Overview

Developments in the world economy and implications for Africa

THE WORLD ECONOMY showed a moderate recovery from the effects of the global financial and economic crisis of 2008–2009. This recovery varied across countries as growth divergences continued to persist in 2010, especially between the developed economies on the one hand and developing and emerging countries on the other. Global gross domestic product (GDP) grew at 3.6 per cent in 2010, an impressive turnaround from the 2.1 per cent contraction of 2009.

Growth of the world economy is forecast to slow to 3.1 per cent in 2011. Expansion of developed economies is forecast at only 1.9 per cent in 2011, in contrast to developing economies' 6 per cent.

World trade has also rebounded strongly from the crisis. Its export value grew at an estimated 12.8 per cent in 2010, though it is projected to decelerate to about 8.5 per cent in 2011. The divergences in GDP performance are seen in trade growth as well. Thus, while exports of developed economies grew at 10.2 per cent in 2010 and projected to grow at 6.9 per cent in 2011, the export value of developing countries increased by 15.9 per cent in 2010, but is projected to slow to 10.9 per cent growth in 2011.

In addition, while imports of developed countries are contracting more than their exports, the opposite is the case for developing countries. The estimated ratio of current account balances to GDP for developed countries was a deficit of 0.3 per cent in 2010 and is forecast at a 0.1 per cent deficit in 2011, compared with the continued surplus of 1.5 per cent in 2010 and 1.4 per cent in 2011 for emerging and developing countries.

In an attempt to counteract the impact of the global crisis and to stabilize their financial systems, most developed countries have implemented loose monetary policies and maintained ultra-low interest rates, a policy thrust expected to continue in 2011. Developing-country interest rates are also expected to remain relatively low in 2011.

Global inflation, which increased slightly from 1.4 per cent in 2009 to 2.5 per cent in 2010, is expected to stay low, given the slow economic recovery worldwide. In developed countries, inflation picked up from 0.1 per cent in 2009 to 1.4 per cent in 2010, but is projected to stay at that rate in 2011. In developing economies, inflation is projected to fall back from 5.4 per cent in 2010 to 4.9 per cent in 2011.

Many countries also used fiscal stimulus packages to counter the effects of the crisis. The fiscal position of developed countries deteriorated sharply to a deficit of 8.8 per cent of GDP in 2009. This is projected to narrow to 8.0 per cent and 6.7 per cent in 2010 and 2011.

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African economies have recovered from the global financial and economic crises better than expected.

As the crisis gradually abated, demand pressures pushed up most global commodity prices in 2010, though to different degrees. The crude oil price continued its strong rebound from the crisis-induced slump, and its steady upward trend is expected to continue in 2011. The food and beverage index and the agricultural raw materials price index did not fluctuate much in the first half of 2010, but increased sharply in the second half. The metal prices index also rose, with fluctuations, during the year.

These global developments have significant implications for African countries, though the direction and magnitude of impact naturally vary among countries. On the whole, African economies have recovered from the crisis better than expected. Their aggregate GDP growth is forecast to rise to 5.0 per cent in 2011, up from 4.7 per cent in 2010. The exports of African economies suffered in 2009, with a decline of 32.4 per cent, but the rebound of commodity prices and strong demand from developing and emerging economies propelled a sharp upswing in their exports in 2010. However, the continent's narrow production and export structures are likely to maintain its historical vulnerability to external shocks.

The nominal increase in commodity prices has led to an improvement in the terms of trade for many African commodity-exporting countries. Most of its oil exporters are therefore expected to continue running current account surpluses in 2011. On the other side of the flow, Africa's oil-importing countries will see their current account deficits widen. Rising grain prices will also pose daunting challenges to efforts to eradicate hunger in the African countries that heavily depend on food imports.

The flow of remittances to Africa did not fall as much as expected, but its projected growth of 4.5 per cent over 2010–2011 is much lower than pre-crisis rates. For foreign direct investment, although total inflows declined in 2010, inflows to Africa's extractive industries increased. Official development assistance rose in 2010. Overall, external capital inflows continued their contribution to domestic investment and government spending in many of the continent's countries.

Growth and social development in Africa in 2010 and prospects for 2011

Economic performance

ECONOMIC ACTIVITY REBOUNDED across Africa in 2010. However, the pace of recovery was uneven among groups of countries and subregions. Oil-exporting countries generally expanded more strongly than oil-importing countries. West Africa and East Africa were the two best-performing subregions in 2010.

Africa's inflation trended downward in 2010, reflecting the increased supply of agricultural products, the strength of some currencies, excess capacity and competitive pressures. A few countries bucked the trend for specific reasons, including increased domestic demand (Republic of Congo, Libyan Arab Jamahiriya and Nigeria), robust public spending (Algeria) and a depreciating domestic currency (Mozambique, Sierra Leone and Sudan).

Africa's fiscal deficit deteriorated marginally in 2010, from 5.7 per cent of GDP in 2009 to 5.8 per cent. Similarly, its aggregate current account balance worsened. In both cases, divergences across broad groups of countries reflected differences in economic structure and policy stance. In particular, most countries that witnessed improvements in their current account balances were oil exporters. Continued fiscal loosening, combined with an accommodative monetary policy, largely accounted for the deterioration of fiscal balances.

The prospects for improved economic performance in Africa during 2011 are quite favourable. Average growth rates in both oil-exporting and oil-importing countries are projected to be higher in 2011 than in 2010. West Africa and East Africa are set to be the fastest-growing subregions once more in 2011, followed by North Africa, Central Africa and Southern Africa. Although the projected growth rates for 2011 are markedly higher than those attained in 2009 and 2010 for most subregions, they are generally lower than pre-crisis rates. They also seem to be below the rates needed to significantly reduce the continent's unemployment and poverty.

The outlook for economic performance in 2011 is subject to several risks and uncertainties. Africa's growth performance will, as usual, be affected by the pace and duration of growth in its major trading and development partners through the continent's exports and tourism receipts, as well as inflows of remittances, foreign direct investment and official development assistance. Other key factors include ongoing, as well as possible, political disturbances associated with elections as well as adverse weather conditions.

Africa's progress towards the MDGs is mixed and varies by subregion, country and by goal.

Social conditions

The improved economic performance achieved over the last decade has not been translated into commensurate reductions in unemployment and poverty, nor significant progress towards the Millennium Development Goals (MDGs) especially in sub-Saharan Africa. The continent is experiencing a jobless recovery, apparently perpetuating a fundamental feature of its previous growth spell. Employment creation has been limited in many countries as much of the economic recovery has been driven by capital-intensive extractive sectors that have few forward and backward linkages with the rest of the economy. But a few countries, such as Egypt and Mauritius, made marginal reductions in unemployment in 2010, due to their relatively strong expansion of the labour-intensive services sector.

Africa's progress towards the MDGs varies by subregion, by country and by goal. Although overall progress is in the right direction, its pace is largely inadequate for achieving all the goals by the 2015 deadline. Unequal opportunities and access due to gender, income and location biases constitute major obstacles to achieving key MDGs such as universal primary education, reductions in the under-five child mortality rate and maternal mortality ratio, as well as improvements in access to safe drinking water and sanitation.

The varying progress may be related to resource constraints as well as to the quantity and quality of public service delivery in many African countries. Public expenditure on social spending is, for example, generally below the level needed to achieve the MDGs. Public sector resource constraints have induced increasing private sector provision of education and health services as well as other infrastructure and telecommunications services. However, weaknesses in regulatory frameworks for effective public–private partnerships for social and infrastructure services inhibit progress in many African countries. A larger state role appears necessary for social conditions in Africa to make substantial improvements.

Current and emerging development challenges in Africa

Trade performance and trade negotiations

AFRICA'S SHARE OF world merchandise trade rose to 3.2 per cent in 2009, despite the sharp fall in total trade due to the global crisis. Similarly, the continent's share of world trade in commercial services increased to above

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3 per cent for the first time. However, the structure of Africa's exports remains undiversified, focusing on primary commodities. In 2009, the major exports components were fuel and mining products (64 per cent), iron and steel (19.2 per cent) and agricultural products (10.2 per cent). As fuel and mining products were hit the hardest by the global recession (with a 36 per cent decline in value), Africa's exports fell by 32 per cent in 2009.

Africa's heavy dependence on natural resource exports poses difficult and persistent problems. These arise from the characteristics of natural resources such as exhaustibility, negative externalities associated with their extraction and consumption as well as price volatility. Effective management of the production and export of natural resources often requires a leading role for the state.

This role is also crucial in trade negotiations. The Doha Round does not have a specific remit for diversifying African exports. The existing non-reciprocal preferential trade arrangements focus on perpetuating the existing structure of African exports. In principle, neither completion of the Doha Round nor existing preferential trade arrangements will do much damage to Africa's future trade prospects. The real danger lies with the Economic Partnership Agreements that are being negotiated, since the reciprocity involved in them will force African countries to liberalize too rapidly, with a bias towards Europe and against continental integration. They may also work against the strategic goals of promoting industrialization, economic diversification and structural transformation in Africa.

Development financing

African countries have made little progress in mobilizing domestic resources for development since the Monterrey Consensus of 2002. Gross domestic savings as a proportion of GDP remain below 20 per cent and are therefore inadequate to finance the investment necessary for maintaining solid GDP growth. Boosting government revenue to fill the gap requires considerable reform in many African countries.

The global crisis, too, put considerable strain on international resources for African development. External capital inflows and trade financing have generally declined after the crisis (but not official development assistance). It is expected, though, that sustained recovery of the global economy in 2011 and beyond will result in a strong rebound of capital inflows.

Some key green economy issues

Faced with the challenge of environmental sustainability, transformation entails the reconfiguration of the structures of production, distribution and consumption of goods and services in ways that can build a solid foundation for future growth and development. Achieving such change requires a departure from the previous approaches to economic growth and development that failed to take full account of the role of natural and social capital in wealth creation.

Africa has the potential for diversifying its economy while greening its agricultural, industrial and services sectors.

Greening agriculture must be a priority for many African countries, in view of its critical role: despite recent improvements, African agriculture still falls short of meeting the continent's food demand, yet evidence shows that green-farming practices can increase yields on small farms. Global markets for organic foods and drinks are substantial and increasing rapidly. They represent new opportunities to expand trade and raise the incomes of farmers. Africa also abounds in agricultural biodiversity resources, which can become significant sources of income as agriculture diversifies and develops.

The continent's transformation will require industrialization to be greened, including efficient use of resources and alternative energy sources. This will enable Africa to realize its potential for renewable energy power generation as a means of establishing and then sustaining its international competitiveness. Energy- and carbon-intensive industrialization would not only add costs but also lock Africa into inefficient and uncompetitive production modes. Greening industrialization will increase energy and material efficiency, thus yielding significant economic gains while reducing ecological and climate-change risks.

The state in Africa has a crucial role to play in facing various current and emerging development challenges.

The state and Africa's development challenges

THE STATE IN Africa has a crucial role to play in facing various current and emerging development challenges. Diversification of production and exports is an important element of transformation. Yet state leadership and vision are required for designing and pursuing policies to move Africa from its heavy dependence on primary commodity exports. Generating domestic sources of development finance calls for strong and effective states endowed with the legitimacy to raise the necessary revenue as well as the capacity for efficient delivery of public services. Attracting international development finance, too, requires states with such attributes.

Driving a green transformation will require a set of enabling conditions that demands the state to play an important role. In particular, engagement of the state, producers and consumers will enable African countries to take full part in shaping norms for environmentally sound agricultural and industrial goods and services. State leadership is also critical for accelerating and strengthening regional integration, to create larger markets for developing the continental manufacturing base for a wide variety of clean products and technologies. But what is "economic transformation" in more precise terms? And why has African not already gone through the process?

Economic transformation and its importance

Economic (or structural) transformation may be defined as the change over time in the sectoral composition of output (or GDP) and that of the sectoral pattern of the employment of labour as an economy develops. This represents the core feature of the development process, and it occurs over the long term. The stylized facts of transformation suggest broadly that, as the real per capita income of an economy increases over the long term, the shares of industry and its manufacturing subsector as well as services rise, as does the ratio of average labour productivity in non-agriculture to agriculture; at the same time, the share of agriculture in GDP and the employment share of agriculture in total employment decline.

A country is regarded as having achieved transformation when the respective GDP shares of the major economic sectors and subsectors follow the above stylized facts. The importance of transformation lies primarily in the fact that structurally transformed economies tend to be associated with steady, sustained economic growth rates, relatively low growth volatility and higher capacity to create jobs. These attributes help significantly reduce an economy's vulnerability to external shocks, providing a stronger basis for maintaining macroeconomic stability and establishing enhanced capacity for smoother economic adjustment. Lower volatility also reduces uncertainty and makes macroeconomic management easier.

The case of Malaysia, among many others, shows the feasibility of economic transformation. This country's real per capita income grew at an annual average rate of 4.6 per cent during 1960–2007, and was associated with a

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low level of volatility. Malaysia's successful economic transformation was achieved by deliberate state intervention, based on a disciplined planning process. This included the formulation of relevant development policies, provision of the required investment and creation of appropriate institutions. The Malaysian experience demonstrates the vital role that a developmental state can play in transforming a developing country into a prosperous one in only a few decades.

Africa's transformation experience

Despite the diversity of country experiences on the continent, Africa's growth performance between the early 1960s and early 1970s was similar to that of other developing regions. After the oil price shock of 1973, however, its growth faltered and generally declined, until 2000–2007 when growth improved again. During 1960–2007, 16 African countries achieved average annual real per capita growth rates above 2 per cent, 26 countries recorded less than 2 per cent growth, and 11 countries contracted. None of these African countries enjoyed economic growth that was associated with very low volatility (a coefficient of variation of less than one).

Africa's growth experience was not associated with full structural transformation. Incomplete transformation in some countries may be traced to the influence of abundant resource endowments and ineffective policies. Distorted economic transformation may have resulted from the failure of the modern industrial sector to absorb rural surplus labour and other resources. So what can Africa do?

State actions for transforming African economies

Africa's states have three major development tasks for achieving economic transformation: planning the process, formulating appropriate policies and implementing the plans and policies.

The development process has to be planned for several reasons. The changes required are substantial and therefore the decisions cannot be optimally made by free market forces—most developing economies are characterized by pervasive market failures. The interdependence of all elements of the process needs to be reconciled through comprehensive development frameworks rather than narrow, partial models.

The state has the responsibility for formulating appropriate development policies that are best carried out through constant dialogue with key social and economic agents on both the production and consumption sides. Maintaining macroeconomic stability is a basic requirement for promoting steady and sustained growth rates with low volatility. However, transformation requires appropriate policies, incentives and penalties to ensure that public and private resources move in the direction in which they are optimally used. Many of the necessary policies result in wins and losses—generating winners and losers. The state therefore has the responsibility for negotiating the associated conflicts between social groups as a means of establishing policies that promote economic growth and transformation, without sacrificing equity.

The state has to have the capacity and competence to implement development plans and policies. It needs to set up (or revive) key planning institutions and give them the power and autonomy to do their work. It also needs to establish and institutionalize consultative and deliberative mechanisms as the necessary links through which the bureaucracy can interact with all key stakeholders. Monitoring and evaluation, as well as assessment and review, should feature strongly during implementation.

In summary, economic transformation in Africa demands the state to play a central role—using a comprehensive development framework—in planning, articulating and implementing policies aimed at ensuring efficient allocation of resources. But the state must have the capacity to do this, as well as the institutions to link the bureaucracy with key stakeholders. Crucially, it must have the legitimacy to mobilize all stakeholders around a nationally owned development framework, including its vision and targets. In other words, transformation in Africa will require a developmental state.

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Africa's need for a developmental state

Definition

A DEVELOPMENTAL STATE can be defined as one that has the capacity to deploy its authority, credibility and legitimacy in a binding manner to design and implement development policies and programmes for promoting transformation and growth, as well as for expanding human capabilities. Such a state takes as its overall socio-economic goals the long-term growth and structural transformation of the economy, with equity.

Developmental states in Africa should be inclusive and operate through a democratic governance framework, which is necessary to ensure socio-political inclusiveness. This in turn enhances the legitimacy of the state and its institutions, giving the state greater authority in managing disputes stemming from transformation.

Role

The primary goal of the African developmental state is to overcome the continent's inherent development challenges, focusing on high and sustainable economic growth rates through diversification and transformation. The key mechanism is a comprehensive development framework that steers social and economic policies to work in a complementary manner.

The developmental state provides guidance in constructing this framework, in defining the overall national development goals and in implementing the relevant macroeconomic, sectoral, microeconomic and social policies. The impact of these policies will inevitably create winners and losers among various economic agents, both as producers and consumers, and indeed, all segments of society may be called on to make short-term, socio-economic sacrifices for society's long-term benefits.

Hence the development framework must contain incentives and sanctions, so that economic agents who meet targets are rewarded and those who fail are penalized. This system accords the state a large role in designing and implementing appropriate conflict-management arrangements.

Since free market forces will not drive economic transformation on their own, the developmental state must play a central role in resource allocation and in efficient coordination of crucial economic activities. This is particularly relevant to developing infrastructure, human capital, and the financial market and setting up production facilities in the agricultural and industrial sectors. Issues of market failure abound in this area, requiring the state's positive intervention.

Constructing an African developmental state

As seen, an effective developmental state requires—beyond a set of crucial institutions and mechanisms—a democratic socio-political environment that endows it with legitimacy and authority. This environment also provides stakeholders with the voice and representation that enable them to have a sense of ownership of the country's national development programme.

The capacity of the developmental state for formulating and implementing such a programme has two component parts. The first consists of a political leadership that is committed to national development goals and that can motivate and guide the planning process. The second is a competent and professional bureaucracy that has the autonomy and power to implement the programme and respond swiftly to rapidly changing local and global conditions. Its personnel must be recruited solely on merit, well trained and adequately rewarded.

At the larger socio-political level, the developmental state needs to be assisted by strong developmentalist coalitions. These are made up of groups that share a common developmentalist vision and can sustain dialogue with the political leadership—a means of broadening the support base for designing and pursuing crucial policies. At the operational level are the consultative and deliberative institutions.

When they function well, these developmentalist coalitions and the institutions can help to enhance the efficiency—and equity—of resource allocation and promulgate citizens' greater oversight of the state, thereby promoting greater accountability. The enhanced "ownership" of the development process contributes to its credibility and legitimacy. At a technical level, the exchange of information and perspectives enhances bureaucratic decision-making.

The way forward for African developmental states

Emergence

THE CASE FOR promoting developmental states in Africa largely rests on the inability of previous development approaches to help Africa diversify and transform its economies, generate steady and sustained high growth rates or deliver adequate levels of social development. Developmental states are constructed around a government with the political will and legitimacy to perform specified developmental functions, a professional bureaucracy that implements established national development strategies and policies, and interactive mechanisms allowing stakeholder groups to be involved in designing and carrying out policy.

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A developmental state's effectiveness in pushing through economic transformation derives from its ability to promote more equitable and efficient resource allocation, its capacity to design and carry out policy as well as its close coordination of institutions. Although this approach is inherently vulnerable to risks running from state intervention, it also has some built-in institutional mechanisms for avoiding regulatory capture, corruption and rent-seeking, though these need to be nurtured.

Policy recommendations

The role of the African state in achieving rapid and sustained economic growth and social development combined with deep structural transformation should be based on a developmental state. This approach should be operationalized through disciplined planning, where social and economic policies are interwoven in a complementary and mutually reinforcing manner. In avoiding the pitfalls of state intervention, such as capture of parts of the state apparatus by elites, a developmental state in Africa must be able to administer such key elements as an autonomous and competent bureaucracy with responsibility for development planning and implementation and a developmentalist coalition among committed political leadership, bureaucracy, private sector and civil society.

African developmental states should also implement measures such as relating state assistance to performance targets (and withdrawing assistance if necessary); empowering regulatory agencies to set and enforce product standards; and establishing and enforcing competition law.

Adoption of the developmental state approach by countries within Africa's regional economic communities requires tighter coordination and harmonization of national development strategies. This requires joint capacity building in key areas and use of peer review mechanisms for ensuring compliance with common governance standards.

Additionally, the policies typically used in the developmental state approach may well conflict with the policies of multilateral organizations (such as the World Trade Organization) and multilateral donors, requiring continent-wide renegotiation of unacceptable restrictions on policy space.

Further research

More knowledge needs to be acquired with respect to the form and operations of key institutional relationships that are key to the success of developmental states in Africa. National evaluation of the capacities of these institutional arrangements is needed to mark out gaps, as is research to isolate and explore the specific channels through which developmental states could enhance structural transformation. Similarly, new research should be conducted on the policy measures required to reduce the risks of state intervention. The issue of policy space also deserves research, given the potential for conflict between African countries and global organizations and donors, as developmental states move from being an approach to becoming a reality.

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