
Challenges Africa faces in relation to its natural resource endowment and development needs

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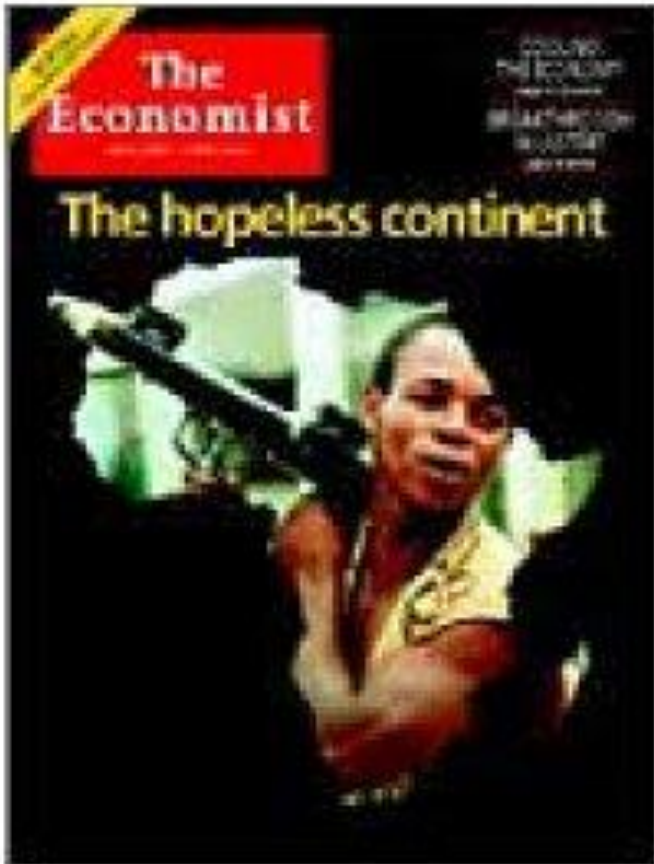
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Main points

- Africa is heterogeneous
 - Challenge 1: Will the commodity boom be sustained?
 - Challenge 2: Can Africa produce and export manufactures?
 - Challenge 3: Changing structural relationship between development and manufacturing
 - Concluding points
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What a difference a decade makes!

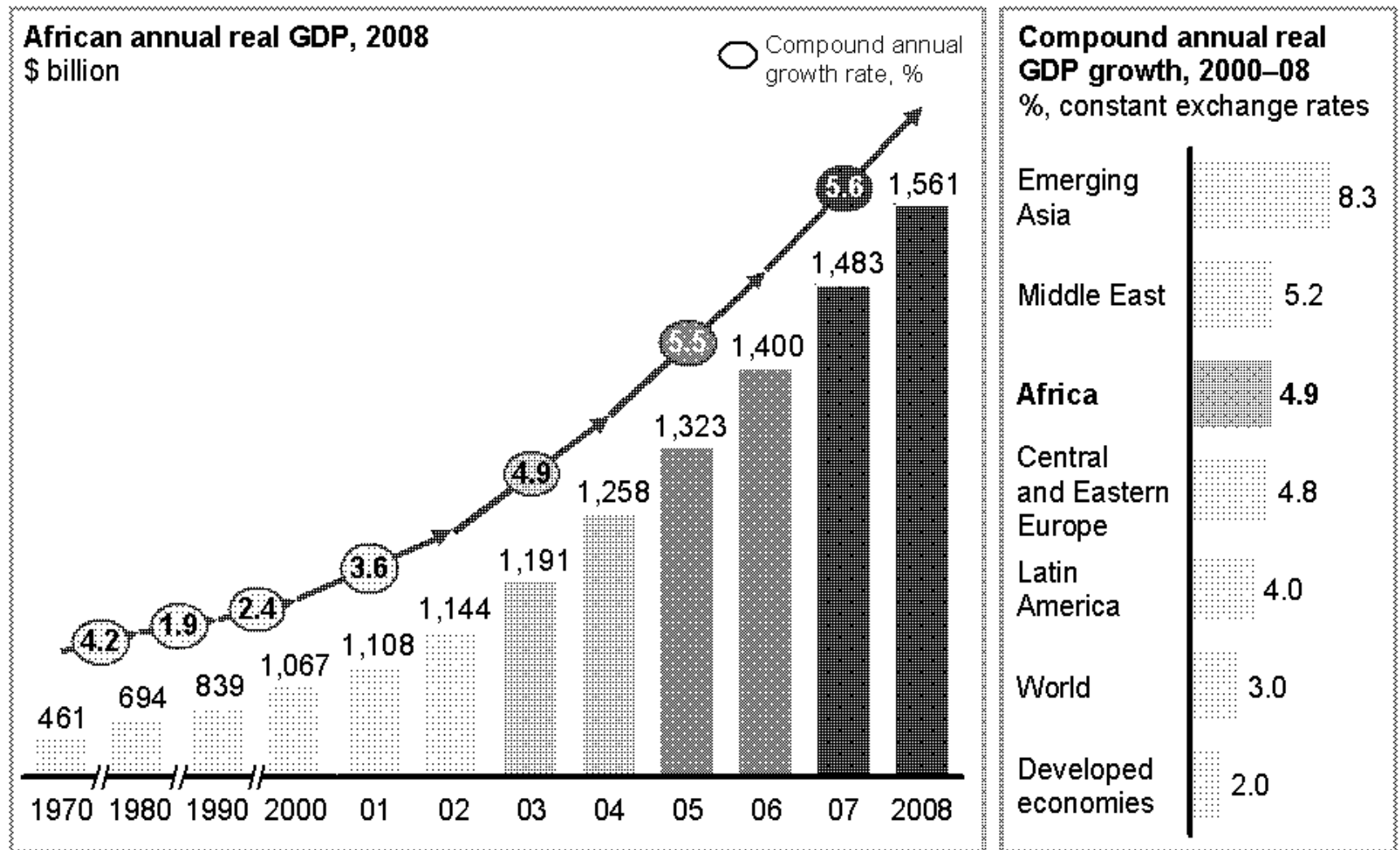


May 2000



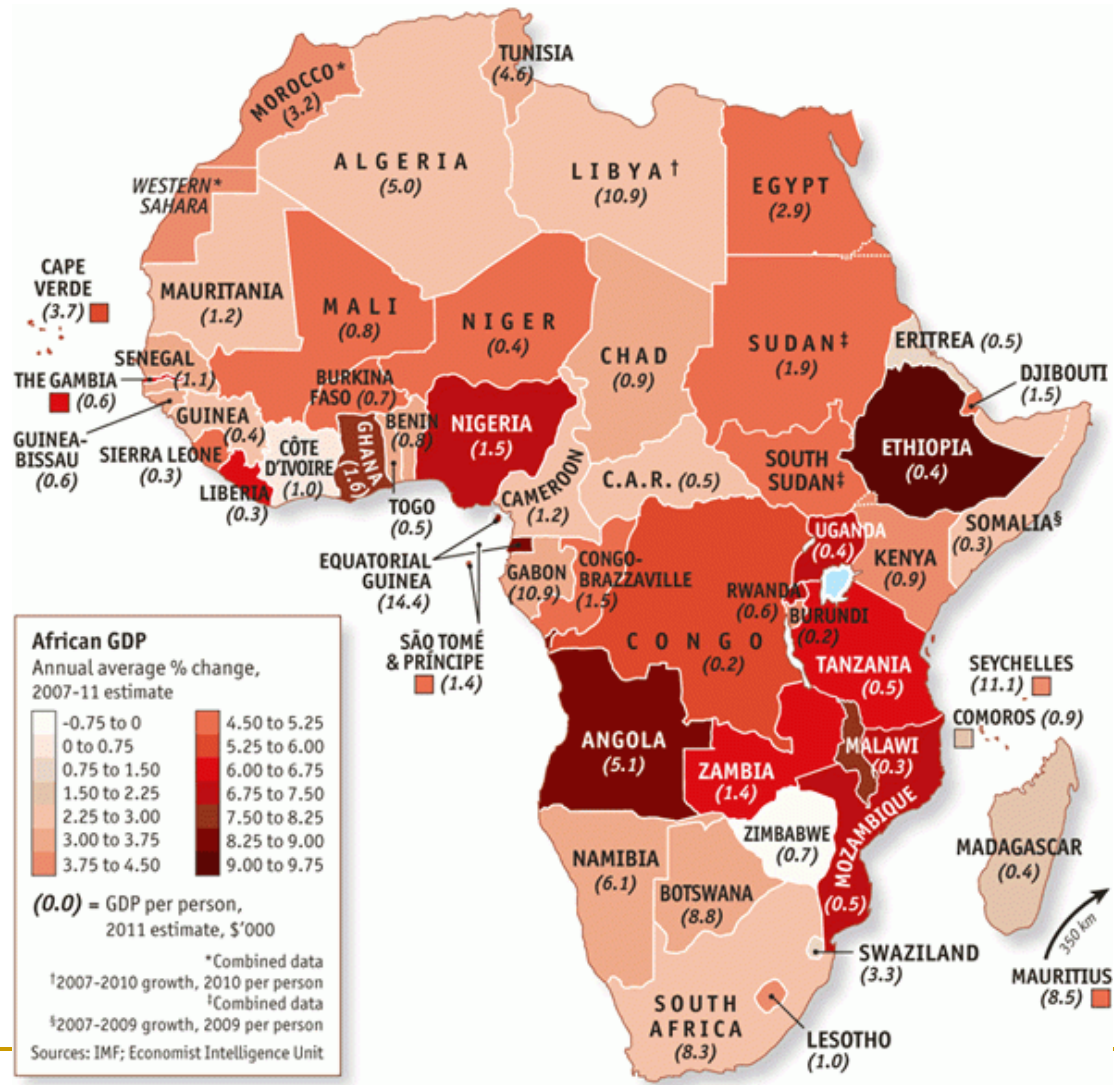
Dec 2011

Africa's economic growth accelerated after 2000, making it the world's third-fastest growing region



Source: Exhibit 1 from McKinsey Global Institute (2010)

Africa is heterogeneous



Africa is heterogeneous

■ Size of economy

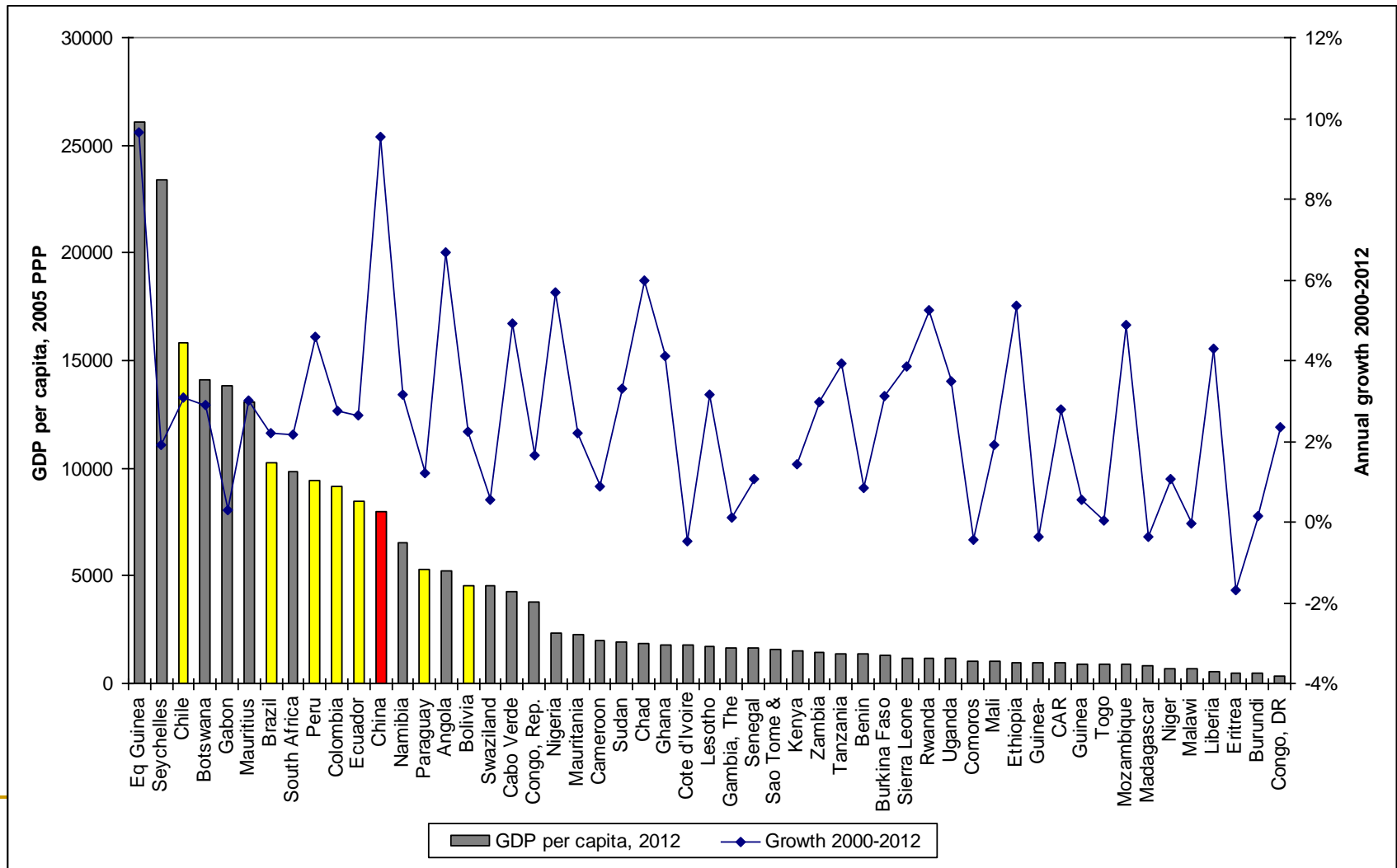
- Mean GDP of US\$ 28 bill (2012) similar to Bolivia
- Median GDP is US\$ 10 bill
- Largest economy South Africa (GDP 384 US\$ bill) 470 times size of Guinea-Bissau {and 80% size of Argentina}

■ Income per capita levels

- Half of SSA countries are low income economies
 - Median African country GDP/Capita = US\$ 1670 (Gambia) vs. US\$ 4500 in Bolivia (PPP, 2005 prices)
- GDP/capita in Equatorial Guinea 71 times Congo, D.R.

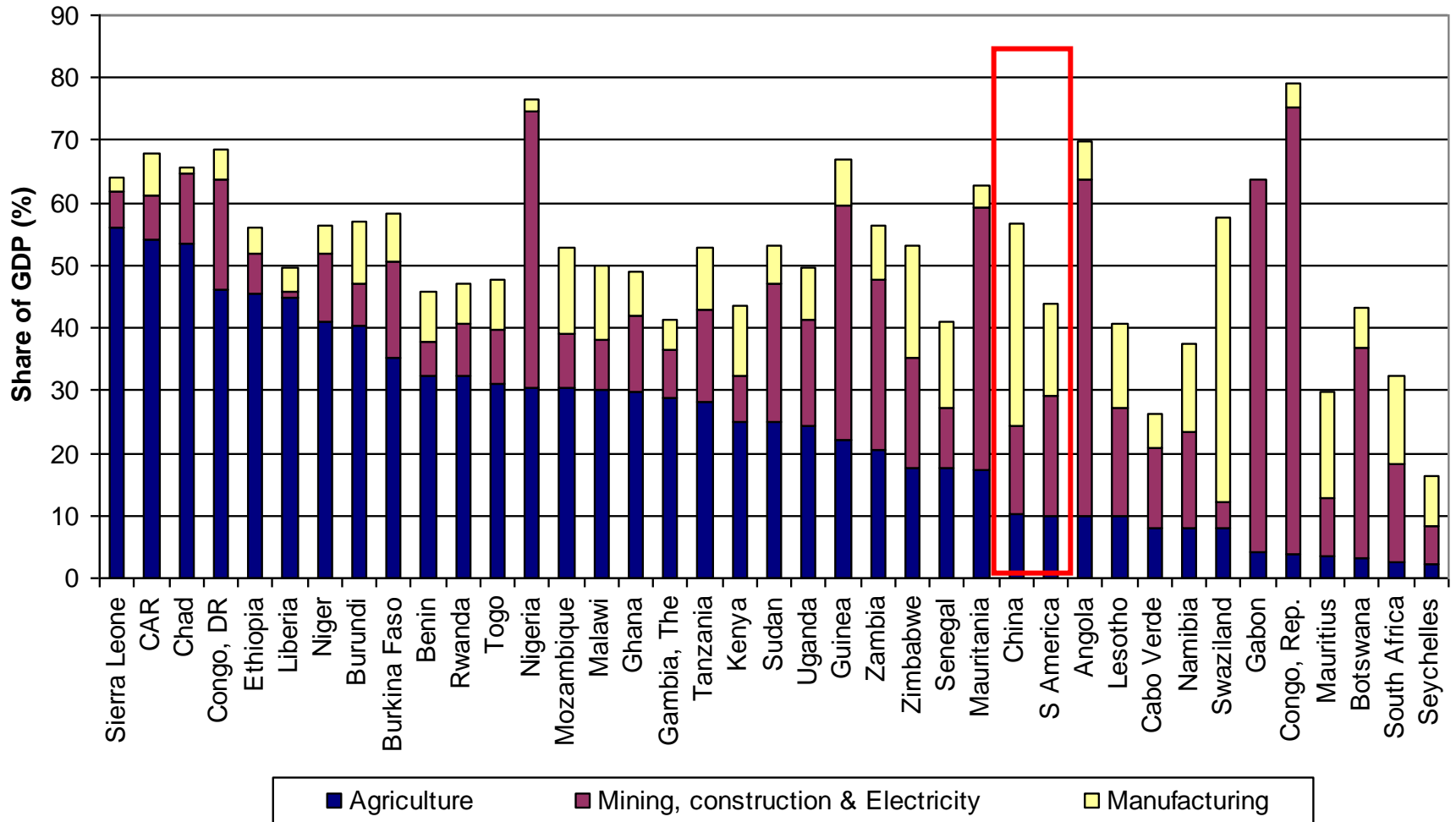
■ Growth

Broad based growth, but enormous variation in income levels across countries



Vastly different structures of production

Sectoral composition of GDP



High concentration, but diversity in products

Table: Top export product (3-digit SITC) in 2010

Country	Product	Share total trade (%)	Country	Product	Share total trade (%)
Sao Tome & Principe	Cocoa	85	Rwanda	Base metal ore/conc nes	36
Fm Sudan	Petrol./bitum. oil,crude	84	Cote d'Ivoire	Cocoa	36
Mali	Gold	82	Mauritania	Gold	34
Zambia	Copper	75	Ethiopia	Coffee/coffee substitute	31
Nigeria	Petrol./bitum. oil,crude	70	Togo	Lime/cement/constr matl	26
Burkina Faso	Gold	69	Tanzania	Gold	25
Botswana	Pearls/precious stones	68	Uganda	Coffee/coffee substitute	25
Congo, Rep.	Petrol./bitum. oil,crude	65	Senegal	Heavy petrol/bitum oils	23
Ghana	Gold	64	Benin	Cotton	23
Burundi	Coffee/coffee substitute	60	Kenya	Tea and mate	23
CAR	Natural abrasives n.e.s.	58	Zimbabwe	Nickel ores/concs/etc	22
Malawi	Tobacco, raw and wastes	55	Namibia	Pearls/precious stones	20
Mozambique	Aluminium	53	Gambia	Oil seeds etc - soft oil	20
Niger	Uranium/thorium ore/conc	50	Mauritius	Articles of apparel nes	19
Cape Verde	Fish/shellfish,prep/pres	39	Madagascar	Articles of apparel nes	17
Cameroon	Petrol./bitum. oil,crude	37	South Africa	Silver/platinum etc	13

Implications: Africa is not one country

- Vast differences in development needs, economic structure, size, dependency on natural resources
 - Most African economies at very early stage of industrial development
 - Can expect very different implications of China's new development model across African countries.
 - And from Latin American countries?
 - African countries remain very vulnerable to commodity price fluctuations as they have very concentrated trade structures.
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Challenge 1: Will commodity boom be sustained?

Table: Commodity price forecasts (current US\$), selected products

	2000	2010	2020*	Predicted change, 2010-2020
Coal	100	376	323	-14
Crude oil	100	280	277	-1
Maize	100	209	191	-9
Wheat	100	196	167	-15
Beef	100	174	150	-13
Chicken	100	145	166	15
Sugar	100	261	200	-23
Aluminium	100	140	168	20
Copper	100	416	314	-24
Gold	100	439	358	-18
Iron ore	100	503	293	-42
Nickel	100	252	203	-20
Silver	100	404	310	-23
Tin	100	375	294	-22
Zinc	100	191	168	-12

Source: <http://www.worldbank.org/globaloutlook>

Challenge 1: Will commodity boom be sustained?

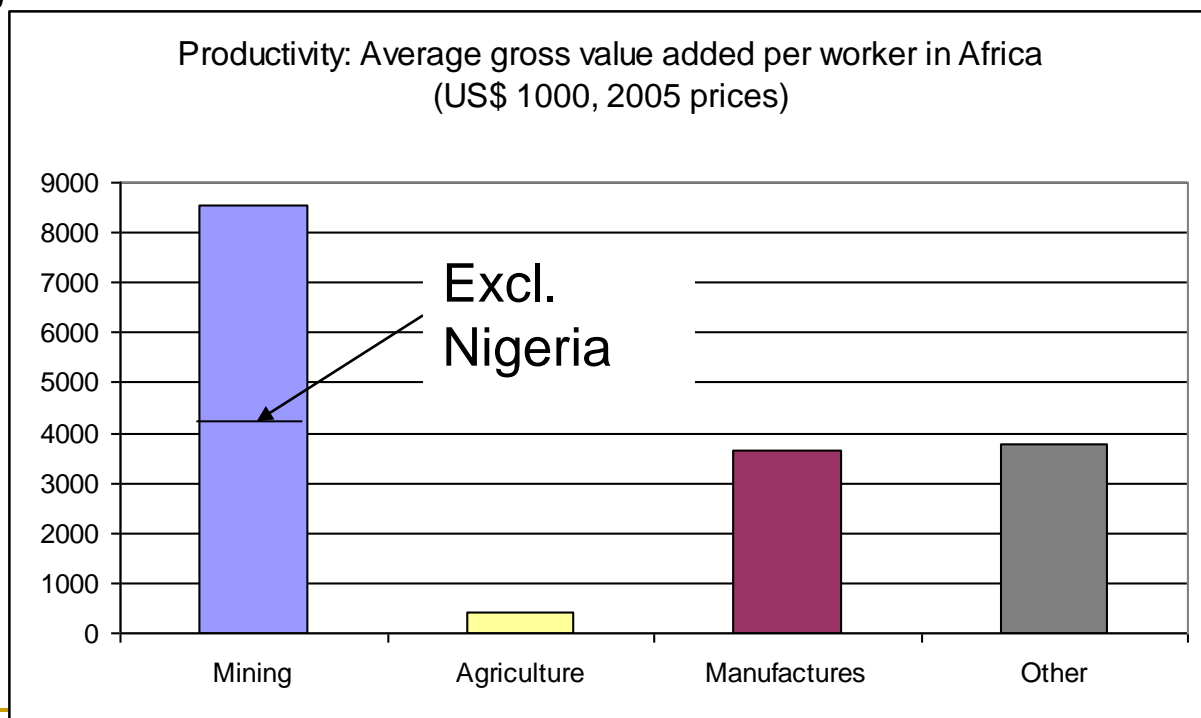
- Consensus: Commodity prices remain high, but moderate from earlier high levels
 - But can expect important relative price shifts in response to Chinese growth patterns that alter (i) relative gains across African countries, (ii) relative incentives to produce goods
 - Grain feeds vs. staple crops vs. cash crops vs. meat
 - Within manufactures: Resource based vs. labour-intensive
 - But in most cases, what matters most is domestic supply constraints
 - South Africa – Mineral rights
 - Swaziland – Land
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Challenge 2: Can Africa produce and export manufactures?– The cartoonist view



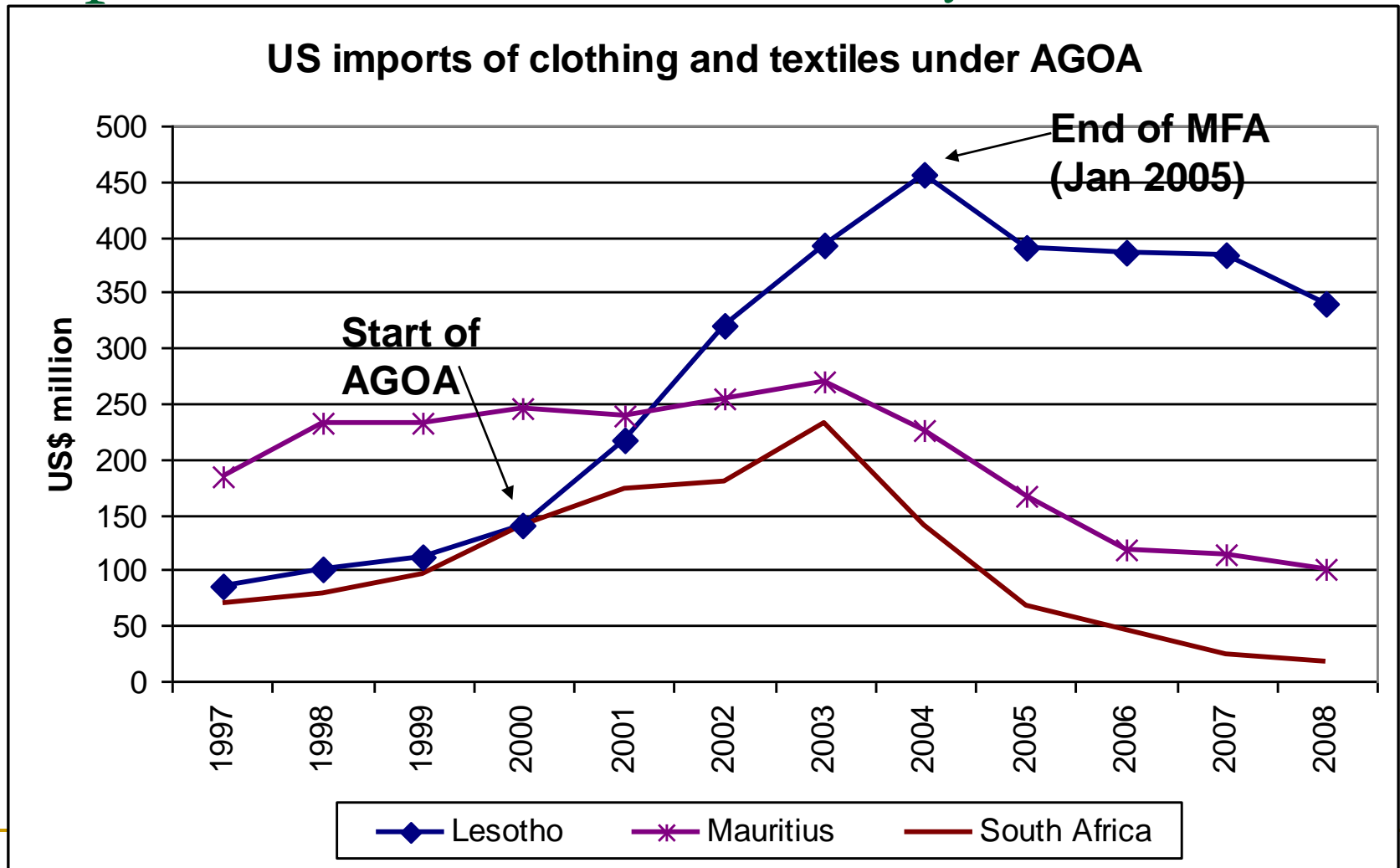
Can Africa produce and export manufactures?

- Structural change from agriculture to manufacturing an important source of productivity growth: McMillan, Rodrik & Verduzco-Gallo (2013)
- 50 percent of employment (in sample of 11 African countries) in Agriculture, 8 percent in manufacturing and less than 1 percent in Mining



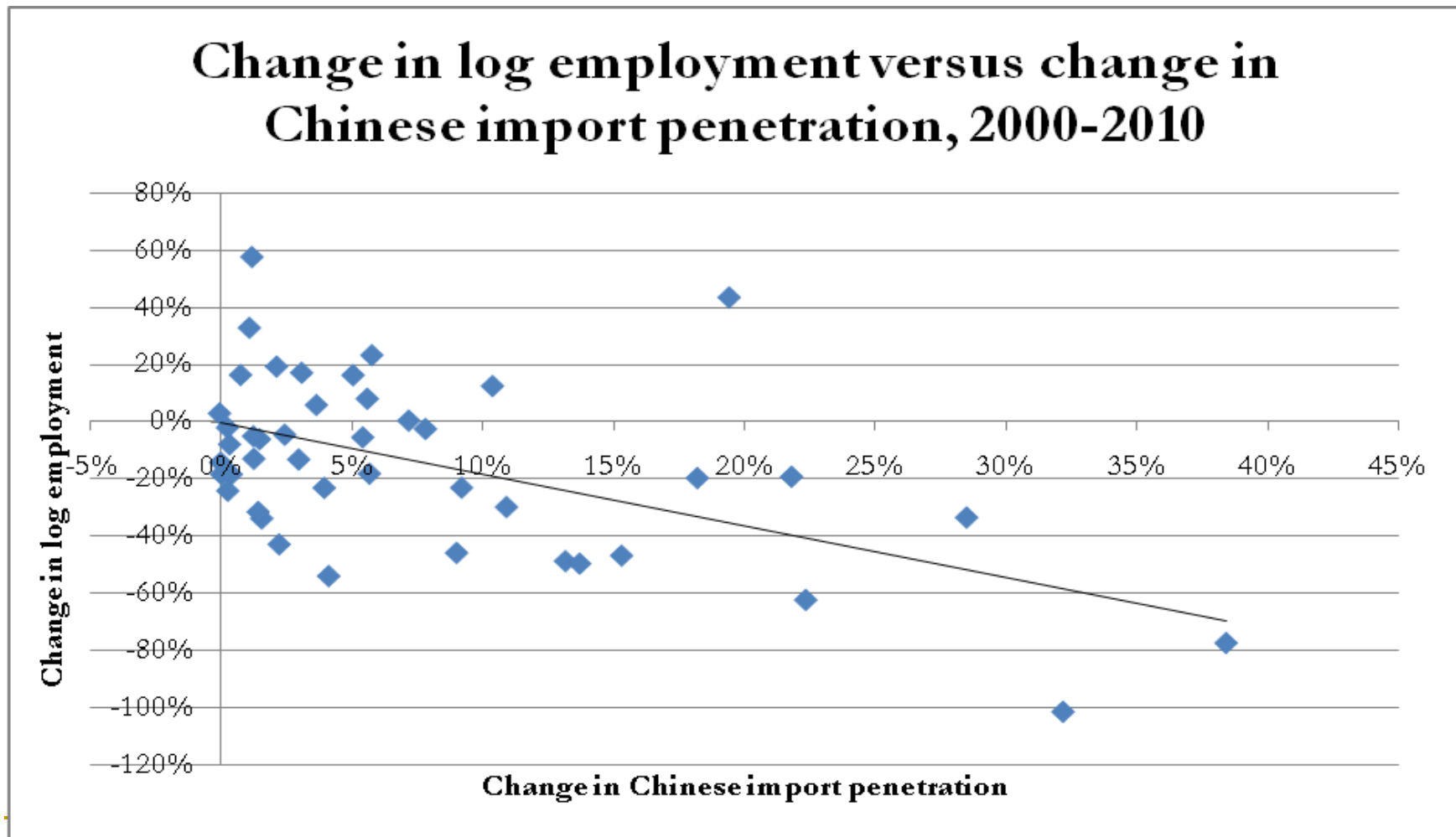
Source: Own construction using Groningen Growth and Development Centre Africa Sector Database, Output and Labour Data.
Simple average across 11 countries: Botswana, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Senegal, South Africa, Tanzania, Zambia

Challenge 2: Can Africa produce and export manufactures? – Story of Lesotho



Edwards and Lawrence (2010)

Challenge 2: Can Africa produce and export manufactures? – Case of SA



Edwards and Jenkins (2013a)

Quantifying the China's crowding out of SA manufactured exports in Africa, 1997-2010



Challenge 2: Can Africa produce and export manufactures? – Other points

- Trade agreements
 - African regional trade and production linkages inhibited by overlapping trade agreements and stringent rules of origin
 - No services agreement

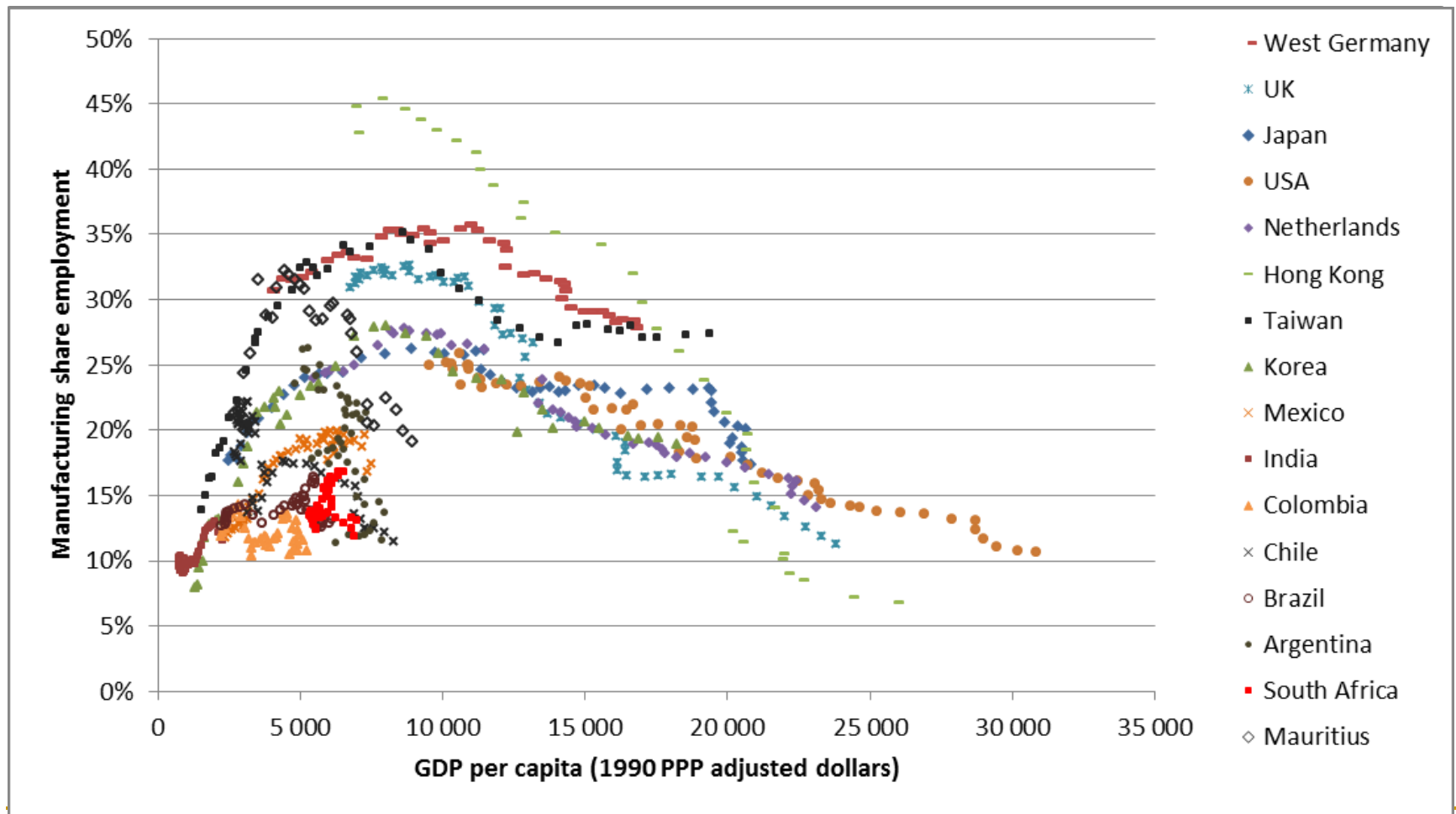
 - Defragmenting Africa :
 - Extremely high cross-border transaction costs.
 - US\$ 2100 to export container in Africa (US\$ 3700 for Zimbabwe, US 5400 for Central African Rep) vs. US\$ 620 in China.
 - 50 days to export from Congo, 54 days to import
 - Restrictive cabotage laws

 - High domestic input costs
 - 20% cost disadvantage compared to China in cost of inputs in light manufacturing (Wood, leather, apparel, metal and agribusiness products).
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Challenge 2: Can Africa produce and export manufactures? - Messages

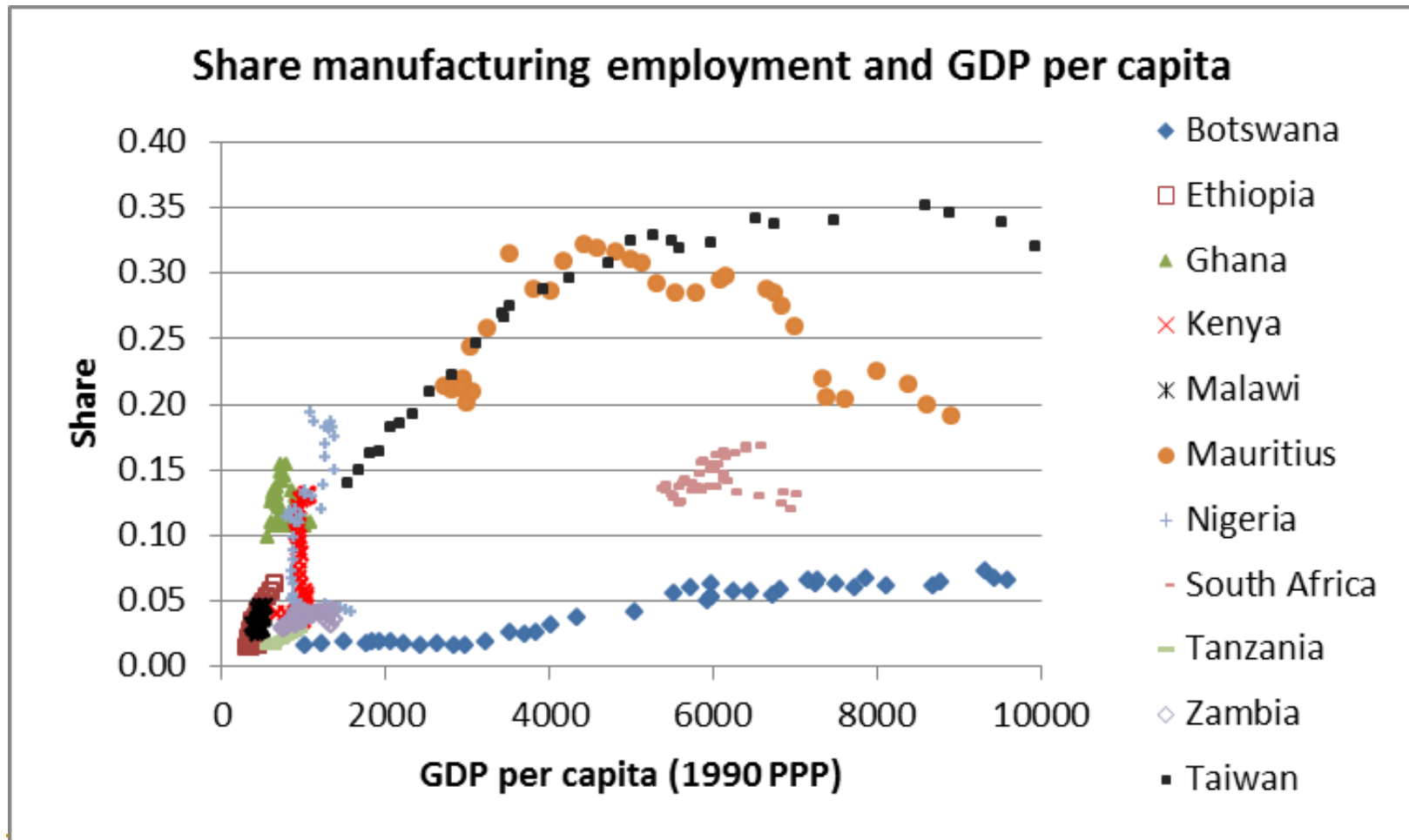
- Answer: It depends
- But in many African countries China complements this process
 - Access to cheap inputs
 - Chinese FDI and management skills
 - Link into global value chains
 - Preferential access for certain products
- And future growth path of China will provide further opportunities
 - Rising wages, Increases in consumption demand,
 - Infrastructure investment, Chinese outward FDI
- Domestic factors often primary constraint
- Challenges
 - Increased sophistication of exports a challenge for middle-income African economies such as South Africa.

Challenge 3: Structural relationship between development and manufacturing



Source: Own construction using Groningen Growth and Development Centre data

Slow growth and slow industrialization in low-income Africa



Concluding points

- Enormous heterogeneity across African countries implies very different responses to changing global environment
 - Important similarities with Latin America (remote, resource abundant, inequality, concentrated export structure)
 - But some distinctive differences:
 - Lower income levels in Africa
 - No industrial base: For Africa (apart from SA) Chinese growth affects “potential” for diversification into manufacturing. For Latin America and SA, China affects actual industrial base.
 - Changes in Chinese growth path creates opportunities and challenges
 - But, by and large, African growth and development problems are domestic in origin
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Background slides (in case I need
them for discussion purposes)

Challenge 2: Can mining create jobs?

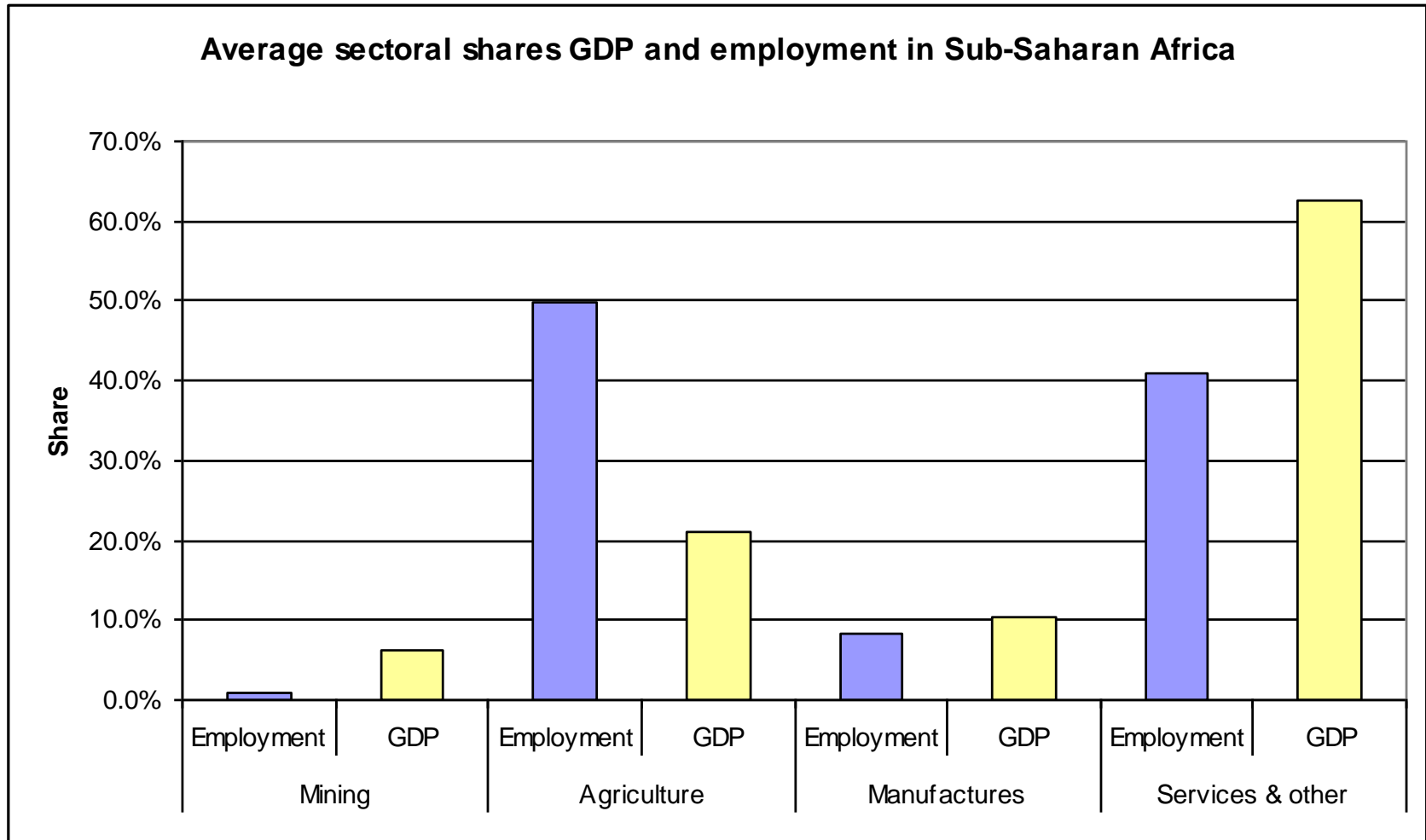
■ Resource curse

- Sachs & Warner (1997): Dutch disease, protectionist policies, political capture and war
- Lederman and Malony (2012): Excessive terms of trade volatility is problem

■ Enclave development of minerals

- Very few jobs associated within mining and gains concentrated (inequality)
 - Morris, Kaplinsky and Kaplan (2011): Trade-off between commodities and industries no longer justified
 - Rising TOT, Outsourcing and linkages
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Challenge 2: Can mining create jobs?



Source: Own construction using Groningen Growth and Development Centre Africa Sector Database, Output and Labour Data.
Simple average across 11 countries: Botswana, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Senegal, South Africa, Tanzania, Zambia

African growth surge

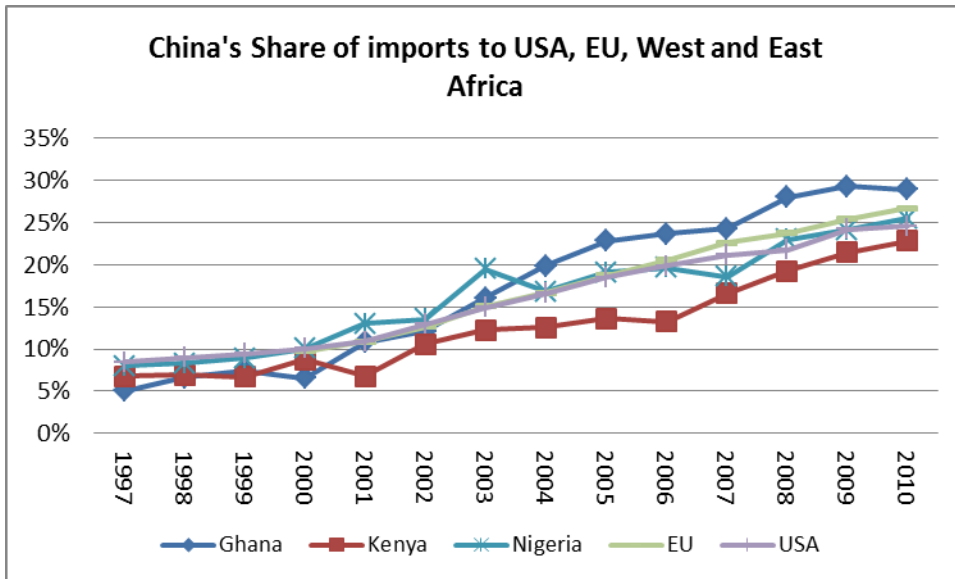
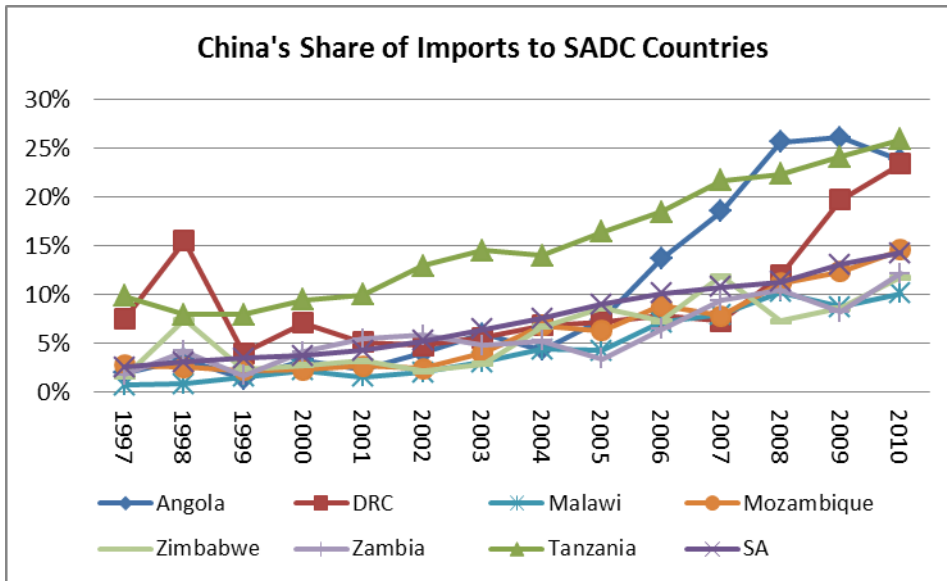
- *“Africa’s economic growth accelerated after 2000 making it the world’s third-fastest growing region”* (McKinsey Global Institute, 2010)
 - Driven by commodity price boom, but also more stable macroeconomic policy environment.
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With important differences in commodity-intensity of exports and concentration

Table: Clusters of African countries according to dominant export product (product share in brackets)

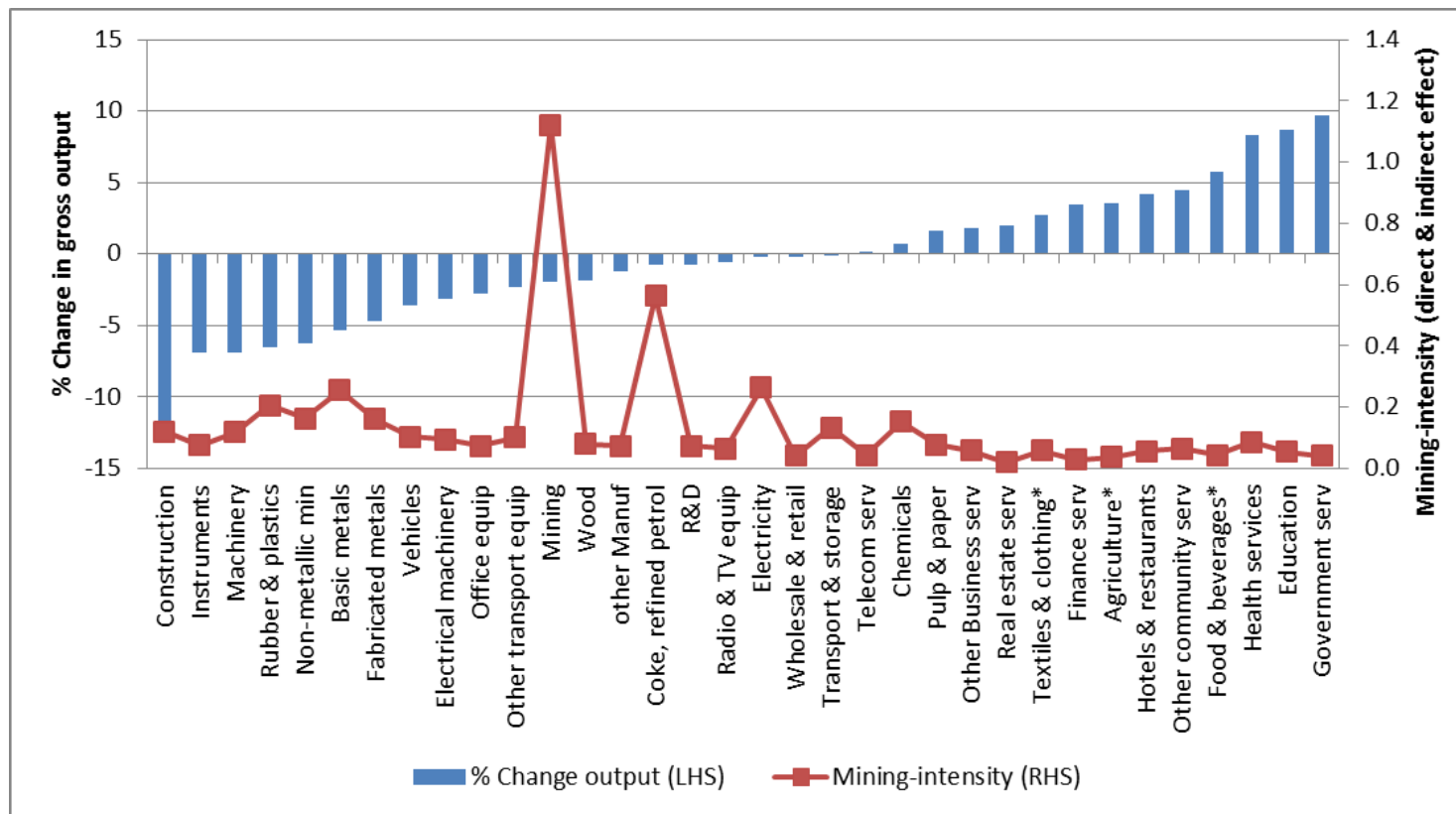
Agriculture	Fuel	Minerals	Manufactures
Benin (84%)	Cameroon (50%)	Burkina Faso (69%)	Botswana (79%)
Burundi (77%)	Congo, Rep. (68%)	CAR (58%)	Madagascar (48%)
Cape Verde (82%)	Fm Sudan (85%)	Ghana (64%)	Mauritius (60%)
Cote d'Ivoire (58%)	Nigeria (87%)	Mali (82%)	Namibia (44%)
Ethiopia (83%)	Angola	Mauritania (41%)	Senegal (36%)
Gambia, The (79%)	Equatorial Guinea	Mozambique (54%)	South Africa (46%)
Kenya (58%)		Niger (50%)	Togo (70%)
Malawi (80%)		Zambia (83%)	Zimbabwe (33%)
Rwanda (55%)			
Sao Tome and Principe (95%)			
Tanzania (30%)			
Uganda (74%)			

For nearly half of these countries, a single product (3-digit SITC) makes up 50% or more of exports



Changing commodity-intensity of Chinese growth

Figure 1: Changes in Chinese total demand associated with a US\$ 120 billion increase in Household and Government consumption financed through an equivalent reduction in Gross Domestic Capital Formation



Notes: Own calculations using Input-Output for China (late 2000s) obtained from OECD STAN database. The percent change in demand includes the direct and indirect effects as well as imports.

The
Economist

Manufacturing

The end of cheap China

What do soaring Chinese wages mean for global manufacturing?

Mar 10th 2012



Trade Policy: Case of Mercosur-SACU agreement

