Africa’s Recent Growth Performance and Development Challenges

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For most of the period up to the mid-1990s, Africa’s growth performance was unimpressive, attracting characterizations as “a growth tragedy over the past three decades” (UNU/AERC 1998:10), and “a continent of missed growth opportunities” (UNCTAD 1998:115). Although, overall, economic growth rate improved slightly from the late 1990s into the early 21st century, average per capita GDP growth was still negative, at -0.5 per cent over the 1991–2000 period. The average economic growth rate over the 1993–2003 period was only 2.8 per cent. Generally, Africa’s economic growth performance in the 2000s marked a significant improvement over the 1990s decade. Table 1 shows the overall real GDP growth rates.

Table 1: Africa’s Real GDP Growth Rates, 2000–2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate (%)</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>3.5</td>
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<tr>
<td>2001</td>
<td>4.3</td>
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<tr>
<td>2002</td>
<td>3.2</td>
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<tr>
<td>2003</td>
<td>3.8</td>
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<tr>
<td>2004</td>
<td>5.2</td>
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<tr>
<td>2005</td>
<td>5.3</td>
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<tr>
<td>2006</td>
<td>5.7</td>
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<tr>
<td>2007</td>
<td>6.0</td>
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<tr>
<td>2008</td>
<td>5.1 (4.9)</td>
</tr>
<tr>
<td>2009</td>
<td>2.3 (1.6)</td>
</tr>
<tr>
<td>2010</td>
<td>4.7</td>
</tr>
</tbody>
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Note: The figures in brackets are alternative growth figures for 2008 and 2009 obtained from another edition of the UNECA Economic Report.

Source: UNCEA, Economic Report on Africa (Various Issues)

The economic recovery which began in the second half of the 1990s stretched into the early part of the 21st century and was sustained at much higher levels, particularly from 2004. The growth rate peaked at 6.0 per cent in 2007 before recession started in 2008 as a result of the global economic and financial crisis. The relatively high economic performance up to 2007 was driven by increased prices in primary commodities which constitute Africa’s key exports, given increased demand for these commodities, with strong emphasis on oil. Accordingly, growth was significant in oil, metal and mineral producing countries without diminishing the role of the agricultural sector which also generates key exports. Improvement in macroeconomic management in most African countries has also been cited as a factor of growth in recent times.

However, the growth performance varies substantially by region and status as oil exporter. For example, in 2009, growth in oil exporting African countries was 6.1 per cent while the growth rate achieved by the non-oil exporting African countries was 5.2 per cent. Besides the growth differences between oil and non-oil exporting African countries, the aggregate GDP growth rates hide important variations among the continent’s five sub-regions. In 2010, the growth rates of the sub-regions were as follows:

- East Africa – 6.8%
- West Africa – 6.0%
- North Africa – 4.7%
- Central Africa – 4.3%
- Southern Africa – 3.3%

Overall, the economic growth rate for Africa decelerated to 5.1 per cent in 2008 compared to 6.0 per cent in 2007. Nevertheless, despite the deceleration, growth could be said to have remained strong in that year in view of the global economic slowdown ignited by the global financial turmoil. The very high commodity prices up to the third quarter were instrumental to the growth. Indeed, despite the global slowdown, oil exporting African countries sustained a relatively high growth rate (5.9%) in 2008 because of the high oil prices. However, the lower average rate in Africa in 2008 is mainly due to the notable slowdown in GDP growth in oil importing countries, from 5 per cent in 2007 to 4.4 per cent in 2008 – due to increased energy and food costs, and also the effect of the financial crisis in the form of lower export demand and revenue.

The heaviest impact of the global economic turmoil on Africa’s economic growth was in 2009 when the growth rate slumped to 2.3 per cent compared to 5.1 per cent in 2008. In 2009, the second round effects of the shock unfolded in the form of weakened demand and lower prices for export of goods and services, decreased remittances and reduced private capital inflows to much of the continent. As economic activity weakened, so did employment in the majority of African countries. In the year 2010, however, Africa witnessed significant and strengthened recovery as prices of commodities and demand experienced rebound. The continent recorded an average growth rate of 4.7 per cent. The indication is that most African economies have recovered better than many other parts of the world, but they face uncertain sustainability and have narrow production and export structures (UNECA Economic Report on Africa, 2010).

Poor Social Development Outcomes

Very importantly, even though Africa recorded over 5.0 per cent GDP growth rate during most of the decade, these growth rates are insufficient to increase welfare and are very much below the 7 per cent required to have a significant dent on poverty or achieve the Millennium Development Goals. At current growth rates, only few African countries are positioned to achieve the MDGs by 2015. Indeed, the relatively strong economic performances since the turn of the 21st century have not resulted in satisfactory social development outcomes. Poverty rates
have remained high in sub-Saharan Africa and the notable growth spells have not transformed into solid employment creation which is one of the most important means to reduce poverty. While in the rest of the world, national economic policy packages aimed at promoting economic efficiency and improved resource allocation have yielded positive results in terms of enhanced economic growth which has, in turn, generated significant poverty reduction, Africa has not experienced similar positive development. It has the highest poverty incidence among the sub-regions of the world – 46.8 per cent in 1990 – but managed to reduce it to 41.1 per cent in 2004, having achieved the lowest rate of reduction (12.2%) over the period, 1990–2004. Africa’s unemployment remains high. Its economic rebound since the 2000s is yet to translate into meaningful reductions in unemployment, especially among the youths and vulnerable groups. On average, 21 per cent of African youths are openly unemployed, a rate over three times higher than adults. National youth unemployment rates of more than 30 per cent are not uncommon. When there are no opportunities to earn a living, intergenerational cycles of poverty will persist. In recent years, the combination of steep unemployment and rising food prices has engendered political unrest in some African countries such as Algeria, Egypt, Tunisia and Libya.

UNECA (2010) considers the low employment content and poor social outcomes of Africa’s growth as the result of lack of meaningful economic diversification and continued heavy dependence on commodity production and exports.

**Subsisting Development Challenges**

In light of the foregoing, it is clear that several daunting growth-related and other challenges remain:

- How to accelerate growth and promote structural transformation, achieve high and sustained economic growth rates, increase productivity and employment, reduce and break the vicious cycle of poverty, as well as reduce widening inequalities. Although, in the first decade of the 2000s, average growth rates improved for the continent and some countries, there are still concerns about growth without commensurate employment generation, poverty reduction and equity;

- How to significantly raise domestic savings and investment to provide a secure basis for sustained growth and hence remove the stigma of Africa having the lowest savings and investment rates among the regions of the world;

- How to take control of the domestic policy process and readjust the economies (away from the present maladjusted states) along the path of sustained growth and development;

- How to create a stable and conducive environment that encourages investment. For a long time, Africa has had difficulties in attracting private capital inflows with the consequence that it has had to rely on Official Development Assistance (ODA) which has not been stable;

- How to achieve environmental sustainability in view of substantial degradation, in a number of African countries, and its consequences;

- How to effectively combat the HIV/AIDS pandemic in view of devastating economic and social consequences;

- How to cope with energy price shocks, especially petroleum, by net oil importers. While negative oil shocks (fall in price) may have beneficial effects on the majority of African economies, as net oil importers, positive shocks, reflected in price increases, have tended to have very serious macroeconomic consequences in terms of output, higher unemployment and higher inflation, among others;

- How to cope with the global economic recession and its implications. The global economic and financial crises have had varying macroeconomic and sectoral impacts on African economies, and the impacts have posed significant challenges to economic management;

- How to handle issues of peace, security and good governance. Achieving lasting peace and security as well as good governance has continued to elude most African countries.

**Major Issues**

**Global Economic and Financial Crises and African Economies**

The latest financial crisis which metamorphosed into a global economic crisis, began in July 2007, resulting from rapid risky debt accumulation and a loss of confidence by investors in the sub-prime mortgage market in the United States. A liquidity crisis ensued and confidence in the value of securitized mortgages which had become popular plummeted. In September, 2008, the crisis deepened as stock markets worldwide crashed and entered a period of high volatility, and a considerable number of banks, mortgage lenders and insurance companies failed in the following weeks. Although the crisis derived from a credit crunch in the United States, it spread to both developed and developing countries through trade and financial linkages. The implications have tended to be the same in the economies affected by the crises, namely:

- Economic recession, losses of output, increased unemployment and poverty;

- Reduced capital inflow, including aid, and increased capital flight;

- Exchange rate and balance of payments crisis and large fiscal costs related to resolving the crisis;

- Embracing of Keynesian economic strategies and policies by both developed capitalist economies and emerging economies as well as the poor ones, including African countries.

In particular, African economies, as a result of their relative openness and linkage to the global economy through international trade and finance, have experienced adverse impacts, especially in relation to macroeconomic performances, government finances and fiscal operations, financial sector and real sector. It is important to examine the impact of the crisis on African economies and the implications of the consequent responses for shifts in development paradigms.

**Commodity Price Shocks and African Economies**

Energy is a critical input in the production and distribution of goods and services, and crude oil constitutes the main source of energy that drives the wheel of production of goods and services. Over
the years, oil has acquired great significance in world industrial production. Most African countries depend on imports of crude oil to meet their domestic energy needs. Consequently, oil price shocks have manifested in both price falls and increases. For most of the time, in the 2000s, the global economy has had to grapple with the phenomenon of high and persistently rising prices. The oil price which oscillated between US$ 17.0 and US$ 26.0 per barrel at different times in 2002, rose to US$ 40.0 per barrel in 2004 and to a high of US$ 70.85 per barrel in August, 2005. The price fell slightly in December 2005, but resumed its upward trend in early 2006 and recorded another high mark of US$78.4 per barrel on July 14 of that year. Between this date and November 2007, oil price had fluctuated significantly and hit the US$98.0 mark in November 2007. As at April 2008, oil prices trended towards the US$120.0 mark and, in July of that year, oil price got to the peak of US$147.0 per barrel. Thereafter, the effect of the global economic recession on oil prices began to manifest such that by the end of 2008, crude oil price was less than US$40.0 per barrel. However, crude oil prices picked up from early 2009 and are currently hovering around US$115.0 per barrel. The current oil price levels are causing serious concerns, especially to the net oil importers. Only a few African countries, for example, Nigeria, Libya, Gabon and Angola, are oil exporters. Even then, because of very weak domestic refining capacity, Nigeria imports most of its refined petroleum products. Oil price hikes can be very destabilizing to the macro-economy, causing fundamental disequilibria. For the net oil importers, rising oil prices have a stagflationary effect on their economies, transfer of income from them to oil exporters, and adverse effect on the balance of payments, among others. Although the oil exporting African countries benefit from oil price hikes, they are not immune to the Dutch disease phenomenon. Thus, in light of the macro- and microeconomic implications of oil price shocks for the economies of the net oil importing countries of Africa, it is important to conduct empirical investigation of the impacts on the economies and come up with appropriate policy responses.

Trade Policy, Industrialization and Poverty

This theme is considered in the context of globalization which is characterized by liberalization, trade and capital flows, migration and technological progress, and described as bringing prosperity to the world and reducing inequality. The potential power of trade through globalization has been stressed by the Bretton Woods institutions. It has also been acknowledged by the Monterrey Consensus (2003) which characterized “International trade as an engine of development and affirmed that “a universal rule-based open, non-discriminatory and equitable multilateral trading system, as well as meaningful liberalization, can substantially stimulate development worldwide benefiting countries at all stages of development”. It is stressed that the exports of developing countries as a whole have grown robustly, outpacing the growth of world exports. But many developing countries have not participated in this trade boom. And about 2 billion people in these countries, many of them in Africa, are not participating meaningfully in globalization. Yet, many of these developing countries have undertaken rapid and big bang trade liberalization. As UNCTAD (2004:179) has shown, using the IMF’s index of trade restrictiveness, the least developed countries subgroup (which has over 30 African countries) of the developing countries have undertaken greater trade liberalization than other developing countries. Using the Sachs-Warner index of openness, all the LDCs are now ‘open’. Only a few developing countries, particularly in East Asia, were able to benefit from the trade flows in dynamic categories of exports.

Thus, there has been an extensive debate on the economic rationale for trade liberalization. The rationale is commonly based on the view that liberalization would lead to more efficient use and allocation of resources. And the move towards a more open economy is expected to enhance the medium-term growth prospects of the developing countries and hence reduce poverty and inequality. Some empirical evidence, though challenged on both theoretical and empirical grounds, has been produced to show that countries with more open trade regimes grew faster than those that were more inward-oriented (Dollar and Kraay 2001a and 2001b). But UNCTAD (1989) has shown, from the experiences of many developing countries with successful export performance, that a high degree of import liberalization is neither necessary nor sufficient for export expansion. Besides, what has tended to occur is de-industrialization in many LDCs. UNCTAD’s Least Developed Countries’ Report, 2004, observed that “rapid and deep liberalization has been associated with de-industrialization as import-substitution industries collapse when they are exposed to international competition without any prior preparation”. But the above have not derived from in-depth and systematic empirical analysis. Also, whereas the relationship between trade and development has been an important issue for over five decades, it is only recently that the subject of trade and poverty has become an issue of intense interest (UNCTAD 2004: 68). But the empirical evidence is not settled, and the situation in sub-Saharan Africa that has been found to be very open requires in-depth investigation. In other words, it will be interesting to know what in-depth research will show about the relationship between trade and poverty/ inequalities in open SSA countries during and after the liberalization era.

Savings, Investment and Economic Growth

Economic development theories recognize a close inter-relationship among savings, investment and growth. Rapid growth raises the savings rate which, in turn, releases resources that are necessary for growth through higher investment. However, even though increases in savings, investment and economic growth (and reductions in poverty) have tended to go together in the developing world, the casual links among the variables are less clear. Nevertheless, it remains generally accepted that increasing savings and ensuring that they are channelled to productive investment are central to accelerating economic growth, notwithstanding the reservations of the neoclassical theorists of the 1960s and 1970s and those of the new endogenous growth theorists of the late 1980s/early 1990s on investment. The United Nations Economic Commission for Africa in its Economic Report for Africa (2003) expressed concerns about low savings and investment rates and how to get the trinity right in Africa — more savings, investment and higher growth. Sub-Saharan Africa remains not only the poorest among the regions in the world, but also...
the region having the lowest savings and investment rates and growth performance (until in recent years when growth rates improved). For the region as a whole, savings, investment and growth rates had declined between the 1970s and 1980s and declined further in the 1990–2002 period. Low savings and investment rates explain Africa’s overall growth record, although the role of investment productivity has also been called to question. In other words, there are a number of issues that require further empirical investigation. These relate to the role of investment in the growth process, the productivity of investment in Africa, the productivity of public and private investment, role of investment climate in investment performance, etc.

Development Finance and Aid Effectiveness

The mobilization of adequate resources to finance public expenditure programmes remains a crucial challenge for developing countries, especially the poor countries. The Monterrey Consensus of the International Conference on Financing for Development, March 2002, observed that in the pursuit of growth, poverty eradication and sustainable development, a critical challenge is to ensure the necessary internal conditions for mobilizing domestic savings, both public and private, sustaining adequate levels of productive investment, and increasing human capacity. Even though references are frequently made to Africa’s abundant resources, the continent has not been able to meet the challenges of effectively mobilizing these resources to actualize the goals of growth. Consequently, as the NEPAD document has acknowledged, foreign borrowing and aid have underlined the logic of Africa’s development with all the attendant problems that have become very well known — external debt burden through loans mismanagement, declining and unreliable ODA, and issues of aid effectiveness. The United Nations had expressed deep dissatisfaction with the performance of the developed countries under the ODA target of 0.7 per cent of the GNP of their countries set in the 1960s. The ratio realized had declined from 0.53 per cent during the early 1960s to 0.32 per cent during 1970–73 and to 0.21 per cent at the beginning of the 21st century. Thus, we know from lessons of history that domestic resources are central to any sustained development efforts. In the absence of well-organized and locally controlled money markets, fiscal measures (principally government tax policies) can be relied upon to mobilize domestic resources. But many African countries have not been able to mobilize significant amounts of revenue through taxation, unlike modern economies where taxes are the most important sources of government revenue. SSA countries have extremely narrow tax bases and weak tax collecting capacity. Because of low tax effort, recourse is often made to internal debt, deficit financing and aid. Deficit financing tends to be inflationary and can lead to an unstable economy, especially where it is not used to finance economic development. Thus, while the experience of Africa suggests the need for less faith in foreign sources of financing, a number of issues need to be empirically investigated in relation to domestic sources of financing, specifically taxation and deficit financing. It will also be important to have insights into the use and productivity of foreign loans and aid.

The Political Economy of Privatization

Privatization of state-owned enterprises, as an economic policy instrument, began to gain popularity in both developed and developing countries after the apparently successful privatization experiments of the British conservative government in the late 1970s. However, in the 1980s, privatization became an integral part of the policy package, which was later christened the “Washington Consensus” model of economic development. Since the late 1980s, privatization, as a major instrument of economic reform, has been stepped up in almost all African countries. After about two decades of vigorous implementation of privatization programs in Africa, with the tempo further heightened in recent years with the privatization of large-scale public enterprises in various sectors, the need has arisen for a comprehensive and systematic analysis of various privatization issues, particularly, the economic and social impacts.

Although so many claims have been made by advocates on behalf of privatization, empirical knowledge of the impact of privatization in Africa is so far very limited, unlike other developing regions and the industrial countries. Nellis (2003) confirms this to the effect that “Rigorous assessments of privatization are increasingly available in Latin America, transition economies, OECD and Asian countries. Such studies are relatively rare in Africa”. Obadan (2008), in his state-of-the-art review of privatization issues in Africa concludes that the few studies on privatization in Africa that have appeared are highly descriptive/qualitative. It is, perhaps, against this background, or none at all, that policy makers have made pronouncements on the success or otherwise of privatization exercises on the continent. Recently in Nigeria, President Goodluck Jonathan, while inaugurating the Nigerian Council on Privatization, expressed serious concerns about the apparent lack of success of privatized enterprises. Most of the privatized enterprises appear not to have lived up to expectations. Such conclusions need to derive from serious case studies of privatization. Thus, there is a clear need for a comprehensive and systematic empirical analysis of the impact of privatization in Africa, in terms of case studies on different aspects. In other words, such studies would have multi-country (comparative) and case study components, and employ rigorous analytical techniques.

Economic Growth, Poverty and Inequality, and Employment

The relationship among economic growth, poverty and inequality is complex and interdependent. For example, inequality is an intervening variable between growth and poverty. Poverty reduction depends on both economic growth and inequality; this relationship is such that while economic growth helps poverty reduction, inequality harms it (UNDP 2010). This is probably why there are often cases of countries achieving respectable economic growth rates without significant reduction in poverty, because inequality was high or rising. Not only does inequality inhibit economic growth, it also contributes to high levels of poverty, in that, for a given level of mean income, higher inequality implies higher poverty as smaller resources are obtained by those in the lowest deciles or quintiles of the population. Also, lower level of poverty reduction may be achieved if higher initial inequality results in lower subsequent growth. Thus, the absence of one-to-one correlation between growth and poverty reduction is due to the intervening influence of inequality and its determinants as well as those factors through which growth can
positively impact poverty, such as employment. Inequality remained high and even increased in much of the developing world over the 1970–2000 period. But then, Africa experienced one of the highest levels of inequality, which rose from 0.649 in 1970 to 0.668 in 2000. It has been observed that countries with high inequality are unlikely to halve extreme poverty by 2015 (UNDP 2003).

A major issue of concern in Africa’s recent growth experience is the issue of jobless growth and economic performance. The observed improvements in growth performance have not been accompanied by meaningful job creation. The employment-to-poverty ratio has largely stagnated since 1991 (UNECA 2010). West Africa has even registered a decline in the employment-to-output ratio over the last decade as aggregate output is heavily dependent on extractive industries. In Nigeria, for example, over the 2000–2007 period, employment growth rate failed to keep pace with expansion in economic activity in the key sectors overall (UNDP 2010). The phenomenon of output growth being faster than employment in all the years, in addition to low poverty elasticity of growth, largely explains the coexistence of high poverty incidence in spite of the relatively high growth rates recorded.

Given the significance of the relationship among growth, poverty and inequality, and employment, and the subsisting concerns about jobless growth, high poverty incidence, rising inequality and growing unemployment, empirical research on the issues cannot be too much, particularly individual country studies.

Liberal / Post-liberal Development Strategies and Policies

One of the objectives of the Economic Research Program noted earlier is to “encourage a critical appraisal of conventional theories and paradigms that are advocated by the Bretton Woods Institutions and most Western countries”. These theories and paradigms were fully embraced in an unrestrained manner by African countries from the 1980s through the widespread implementation of the Bretton Woods Institutions’ structural adjustment programs (SAPs). Through the programs, the SSA economies became very open, having undertaken widespread and rapid trade liberalization.

The neoliberal foundation of the adjustment programs has shaped policy making in the continent, resulting in significant transformation of the policy landscape to reflect the “Washington Consensus” model. This model stresses the market approach, private sector as the engine of development, minimal or no government, liberalization of economic activities, and privatization of state-owned enterprises, among others. While the adoption of SAPs has resulted in alienation of ownership in policy making, the promises of liberalization and openness have not yet materialized. Indeed, the recent global economic and financial crisis, which began in 2007 and stretched to 2009, has not only stressed and strained the world capitalist system, it has also threatened the foundation of the system. The crises have shown that the free market system is highly vulnerable to serious crises and that markets cannot be left on their own while government has a significant and necessary role in the management of a market economy. The crises showed the hollowness of the neoliberal theory which assigns little or no role to the state in development.

Essentially, the uninspiring economic and social performance in Africa is a clear indictment of the economic and social policies implemented within the framework of adjustment programs. A critical review of these policies and the proposing of alternative development models and policies are thus compelling.

Economic Structures, Shocks and Economic Performance

One of the subsisting concerns about Africa’s economy is its undiversified structure and narrow base. For a long time, the continent has depended heavily on primary commodities and this remains a common feature of production, exports and growth in all the sub-regions. This heavy dependence exposes the continent to external shocks as the economies are subjected to booms and busts which pose significant challenges to economic management. Besides external shocks, African economies have at different times been buffeted by other types of shocks originating from the supply or demand sides or taking the form of energy shocks, food supply shocks, drought, political violence, accidents or disasters, etc. For example, most developing countries are prone to supply shocks owing to their high dependence on agriculture and imported energy. Also of significance are the macroeconomic policy shocks arising from the sudden or unpredictable implementation of fiscal and monetary policies, for example. Following the eruption of the recent global financial and economic crisis, fiscal and monetary policies acquired heightened significance in economic management. Since 2010, Africa has begun to experience a strong recovery from the crisis. Part of the economic revival has been attributed to continued supportive fiscal and monetary policies. Relatively robust public spending buoyed growth, but also widened fiscal deficits. As the UNECA Economic Report for Africa, 2010, has observed, the expansionary fiscal and monetary policies and widening fiscal and current account deficits occurred as African governments felt compelled to mitigate the economic and social effects of the global economic crisis.

Rigorous empirical policy research is thus necessary to provide insights into the linkages between economic structures, shocks and economic performance. It is crucial to provide a basis for effective policies for structural transformation, employment generation, poverty reduction and food security as well as address shocks.

Conclusion

This article has highlighted some issues for economic research in Africa today. It has tried to take cognizance of the past initiatives of CODESRIA and other international organizations at promoting organized research to enhance debates and dialogues on Africa’s development. Very importantly, the article takes cognizance of Africa’s economic performance and subsisting development challenges. Accordingly, it first reviewed briefly Africa’s recent economic performance and subsisting development challenges and then suggested some new research themes.

Note

1. This article was first presented as ‘Africa’s Recent Economic Performance and Subsisting Challenges’, A background paper for the CODESRIA Planning Meeting on its Economic Research Program in Dakar, 29 – 30 September, 2011.
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