

AFRICA AT A CROSSROAD: WILL GHANA SHOW THE WAY?

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Africa has been experiencing an economic boom over the last five years. Such high growth rates have not been seen across Africa for four decades. Economic growth has averaged over 5%, and has been much higher in oil exporting countries. Even the conflict-ridden countries on the continent have begun to do better. Some argue that Africa is at a crossroad: there is a new economic renaissance afoot. Others maintain that these good times are fragile; that the high commodity prices, driven by high growth in the US and China, may, as they always have in the past, be reversed. African countries will therefore again see a growth acceleration followed by deceleration.

Ghana is, rightly or wrongly, seen as one of the leading indicators for the rest of Africa. Ghana turned 50 this year. The celebrations in March recalled emotional scenes from 1957. Throughout Ghana, many of Ghana's own daughters and sons welcomed our achievements. Others, casting an eye on comparable countries such as Malaysia, South Korea, Botswana and Mauritius, lamented what might have been. In much of Africa, Ghana's 50th anniversary was acknowledged as of continental significance, a period of reflection: what would the future bring for Africa? would this be foretold by Ghana's experience? will the future bring a continuation of the high growth of the last five years? Given Ghana's current chairmanship and the historical role played by Nkrumah in the AU, would Ghana play a regional and continental role in groupings like ECOWAS, and in the AU to help lead African growth and an improvement in the lives of Africans?

In this article, we address three questions on how to sustain African growth, using Ghana as a focal point: (I) how has growth in Africa fared over the last 50 years, and what lessons can be drawn for countries like Ghana? (II) what lessons does international experience imply for Africa in general and Ghana in particular? Finally (III) what role must countries like Ghana play in the ECOWAS and AU context?

(I) Growth in Africa: Lessons from the last 50 years

Recent research (*Ndulu, Arbache-Page*) on growth in African countries in the last 50 years is illuminating in three ways. *First*, African growth has been low. As is well known, the African growth story compares unfavorably with that of other developing countries. Between 1975 and 1995, all regions in the world except Africa improved incomes. Even South Asia, with its large number of poor people, made impressive strides. And, of course, in East Asia, the word "miracle" has been used to capture their unprecedented growth performance. During this same period, African incomes declined. Since 1995, African growth has improved, with income per capita growing at 1.8 per

cent. Despite this favorable recent trend, by 2005, income per person in Africa had not yet recovered to the levels observed in the mid-1970s. There was also much variation across countries: a few had high growth, such as Botswana and Mauritius; many registered modest growth, such as Ghana; and others—such as the DRC, Cote d'Ivoire, and Zimbabwe—registered declining incomes. In contrast, growth in all other regions was positive throughout the post-1995 period.

Second, a closer look at Africa's low growth unmasks a strong "stop-go" pattern. The period has been made up of episodes of growth accelerations and decelerations, or by periods of good times followed by bad times. There was a slightly higher tendency for good than for bad times. This explains the region-wide average growth of 0.7% between 1975 and 2005. Underlying this was an average growth rate of 3.6% during the good times, and negative 2.7% during the bad times. What is noteworthy is that had Africa avoided the bad times, average incomes would have grown by at least 30% more: growth would have been 1.7% rather than 0.7%. Further, accelerations have been more common between 1995 and 2005, and decelerations between 1975 and 1995. This lends credence to the suggestion that something different has been happening in Africa over the last decade.

Third, this "stop-go" pattern has had negative economic and social costs. Growth accelerations tend to be associated with higher savings and investments, and hence are more likely to meet an essential condition for further growth. Foreign direct investments are six times as high during accelerations. The "stop-go" pattern harms social indicators. Life expectancy, infant and under 5 mortality, and the primary enrolment rate are all substantially unfavorable during decelerations. Significantly, during growth accelerations the positive impact on social indicators is much smaller than the negative impact during decelerations. Over time, then, social indicators have tended to stagnate or in some cases decline.

The upshot of this retrospective on African growth is two-fold: *Africa must take advantage of the recent resurgence of growth since 1995 to increase its long term growth performance. Further, it must do everything possible to prevent growth collapses.* Such collapses are often due to external shocks i.e. sudden changes in commodity prices or international recessions with their multiple effects. The challenge for African countries is that they need to manage such shocks better than in the past. Countries can learn to manage shocks better as is clear from comparing the traumatic 1997 East Asian crisis with the minor effect of the current US credit crisis on East Asia.

The implications for Ghana are identical: *find ways to keep the favorable growth of the last few years robust, and prepare in advance to manage any external shocks that may hit.* External shocks are part of a global economy, it is never a question of whether they will hit or not, it is just a matter of when. We therefore need to build defenses against them, well in advance. In this regard, it is commendable that the 2008 budget states an intention to enact a Fiscal Responsibility law and to set up a Stabilization Fund. Both are important instruments in the management of shocks.

(II) Successful Growth: Lessons from International Experience for Africa and for Ghana

Since maintaining high growth is an essential part of Africa's long term strategy, it is useful to ask: what advice emanates from the experience of successful developing countries, and from global thinking on Africa? At the risk of oversimplifying, there are three messages: (a) *each country needs to follow a few broad principles*; (b) *each country also needs to discover its country-specific growth journey*; and (c) *African countries face special challenges that require a complementary global effort*.

Recent reviews of the successful growth experiences of countries such as China, India, Botswana, Mauritius, Chile, etc (*Rodrik-Hausman, World Bank*) have helped establish both the common principles and the country-specific fundamentals underlying their superior performance. The key lesson here is: *there is no "one-size-fits-all" but it is also not true that "anything goes"*; *certain common principles must still be adhered to*. Or, as *Rodrik's recent book's title puts it: "One Economics, Many Recipes"*

(a) The *common principles* that each country must stress are: (i) **macro**--stable macro economic management, as measured especially by inflation (ii) **global**--taking aggressive advantage of the opportunities provided by global trade, investments and technology; and (iii) **state discretion**--interweaving a strong use of markets with a judicious use of public instruments which are effective in the country's institutional context.

(b) The *country-specific dimensions* arise because countries need to identify and work on their most binding constraints sequentially over time. Growth involves deep changes and innovations. But it is impossible for a country to change everything in one step. Hence, it is necessary, as successful countries have demonstrated, to work on the most binding constraints first, deal with those, and then move to the next set of binding constraints, etc. The success of countries like China, India, Malaysia, etc is replete with examples of this kind of successive attack on selected problems. For example, China, Chile, India and Malaysia continue to retain controls on capital inflows, because of their relatively fragile financial systems, but it is expected that some day these controls will be lifted. Country-specific approaches also come about in the ways in which countries choose to trade and invest. Thus, China today is the manufacturing centre for the global economy, while India has focused on services (especially software and outsourcing) and more recently is becoming a major exporter of foreign direct investment in sectors in which it has deep experience such as steel. In general, the agenda for tackling binding constraints is often focused on sectors such as energy, transport, finance, training, logistics, etc., and addressing their problems takes careful diagnosis and very effective implementation.

(c) Finally there is a general consensus on the need for additional global efforts to support Africa's own efforts to break out of its historical poverty quagmire (*Sachs, Africa Commission Report, UN, African Development Bank, World Bank, UN IPCC*). The scale and scope of such additional global efforts are debated, but not their need. Thus, Sachs has argued that the depth of poverty and some of the geographic constraints on many

African countries require a special aid effort to help meet the Millennium Development Goals by 2015 or as close to that as possible. Easterly does not dispute that aid can be helpful, but is dismissive of the results achieved by current aid efforts, emphasizing instead, examples of successful self-help efforts that are easy to spot on the continent. Collier has recently argued that the world's Bottom Billion, many residing in African countries, need a special deal not just on aid but also on trade. He argues for trade preferences for all African countries, in order to allow them to compete with East Asia, and to forge a new path of rising incomes. More recently, the UN panel on Climate Change has emphasized that many of the biggest risks from climate change will hit the poorest countries the hardest, and especially African countries. There is yet no discussion of what support will be needed to help poorer countries adapt to climate change. Within Africa, there have also been continental efforts to address Africa-wide challenges, such as the NEPAD initiative on regional infrastructural investments and on the African Peer Review Mechanism.

What are the implications of these three messages for Africa and for Ghana? From the first message, African countries must have a continuing strategy to maintain macroeconomic stability, to export more aggressively and increase competitive investments (domestic and foreign), and make judicious use of market and public instruments. From the second message, they must also take on their binding constraints sequentially, even if this goes against the advice of some of our external partners who are particularly ineffective in harmonizing their support.

In both areas, many African countries have made some progress. But there is much more to be done. Using Ghana as an example, the macro performance in 2006 and 2007 has been disappointing. Happily, the 2008 Budget calls for a Fiscal Responsibility act, whose implementation will be essential. Export performance, in the non-traditional sector, remains tepid. And the "golden age of business" is still very much at an initial stage. Again, progress is being made on improving the investment climate and in reducing the cost of doing business. At the same time, Ghana lags behind many other African countries in attracting the private sector into the crisis-prone energy sector. Ghana needs also to work much harder on its most binding constraints while achieving excellence in execution, especially in infrastructure, exports, agricultural productivity growth and in our China policy.

From the third message, African countries have begun to recognize that these global efforts can, at best, only be the less critical part of the solution. *Much more action and effort are needed by African countries themselves.* This is in part because the rhetoric of our external partners has not been matched by actions. Thus, the 2005 promise of a doubling of aid to Africa by 2010 is already acknowledged as off track. Excluding debt relief, aid to Africa actually declined in 2006. It is also in part because development experience demonstrates that without strong self efforts, sustained success cannot be achieved. Indeed the experience of oil exporting countries such as Nigeria is instructive: oil, like aid, is an external inflow, and neither assures a country of success. Thus, African countries need to complement the reliance on aid with a stronger reliance on other instruments. We must argue for the trade preferences that Collier advocates. We must

have a China policy than ensures that there are spillovers from their investments in mining and oil; spillovers such as employment, subcontracting to local suppliers, technology transfer, and natural resource processing. We must improve our investment climates aggressively to facilitate domestic and foreign investments, learning from China's own experience on how to get the best out of foreign investments. We must make better use of remittances and find the right incentives to have them channeled through the financial system. And we must increase domestic revenues, which will have the added benefit of making governments more accountable to domestic constituencies than to external partners. The recent AU decision to set up an African Infrastructure Fund to help finance NEPAD's projects by borrowing from Pension Funds around the continent is a fine initiative, now awaiting effective execution.

Regionalism: Ghana, ECOWAS and the AU

It is appropriate to highlight one more African challenge and its implications for countries like Ghana. It is now accepted that African growth will need another ingredient: *regional and continental collaboration on selected projects, especially in infrastructure, and programs such as trade and investment protocols.* The key points are: *First*, Africa's total GDP is small. All of Africa's GDP is comparable to that of Belgium. A typical African country has the GDP of a single large city such as Chicago or Shanghai. The average African country has a population of 4 million. Given Africa's market size, countries must not develop growth strategies in isolation from their neighbors in the sub-region, and for some matters, the continent. *Second*, Africa has the most serious infrastructure deficit of any other continent. This is compounded by the relatively low population density and the lack of navigable rivers that lead to oceans. Infrastructural investments too, whether in roads, railways, energy, or indeed in health and education, have to be looked at in regional not country frameworks. *Third*, in negotiating with other global bodies such as the WTO, the EU, and countries like China, single African countries just cannot match the human capital and experience the other partners bring to the table. It makes sense for groupings such as ECOWAS and the AU to take on active roles in assisting countries or in building the capacity to do so, to ensure win-win outcomes for African countries.

Given these regional challenges, it is important for countries such as Ghana to play strong leadership or stewardship roles in ECOWAS and the AU, beyond the minimum that every African country would contribute. The decision at the recent AU Summit in Accra to examine and streamline Africa's Regional Economic Communities was a good one, now also awaiting successful execution. Ghana and other successful African countries such as South Africa, Tanzania, Kenya, Senegal, Botswana, etc. have a special responsibility to play a regional and continental role. This is of course in Africa's interest. But what the three regional challenges tell us is that it is also in the interests of the potentially more successful countries like Ghana that they play their supra-national role to the maximum extent possible.

Conclusions

Yes, Africa is at a crossroad. But the outcome is not a foregone conclusion. The recent upturn in growth in African countries has benefited from the favorable international environment and from the high commodity prices for Africa's exports, as well as from the increased demand for these products from China. Significantly, Africa has also benefited from the many reforms that African countries have undertaken in the last two decades, which are now bearing fruit. Examples include the macroeconomic stability that is now the norm across the continent; improvements in the investment climate; the productivity gains from the introduction of competitive mobile telephony, etc. On balance though, analysis suggests that at least 1%, and perhaps as much as 2%, of recent growth may be due to the commodity price and volume boom. Should this boom turn into a milder boom or a bust, African growth will be impacted.

Africa's own experience and that of other successful developing countries suggest that the best path forward is one with the following features: *proactive, country-led, principled, and with an appropriate mix of global/regional/continental elements*. Since the mid-1990s, Ghana, and other countries like Tanzania, Rwanda, Uganda, etc. have been on a transitional path moving closer to the preferred path. The regional bodies such as ECOWAS have become more active, and the AU is waking out of its earlier slumber at the continental level. But we are not there yet. It is now time to step up to the next challenge and to demonstrate that Africa too can produce some examples of successful growth to inspire other countries on the continent. Botswana, Mauritius and to some extent South Africa have begun this process. For it to take root, countries like Ghana, Senegal, Tanzania, Mozambique, Rwanda, Madagascar, Uganda and others must become Africa's "tigers".

