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Slowing growth?

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Less cheery economic prospects for Africa

Because they have not diversified and agricultural performance has been weak, Sub-Saharan Africa's poorest economies are locked in a poverty trap from which it will take many decades to escape.

Some of the complacency about Africa's economic prospects is starting to evaporate as evidence of a global economic slowdown mounts. For example, in its 2008 report on Least Developed Countries (LDCs), the UN Conference on Trade and Development (Unctad) warns that the recent growth surge in LDCs is unsustainable because:

• It "is not associated with a structural transition in which the share of manufactures in total output is growing (except for most Asian LDCs)". In fact, half of the world's 50 LDCs—34 of which are in Sub-Saharan Africa (SSA)—have de-industrialised over the past decade.

• Only one-third of the LDCs have domestic savings rates in excess of 15% of GDP, meaning that they have to rely on foreign capital to finance domestic consumption spending as well as investment.

• Trade deficits are widening, in agricultural exporters particularly, partly reflecting surging global food and oil prices. In 2006 oil and food imports accounted for almost one-third of total imports. Since then the situation has become much worse, with food prices up 15% last year and a further 41% in the first half of 2008.

• Aid inflows have slowed just when foreign investment has begun to falter, while profit remittances and interest rate payments abroad have risen, making LDCs "particularly vulnerable" to any reversal in the commodity price boom.

• Since 2000 dependence on commodity production and exports has grown from 59% to 77% of total exports. Performance differs strikingly between the Asian LDCs, which have diversified into manufacturing, and their African counterparts, which are becoming more commodity-reliant. In 2005-06 92% of exports from all African LDCs were primary commodities, including oil; the comparable figure for Asian countries was just 44%.

African LDCs certainly appear to be performing better, with annual GDP growth almost doubling from 3.4% in the 1990s to 6.6% since 2000 (although this latter figure slows to around 5% if LDC oil exporters such as Angola, Chad and Sudan are excluded). Twelve of the 34 Sub-Saharan LDCs were in the very-high-growth group; none of the Francophone African LDCs make it into this high-growth group, partly reflecting the linking of the CFA franc to an appreciating euro.

No scope for donor savings

However, more rapid growth should be seen in context: it certainly does not mean that many African states are about to graduate out of LDC status. Because there are three different criteria for such status—income per head, a human assets index comprising health, nutrition, literacy and school enrolments, and an economic vulnerability index (which uses various measures to assess a country's exposure to natural and climatic setbacks)—the data, based on figures for income per head, give no more than a broad indication of graduation timetables. Equally, the simulations assume that the above-average growth rates of the 2004-06 period will continue indefinitely, which is unrealistic. Even so, Unctad data show that nine countries will take more than 50 years to emerge from the LDC poverty trap, another four will take at least 40 years, seven will take a minimum of 20 years, two will take 10-11 years, while three will graduate within a decade. Three countries, two of them oil exporters, have already passed the income threshold of US$1,040 per head.

Unctad's take on what needs to be done to improve this situation is a combination of commonsense and wishful thinking. Expansion driven by fluctuating prices of primary commodities "cannot guarantee sustainable growth in an increasingly open, globalised economy", it says, noting that even those countries that have managed to diversify into low-skill manufactures face increasingly fierce global competition. The solution, it believes, is more diversification accompanied by technological upgrading, with investment acting as the "key lever" for robust growth.

Oviously, diversification ought to be a top priority in LDCs, as is evident from the success of Asian—and island—LDCs relative to those in Africa. It also follows that diversification will only be achieved on the back of increased investment in productive capacity. But while Unctad is right on these two counts, it is on far weaker ground in recommending technological upgrading. Countries are classified as LDCs partly because they score so poorly in terms of human assets, and such states are likely to have substantial difficulties with technological upgrading.

Many African states have enjoyed short-lived growth "spells" driven by booming commodity prices. The challenge is to transform these into sustained growth over decades—a challenge that will become ever more pressing as the global economy slows. Unctad is right to say that there is no "automatic" link between export growth, enhanced productive capacity and structural change. More specifically, "increasing dependence on primary commodities and low-skill manufactures has not translated into catch-up growth with other developing countries." The failure to catch up cannot be attributed to any single factor, but areas such as a stagnant farm sector, governments' failure to diversify output and exports, and the widening technology gap with emerging markets all need to be addressed if African LDCs are to escape from the poverty trap.