AFRICAN DAWN

Can the continent become a success story?

Things are improving in Africa. But much deeper reforms are needed to guarantee the continent's lasting growth: **MARIAN L. TUPY** and **DALIBOR ROHAC**

Sub-Saharan Africa (hereafter Africa) has seen a marked improvement in economic performance in recent history.

In part, this is related to the global rise in commodity prices but also to domestic reforms, such as more prudent fiscal and monetary policies, privatisation of state-owned enterprises, and improvements in the business environment.

To sustain and accelerate the growth of African economies, deeper structural and institutional reforms are needed, as well as further progress in removing existing barriers to trade and investment on the continent.

The West can help too – by abandoning its agricultural protectionism, including the wasteful programmes of support of domestic agricultural production, which hurts agricultural sectors in developing economies.

The state of Africa

Between 2000 and 2008, real gross domestic product in Africa rose at an average annual rate of 4.9 per cent – twice as fast as in the 1990s.

Even in the aftermath of the financial crisis, African growth quickly rebounded to rates approaching 5 per cent.

As a result, between 1990 and 2010, the share of Africans living on $1.25 per day or less fell from 56 percent to 48 percent, while the continent's population almost doubled in size.

AFRICA REMAINS ONE OF THE LEAST INTEGRATED REGIONS IN THE GLOBAL ECONOMY… ITS PRIVATE SECTOR IS HOBBLED BY SOME OF THE MOST RESTRICTIVE BUSINESS REGULATIONS IN THE WORLD

If current trends continue, Africa's poverty rate will fall to 24 per cent by 2030.[1] Between 1990 and 2013, the per-capita calorie intake in Africa increased from 2,150 kcal to 2,430 kcal.[2]

The proportion of the population of African countries with access to clean drinking water has increased – from 48 percent to 64 percent in 12 years up to 2012.[1]

Many African countries have also seen dramatic falls in infant and child mortality. Since 2005, Senegal, Rwanda, Uganda, Ghana and Kenya, have seen child mortality decline by an annual rate exceeding 6 percent.[3] Still, these improvements have not been sufficient to overcome the enormous gap in income that has long existed between Africa and other parts of the world (see Figure 1).

What is holding Africa back?

Economic freedom is a prerequisite for economic growth and development. Notwithstanding the recent institutional improvements, Africa remains the least economically free region in the world.

All the main surveys suggest that many African countries lack functioning legal systems that protect private property.

Africa also remains one of the least integrated regions in the global economy and its private sector is hobbled by some of the most restrictive business regulations in the world.

The extent of trade protectionism in Africa, for example, is large. While between 1988 and 2010, the average applied tariff in high-income OECD countries fell from 9.5 per cent to 2.8 per cent, Africa saw a reduction from 26.6 per cent to 11 per cent. That is not a negligible decrease but it leaves the continent with unnecessarily high tariff protection, hindering trade.

According to the United Nations Economic Commission for Africa, Africa's total merchandise exports constituted only 3.3 per cent of the world's exports – less than in the 1970s.

Tariffs facing African exporters trading with other African countries are often higher than those facing African exporters selling goods to other parts of the world.

For 13 African countries, bilateral tariff costs for agricultural products are higher vis-à-vis their regional trading partners in Africa than they are with the rest of the world.

For manufactured goods, tariff costs within Africa are higher than with the rest of the world in the case of 25 African countries.

In addition to tariffs, a plethora of non-tariff barriers to trade exists in African countries, ranging from poor infrastructure, sanitary and phytosanitary rules, to corruption.

A recent study by the Rwandan Ministry of Trade and Industry reveals that, in order to reach the port in Mombasa, Kenya, a little over 1,000 miles from Kigali, a lorry driver must stop at 26 different road blocks and navigate eightweigh bridges.

At eleven of the roadblocks and at seven of the weigh bridges, officials request bribes, totalling an average of $846. The journey takes more than 121 hours.

And, as a World Bank economist noted in 2012: "in southern Africa, a truck serving supermarkets across a border may need to carry up to 1,600 documents as a result of permits and licenses and other requirements."[4]

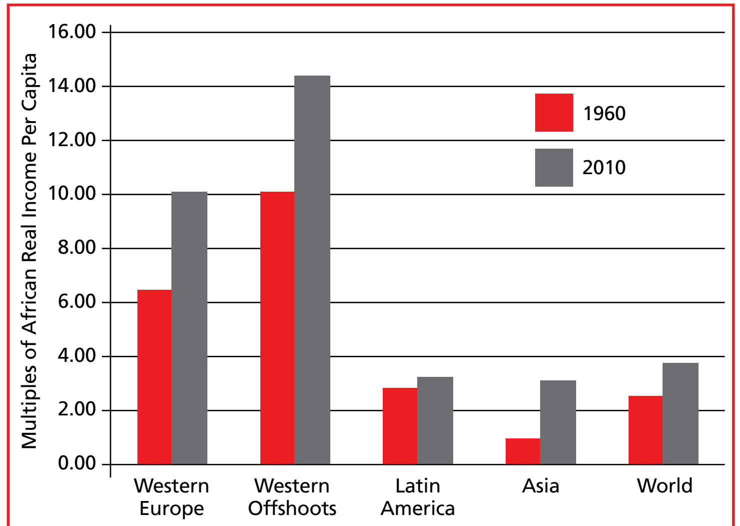

Figure 1: Real income of the Rest of the World relative to Africa (1960-2010)
Source: Bolt and Zanden (2013)

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The way ahead

Besides strengthening the rule of law and governance, cutting red tape, and improving their business environments, African countries need to open to trade and investment.

Unfortunately, regional free-trade initiatives, such as the African Free Trade Zone, have not yet resulted in a significant reduction of trade barriers within Africa.

For most African countries, unilateral trade liberalisation can be a feasible and appealing alternative to protracted trade negotiations.

Developed nations can help too, particularly by eliminating the existing barriers to trade. These include tariffs, particularly on agricultural goods, which make it difficult for African economies to fully exploit their comparative advantage.

The structure of the tariff protection in the US and EU is a significant part of the problem. Once a given quota of imports is reached, tariffs can be very steep – in some cases up to 350 per cent.[5]

Furthermore, agricultural subsidies in rich countries cause surplus production which lowers world prices thus undermining the livelihood of farmers in poor countries.[6]

However, the West cannot solve the root cause of poverty in Africa. It is up to African governments to embrace the reforms that have made other regions of the world prosper•

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[1] Chandy, Ledlie, Penciakova (2013). [2] Food and Agriculture Organization of the United Nations (2014).
[3] Demombynes and Reinikka (2012). [4] Brenton (2012). [5] Asmah and Routman (2011). [6] According to Thomas Beierle of Resources for the Future, overproduction in the developed world depresses world commodity prices by 12 per cent. Developed countries are also responsible for 80 per cent of the global price distortions in agricultural commodities. See Beierle (2002, p. 9).