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Can Sub-Saharan Africa escape from the Third-World?

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Development

The remarkable rise of the East Asian economies from poverty to industrialization has been an inspiring story of economic success over the last half century. During the period of 1965-1990, real per capita GDP in East Asia grew at 5.8% per year (Sachs and Warner, 338). In the process, millions of people were lifted from extreme poverty and were instilled with knowledge that has provided a lasting base of human capital. On the other hand, the world of Sub-Saharan Africa has fallen ever deeper in the shadow of the rising Asian economy.

While the rest of the world advanced at an average rate of 1.8% per year, the African economy lagged behind, achieving an annual growth of only 0.8% from 1965-1990. Year after year, Africa became ever poorer relative to the rest of the world. What caused this African exception to the Asian experience? Can these forces be countered? The challenging history of the African economy begs the question: Can Sub-Saharan Africa escape from the Third World?

The factors behind the disparate trajectories of East Asia and Sub-Saharan Africa are manifold and frequently interrelated. Nonetheless, the most significant can be distilled into three principal forces: Resource Abundance, Policy and Power Structure, and Geographic Conditions. Taken in combination, these forces have been deleterious to Sub-Saharan Africa's human capital. If the international community wishes to have a sustainable impact, it needs to develop a policy approach that addresses all three of the forces.

Resource Abundance

With its rich reserves of petroleum, timber, precious metals, and minerals, the African continent could theoretically sustain itself in a modern economy without needing to look externally for raw materials. However, in practice, the abundance of natural resources has been an economic hindrance, rather than a benefit. The East Asian economies, in contrast, had few natural resources to draw upon, so they turned instead to their most abundant reserves: human capital.

As East Asian governments promoted their tremendous labor forces, multinationals in developed countries recognized the opportunity for labor arbitrage in basic production. These companies established production centers in these developing countries, and initiated the win-win exchange that Henry Wan has dubbed the "Export Platform". Mirroring the production in the factories themselves, the world became a massive conveyor belt, sending foreign capital and technology to East Asia, and returning cheaper manufactured goods to the developed world. As the model matured, East Asian manufacturers received an ever-expanding stream of knowledge—advancing from textiles to electronics—and lifted these economies from impoverished to industrialized.

Where did Africa fit on Wan's Export Platform? It did not. Africa occupied a position outside of the beneficial transfer of knowledge, as both developed countries in the West and developing economies in East Asia used African resources to fuel their own growth. Extracting oil and panning for diamonds are low value-added activities, and therefore the learning curve for these exports is slight. Having received little new knowledge or technology, Sub-Saharan Africa did not progress from its position as the third leg of the "Economic Tripod".

Once Africa had begun to support the other two legs of the tripod, it became increasingly difficult to escape from its trade position. Indeed, economists have characterized the insidious effect of resource abundance on economies as the "Dutch Disease".

In the case of Africa, the "Dutch Disease" describes the paradoxical slow-down in economic growth due to booming exports in primary resources. The mechanics are simple. We begin by dividing the economy into three sectors: 1) the booming sector, for example, petroleum extraction; 2) the lagging export sector, which consists of other tradable goods; and 3) the non-tradable sector, which supplies domestic residents, and might include retail trade, services, and construction. In a country afflicted with Dutch Disease, the lagging export sector (2) is crowded out by the other two.

This phenomenon manifested across Sub-Saharan Africa, as countries focused on quick wins from resource extraction at the expense of trade in value-added sectors. This put African economies at a serious disadvantage, as it de-emphasized the very activities that had enhanced East Asia's human capital.

Research by Wood and Mayer illustrates the gravity of Sub-Saharan Africa's export imbalance; it has the lowest proportion of manufactured exports of any region in the world (Woods and Jörg, ssrn.org). However, perhaps the greatest tragedy is that the developed world's attempts to lift Africa from poverty have only made the situation worse. Several economists and foreign policy experts, including Bhagwati, Van Wijnbergen, and Haass, reason that direct foreign aid causes symptoms of Dutch

Disease. Hence, this phenomenon may even extend to poor African nations without abundant natural resources. This has important policy implications for the international community, since sending direct financial aid ignores the drivers of Africa's deprivation. Without first increasing its human capital and basic infrastructure, Africa cannot hope to escape from the vicious cycle of resource dependence.

Policy and Power Structure

If abundant resources were the catalyst for Africa's imbalanced position in the Export Tripod, then insular policies solidified its disadvantage in global trade. The regressions of Sachs and Warner reveal the importance of open trade policies. In a review of Africa's GDP movement from 1965-1990, the authors concluded that Openness, a measure of a country's involvement in global trade and investment, was the most critical determinant of economic success. In fact, they estimated that a one standard-deviation increase in openness was associated with a 0.9% increase in per capita GDP per year, which would have more than doubled the average growth rate of the continent over that 25-year period (Sachs and Warner, 341).

The benefits of open trade policies are numerous, as they encourage more efficient allocation of resources (partly reversing the impact of the Dutch Disease) and attract technology transfer from abroad. In light of these advantages, why have African countries resisted these policies for so long? One explanation may be historical. In the early 1960s, inward-oriented policies were a reaction against colonialism, as African leaders were afraid of exposing themselves to renewed foreign domination. Accordingly, Sachs and Warner confirmed that African countries with colonial pasts were more likely to have closed trade policies. Furthermore, they were skeptical of the primacy of free-market capitalism in the light of the ostensible success of the USSR and in the shadow of capitalism's apparent failure during the Great Depression. In many nations, misaligned policies were exacerbated by an insidious power structure characterized by corruption and in some cases, warlordism.

Corruption starves economies of capital resources needed to develop industry and infrastructure. To make matters worse, in certain Sub-Saharan nations, the power structure of warlords has rendered even existing infrastructure unusable. The diamond trade in Sierra Leone provides a telling illustration.

Warlords control the resource base, the transport routes, and the exchange points for marketing plundered diamonds, and as a result, farmers have great difficulties transporting their goods to sell on the market, where prices are already unfavorable. Consequently, many citizens have regressed to subsistence farming, which decreases the amount of locally cultivated food that is available to swelling urban populations. Hence, governments must deplete their supplies of foreign currency to pay for imports, leaving less funding to improve the infrastructure that might permit local farmers to move beyond subsistence. It is a vicious cycle that ultimately increases the power of violent warlords.

Geographic Conditions

Even if one were to exclude the negative impact of resource abundance, poor policy choices, and insidious power structures, Africa would still suffer from limitations that were not part of the East Asian experience. One such impediment is made glaringly clear from looking at a map of the continent. Over one third of the continent's population resides in countries that have no borders on the sea. Consequently, any manufactured goods would have to be transported by land to the nearest port, which is often located a significant distance away. Even if the increased transportation cost were very small, the low value-added goods that Africans could produce would be subject to extreme price competition, and could very easily be supplanted by similar products from Asian countries with direct access to sea routes.

Too Little, Too Late?

The combination of these three forces over the past half century has left Sub-Saharan Africa in a grave situation. The picture today is of an age-imbalanced demographic with low absorptive capacity surviving on subsistence farming or at best low value-added activities. After such a long period of economic reversion, some have questioned whether certain parts of the continent have lost all chances of recovery.

These economists declare that the absorptive capacity of some populations has dropped below a critical threshold; i.e. even if Africans were to receive new technology, they might be too destitute to use it. The success of learning depends on the ability to acquire, internalize and utilize knowledge developed elsewhere. Yaremye and Ziesemer argue in a paper for the UN University that some Sub-Saharan countries are below threshold levels for human capital and basic infrastructure. As Rati Ram puts it, "exports help only once a country has achieved some minimum level of development" (Ram, 417). In the rare cases that the government does finance infrastructure, it dedicates nearly all of the funding to resource extraction, and therefore hardly benefits other areas of the economy. Such an outlook is sobering, but it should not dissuade the international community from engaging full-force in helping to lift even the most impoverished parts of Africa from their current position. The approach must be multifaceted and the attitude pragmatic. There is no question that a revival of the African economy as a whole will take decades to achieve, but a concerted effort between the international community and African governments can initiate the first steps toward progress.

A Five-Pronged Approach

There is no silver bullet to transform Africa's exception into East Asia's experience. Rather, the solution will be more like silver buckshot, involving multiple initiatives to address the three forces and the linkages among them. The international community can support Africa in five ways:

1) Construct infrastructure: Building roads with indigenous labor would be doubly beneficial, as workers would gain from the remedial learning by doing of such construction, in addition to establishing transportation links to the global marketplace. By constructing effective transportation to sea borders, landlocked regions could make the first steps towards combating the geographic realities that they face.

2) Fund value-added sectors: Subsidizing industries outside of resource extraction drives capital towards the future, since manufacturing knowledge is more sustainable than diminishing petroleum reserves. The international community could incent local governments to redirect some profits away from resource extraction by offering additional subsidies in return for responsible spending. Examples of effective strategies can be found in Qatar, Chile, and Malaysia, all countries that have had success in managing resource wealth while spurring the growth of non-traditional exports.

3) Establish fair-trade policies: Subsidizing value-added sectors is only valuable if the goods can be sold on the international (or at least inter-African) market.

4) Advance Women's Education, Social Work, and Science: Sociologist Richard Cincotta has demonstrated that improving the legal, educational, and economic status of women has had compelling positive influence on social environments and cultural norms (Cincotta, 65). In addition to supporting improvements in education, the international community should play a role in facilitating access to reproductive health services for refugees, civilians in post-conflict environments, and all military personnel. Such initiatives can minimize unplanned pregnancies and the incidence of HIV among these groups. Finally, developed nations can contribute scientific research to mitigate the prevalence of tropical diseases.

5) Mediate conflicts: The international community should continue to play a role in mediating the political conflicts that often plague cross-border relations. Reducing tensions is crucial for ensuring that regions have access to as many markets as possible.

The progress that this policy bundle could bring would by no means be immediate. Moreover, it is important to recognize that some countries in Sub-Saharan Africa are closer to the threshold of economics progress than others. The more advanced African countries will have a critical role to play in supporting their neighbors. On one hand, they should role model best practices, and on the other, they should push to reverse the insular policies of the past through inter-African trade agreements. One can even imagine a trade-based transfer of knowledge at a regional scale.

As long as one recognizes that the pace of progress will not be as rapid as the East Asian experience, one can find sources of encouragement in the models of Sachs and Warner. They estimate that if Africa had followed fast-growth policies over the 25-year period they researched, it could have achieved per capita growth of 4.3% per year. While this is less than the spectacular 6% growth among the East Asian economies, at a rate of 4.3%, per capita incomes double every 16 years (Sachs and Warner, 370). With intelligent policies at the local and international level, we may yet see Sub-Saharan Africa lift itself from the Third World.

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