The urban transition is taking place in Africa “on a scale unprecedented in history,” with almost 900 million new urban dwellers in the next 35 years; by 2050, Africa is projected to have an urban population of 1.48 billion
 - Enormous employment challenge: 66 percent of nonagricultural employment is informal
 - Poor and often deteriorating conditions of urban infrastructure and services and vulnerability to disasters, with 37 cities with populations exceeding 1 million exposed to sea-level rise, coastal erosion, storms, and floods on account of climate change

Urbanization

- Manuh and Yemeru distinguish four dimensions to this transition: demographic, economic, social, and environmental
 - The livability of cities will have an increasingly important bearing on the quality of life of Africans.
- Manuh and Yemeru see urbanization as having a “particularly important role to play in ensuring the quality of economic growth”
 - “With the right planning and foresight, urbanization can deliver profound dividends”
 - Urbanization can facilitate a more rapid demographic transition with a decline in fertility rates
 - Like Roberts, they note the rapid growth in consumption and imports of processed food in urban areas and the potential that it provides for import-substituting industrialization
 - Manuh and Yemeru concur with Cramer and Sender on the imperative and potential for agricultural modernization

Urbanization

- The main themes of Manuh and Yemeru are reflected in the “hotly debated” issues of urbanization cited by Christiaensen, De Weerd, Ingelaere, and Kanbur
 - The association and two-way causal relation between urbanization and growth
 - The question of whether African urbanization is “different”
 - The associations and two-way causal relation among employment, poverty reduction, and urbanization
 - The relationship between urbanization and formalization
 - The attainment of the benefits of agglomeration

Urbanization and the Poor

- They contend that the composition of urbanization could be as important for employment generation and poverty reduction as the overall aggregate rate
 - Research in Tanzania shows that migration to secondary towns contributes more to poverty reduction than migration to big cities, even though the typical move from a rural area to a town reduces poverty less than the typical move from a rural area to a city, because many more people move from rural to (smaller) towns than to (big) cities (because of distance and migration costs)
- The concluding chapter by Carolini also picks up on the theme of how urban development affects the poor
 - Nearly 60 percent of urban dwellers in SSA live in slums, and this proportion has been steadily growing
 - She focuses on reforms in the areas of municipal finance, infrastructure development, and urban planning, and pays particular attention to the case of Maputo

Concluding Comments

- The growing concern with the relationship between economic growth and human well-being that motivates this collection of essays calls for greater and more systematic attention to **sustainable** and **equitable** growth, whose benefits are widely shared
- Because Africa has left its “lost quarter century” well behind and has been recording reasonable growth, with some countries emerging as among the fastest growers of GDP, the countries of the region are now poised to achieve sustainable and equitable growth
- Quality of growth is not only an issue for Africa or developing countries but also for the most affluent countries
 - The widespread discontent in much of the world, rich and poor alike, is giving rise to populist movements not entirely unlike those that wreaked such havoc in the world during the 1930s era of depressions, war, and upheavals
 - We hope this collection of essays can inform public policies, and help African countries to be among the global leaders in advancing **the quality of growth:** ensuring not just that GDP is increasing but also that it improves the well-being of the vast majority of the population.

Concluding Comments - International Community/TICAD's Role

- As is evident from the highlights above, the international community has an important role to play in facilitating African efforts to improve the quality of growth, and TICAD is a valuable venue to emphasize that
- This role includes reforming the global rules that significantly hamper African efforts
- These reforms call for increased multilateralism at a time when there is retreat from it led by the Trump administration
- Another task, primarily for the international community, is to deal with climate change and provide Africa with the finance and technology it needs to adapt to considerable environmental changes, even in the best scenario
- I hope the discussions at TICAD will help show the way to improve Africa's quality of growth