The New AFRICA

The Quality of Growth

Poor households are benefiting from sub-Saharan Africa's high growth and wider global reach

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SUB-SAHARAN Africa has had a great start to the 21st century—at least that's what the numbers show. Year after year the region has racked up solid economic growth, even when the global economy was anything but sound. Low-income countries have done particularly well. Not only have average per capita incomes mounted steadily, but inflation has generally been tamed, debt pruned, and opportunities for foreign trade and investment opened up.

But the questions that continually nag at me concern the quality of this growth. In particular, is it inclusive—are the poor and the young benefiting—and is it sustainable?

We have some positive evidence on the inclusiveness of growth in sub-Saharan Africa. In most countries, the proportion of the population living in poverty has been falling over time, and living standards and health and education indicators have improved for poorer households. We know less, however, about whether the poor have benefited as much from growth as, say, the newly prosperous urban middle class (see "Africa's New Engine" in this issue of *F&D*). And we don't know how much of the improvement in the living standards of the poor is attributable to the actual pace of growth. This may be critical for a region in which some countries have seen average per capita incomes rise more than threefold since 2000 while others have seen their average standard of living stagnate or even decline.

As for sustainability, we saw remarkable resilience in low-income countries during the recent global recession. Growth slowed only slightly and briefly, despite the turmoil in financial markets and the collapse in world trade. The ultimate test of the quality of Africa's growth will be whether everyone in the region, and particularly the young, is able to engage in income-earning activities or access productive employment. But a key factor in the near future is whether the region's trading partners will be diverse and prosperous enough to support high and rising demand for the region's products and resources in an ever more volatile global environment.

To gain a better understanding of the quality of the region's growth, the IMF African Department examined recent evidence for two critical factors: first, whether the poorest households in the region actually shared in the increased consumption available to the wider population, particularly in the fastest-growing economies, and second, the likely implications of shifting trade patterns from traditional partners in the West to emerging markets (IMF, 2011).

Growth helps the poor

To assess whether the region's most vulnerable people are enjoying the fruits of growth we looked at detailed survey information on household activities and characteristics in six fairly typical lower-income countries in sub-Saharan Africa. The sample is of course rather small—and it didn't include any major oil exporters or fragile states—but we gleaned insight into how changes in the standard of living of the poor correlate with each country's growth and into the factors that lifted poor people in these countries, as measured by their consumption.

One strong finding was the solid rise in average living standards of relatively poor households in each of the four higher-growth countries in our sample—Ghana, Mozambique, Tanzania, and Uganda—during the early 2000s. In contrast, poor households in Cameroon and Zambia—the two slowest-growing countries—fared less well in terms of changes in their consumption levels.

In all six countries, the head of household's education level mattered—a lot. Households headed by a college-educated individual consumed more than those headed by someone with only secondary education—and more again than those whose head had only primary schooling or no formal education at all. Moreover, those who worked in services (private or public) fared better on average than those in manufacturing and (even more) than those in agriculture. Urban households tended to consume more than rural ones, even allowing for food that rural residents grow and consume themselves and controlling for regional differences.

But there were stark differences in the way segments of the population in our sample countries either maintained or increased spending against the backdrop of a growing economy. In some countries, poorest households' spending rose more (or fell less) than that of other population segments. In others, better-off households did best.

Nevertheless, two features stand out. First, the poorest 25 percent of households consumed more when economic growth per capita was higher. Second, when consumption of the poorest 25 percent of households rose, the number of people in absolute poverty fell. In other words, poor households *did* share in the benefits of growth. Furthermore, we know that among fast-growing countries in general, those that grow the fastest tend to see headcount poverty fall the most.

Countries in our sample where the poorest 25 percent of the population did particularly well also showed sharp improvements in agricultural employment, especially in rural areas. So agricultural incomes seem to play an important role in making growth more inclusive.

Lessons for policymakers

It's clear to me—both from experience and from this recent analytical work—that economic growth is critical to raising the quality of life for the poorest in society. But it's equally clear that growth alone is not enough. Economic growth must generate the right sort of employment and, over the longer term, solid gains in education and human capital accumulation. For young people, in particular, school plus experience is essential for true inclusion in society.

At least in the short to medium term, there seem to be two main ways to raise the living standards of the poor. The first is through income-generating opportunities in agriculture, from which most poor households derive their livelihood—for example, by promoting more productive farming methods (use of fertilizers, seeds) and building the appropriate infrastructure (roads, electrification, irrigation). Second, economic assistance must be targeted to the most vulnerable households. Information from the surveys about the factors most associated with poverty can help identify those most at risk.

Customer in Dakar, Senegal, buys baguette made with imported wheat.

Shifting patterns of trade and investment

Agriculture will be the main income generator for the majority of households in sub-Saharan Africa for some time, but ongoing shifts in the destinations of the region's exports—and of the sources of its imports and foreign investment—also have profound implications. These changes may eventually cause sizable adjustments in the structure of the region's industry, and hence to its productivity and stability. Most critically for the quality of growth, these shifts may contribute significantly to sub-Saharan Africa's future employment potential.

Over the past decade, sub-Saharan African trade and other economic ties have shifted from traditional partners in the West toward the emerging markets of Asia, Latin America, and eastern and central Europe, with enormous implications for growth.

Most obvious is China, which has dramatically increased its economic involvement in Africa. In just the past decade, China has gone from having a barely significant presence in Africa to being a major recipient of sub-Saharan African exports, especially oil, gas, and other commodities; a large supplier of imports, including consumer and other manufactured goods; and a key investor in the region. But other emerging market economies in Asia, Latin America, and eastern and central Europe—most notably India and Brazil—also want a stake in sub-Saharan Africa. And countries in the region are trading much more with each other too.

Much of this additional interaction simply reflects the fact that the region's trade is growing fast. There has been enough growth for all to claim a piece. But the relative importance of emerging markets compared with sub-Saharan Africa's traditional trading partners has clearly surged. The share of the region's exports going to members of the Organization for Economic Cooperation and Development's Development Assistance Committee (DAC), made up primarily of advanced economies, fell over the past decade from 70 percent to 50 percent. That decline was equally fast for sub-Saharan African non-oil-exporting and oil-exporting countries. And DAC countries' share of sub-Saharan Africa's imports declined from 60 percent to 40 percent. Just as important, neither trend shows any signs of slowing.

What then are the implications of this switch from advanced to emerging economy partners for the region's quality of growth?

Less volatility, more opportunities

Simply broadening the base of the region's interactions with the rest of the world is a major plus. Diversification reduces risk. The region is now less vulnerable to events in a specific country or market, which puts a damper on volatility in external demand and points to more likely lasting growth. Avenues are opening up for technological transfer and innovation, more partners are interested in infrastructure investment and fostering local development, there are more opportunities to benefit from lower input prices and higher-added-value export markets, and the time is ripe for exploiting the region's comparative advantages.

These factors are working in a number of ways. The reduction in volatility meant that during the recent global recession and the subsequent, somewhat hesitant, recovery most emerging market economies outpaced advanced economies. Demand from non-DAC countries has in fact long been the impetus for growth in sub-Saharan African exports, and it has helped limit the slowdown in financial inflows and investment. Without this stabilizing force, the region would have suffered much more from adverse external developments.

Enhanced technology transfer is mostly a result of greater diversity of inward investment. Because emerging market investors are gaining importance across a range of sectors—not just natural resources, but also manufacturing, agriculture, tourism, and financial services—they are broadening the transmission of know-how, including what works in a developing country setting. Many of the companies involved are important innovators in their fields.

Some emerging market economies are taking on more substantial aid and development roles, providing access to a wider range of economic transformation models. Increased resources devoted, for example, to infrastructure, including transportation and power, are driving lower-income countries' ability to compete on equal terms with the rest of the world.

Finally, the region's wider choice of trading partners has opened up access to lower-cost inputs and consumer goods, helping lower production costs and raising consumer purchasing power. Outsourcing to sub-Saharan African countries is an option for the region's new partners experiencing rising labor costs themselves and moving increasingly into higher-value-added production. And perhaps most important, larger external markets allow for more intense specialization and the benefits from economies of scale that specialization can generate. Regional integration can enhance the impact of all these processes.

Caution lights

This is an attractive set of opportunities. But there are risks too. Some worry, for instance, that emerging markets present the potential for new forms of colonialism—plundering the region's natural resources or exploiting low-income workers or consumers. Certainly, inadequate safeguards in some countries have in the past left them vulnerable to exploitation. And globalization could affect social priorities and increase the region's exposure to contagion from volatile overseas markets. But there are many ways to address the potentially adverse effects of powerful global forces.

Improved management of exhaustible natural resources should be a priority for many countries. Increased foreign interest in this sector merits rigorous attention by national officials—from robust governance of the extraction process (tenders, contracts, taxation) to effective macroeconomic management (to minimize the impact of volatile exports and revenues). To maximize net benefits to the region recipient countries must carefully evaluate proposals and take into account both the implications for national revenues and any assistance offered for infrastructure or local development.

The structural changes brought about by more diversified trade will produce losers as well as winners. Some businesses will be undercut by lower-cost foreign suppliers, and some workers will find their skills redundant. But a transformation to an increasingly industrialized economy is not likely without such transitional costs. Some support can go to the people affected to help them adjust. But resisting such changes, for example by intervening selectively in the economy or controlling imports, is usually self-defeating and costly.

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Looking ahead

I am enthusiastic about the implications for sub-Saharan Africa of its rapidly broadening global interaction, which is a vote of confidence in the region and offers exciting possibilities for broad-based development and structural transformation as well as for access to more varied and cheaper consumer goods and services.

To take full advantage of this potential, and to ensure that the resulting growth is of high quality and benefits everyone, there are several ways the region can help itself. First, countries must maintain sound macroeconomic policies and open markets within a stable political environment. Second, they must carefully manage the region's precious natural resources and pay attention to the needs of agriculture. Finally, the region must continue to focus on building up human capacity—through improved health care and quality education—to sustain a well-qualified and flexible labor force.

Then Africa's high growth will mean good news for everyone, including the poor. ■

Reference:

International Monetary Fund (IMF), 2011, "How Inclusive Has Africa's Recent High-Growth Episode Been?" Chapter 2 in Regional Economic Outlook: Sub-Saharan Africa *(Washington, October).*