Economic Growth and Development Constraints in Africa

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ABSTRACT

The slowing growth throughout the world over the past number of quarters has been uncomfortable for advanced countries, but a real source of hardship to many developing countries and a real setback to the fight against world poverty. These developments underscore the need for an integrated concept for answering critical questions about globalisation and the difficulties of specifically African countries to share in the concomitant generation of wealth. NEPAD has to do just that. Success in the fight against poverty is the key to stability and peace in the twenty first century and nowhere is the battle lines clearer than in Africa. This process will require innovative thought from both government and the private sector. Economic growth does not simply equate human progress. Hence the long and central debate as to what, seemingly in conflict, contributes to economic efficiency and what to distributive justice. This debate confounds national economic policy response to our vast poverty and all too common human degradation. It appears as if the latter problem is missing in the core economic assumptions on which the New Partnership for Africa's Development (NEPAD) rests. The country cannot afford to have unrest caused by growing tension between the demands of the constitution that defines human dignity as the prime task of the state, and the need for disciplined economic policies that would ensure foreign direct investment and competitiveness in the foreign markets.

The embarkation on this high road faces many constraints, mostly on the supply side of the economy. The economy responds growth-wise more favorably to policy approaches that directly address supply-side constraints (e.g. decreases in unskilled real wages, improvements in education, and human development levels and FDI), than to demand-side expansions. The demand-driven policy approaches (such as increases in government expenditure and exports), seem to encounter supply constraints at the four to five percent growth level. There

against increased investment in human skills and foreign direct investment, easily raise economic growth to levels above six per cent. Thus, a balanced approach is necessary with well-targeted government expenditures aimed at increasing investment in human capital, research and development, and productivity. In what follows a number of macro issues that require urgent attention are discussed.

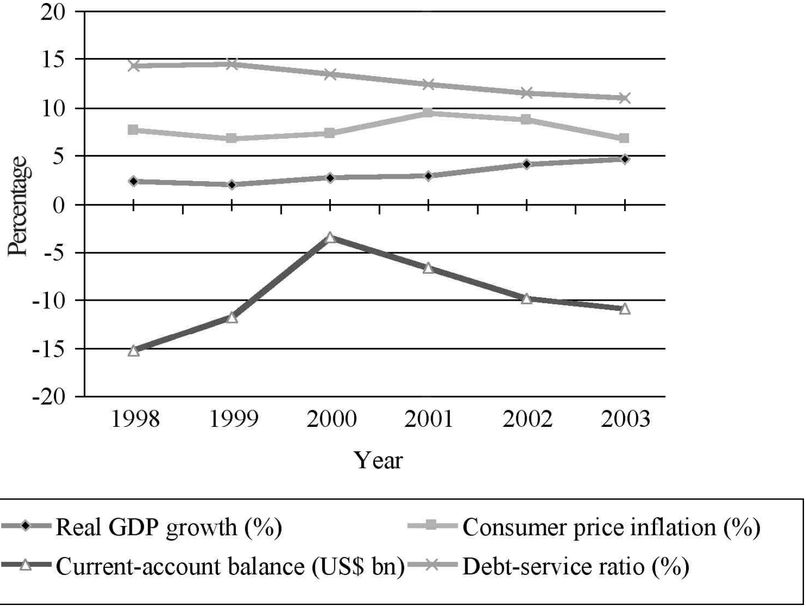
MACRO ISSUES THAT REQUIRE URGENT ATTENTION

Globalisation and economic growth

During the past number of years the economies of African countries have really been exposed to the powerful process of globalisation and economic policies have shown weaknesses that caused governments to seriously rethink their strategies. The belief was that given the right policy mix, structural unemployment and concomitant poverty would be reduced (as has been experienced by many Pacific Rim countries in the past). However, this expected positive functional relationship did not hold unequivocally. It now seems as if the benefits of globalisation are largely confined to the core (modern) economy and the expected and predicted *trickle down* effects to the peripheral economy have not yet materialized. The reality is that the sophisticated and industrially developed core economy, linked to global markets, is surrounded socially and politically by an economically primitive periphery, not functionally linked to the core. The basic contention is that higher and sustainable growth and development rates will be difficult to achieve should the twin problems of poverty (unemployment) as well as socio-economic inequities not be addressed simultaneously, speedily and effectively.

African countries will not be able to break out of the shackles of a two to three percent growth path if the massive and widening gap between the modern core economy (the *haves*) and the peripheral economy (the *have nots*) is not substantially reduced (see Figure 1). The economic empowerment and enrichment of poverty-stricken population groups must, for the foreseeable future, be high on the agenda of NEPAD. For African economies to excel from their current low to a high growth scenario, new innovative policy actions will be required, focused especially on investment in human capital.

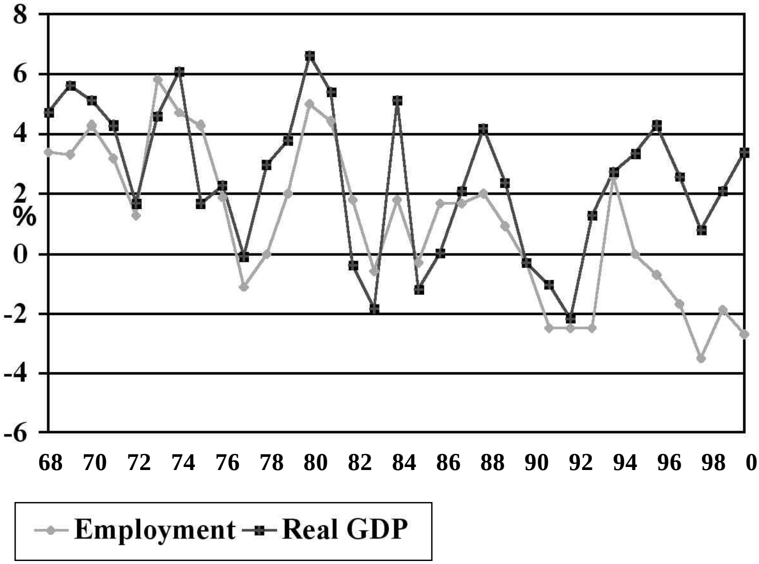
Figure 1: Economic performance (sub-saharan countries)



Jobless growth

The low growth rate over many years and economic stagnation within a two to three percent growth trap were accompanied by a sharply decreasing labour absorption capacity in the economies of many African countries and millions of people found themselves unemployed (see Figure 2). Over the decades, the relatively low savings ratio and high net outflow of capital, typified the stagnating growth performance. Perhaps the only factor that defied the low and slow growth was the steady growth in exports. Not surprisingly, the economic stagnation, amongst others, contributed substantially towards a relatively skewed distribution of income and wealth especially in the South African society.

Figure 2: South Africa's rate of employment relative to the economic growth rate 1968-2000



The labour market is also showing signs of a structural change closely linked to the growing importance of the services sector in the economy. According to the latest statistics blue-collar work is becoming a thing of the past in countries where structural change in the economy more or less keeps pace with what is happening in the developed world. There seems to be a definite bias towards skilled labour. Taking the place of the industrial worker is a professional employed either as a civil servant or in the services sector.

Ironically, Africa, with its abundance of unskilled labour will continue to witness the decline of the working class. The labour market is shifting towards more skilled workers, professionals and managers. A labour survey in South Africa found a demand for managers in the public sector, especially local government and particular services sectors. However, the growth in demand for skilled labour does not match the decline of unskilled and semi-skilled jobs. Unemployment is stubbornly high and inching upward. In South Africa the expanded unemployment rate is estimated to be as high as 40% with the official rate at approximately 29%. The fact that the labour market is biased against those with less skills is reflected in the higher average pay increases for skilled persons.

The massive and widening gap between the modern core economy and the peripheral economy must be narrowed substantially. For this to happen, those caught up in the peripheral sector will first have to be economically empowered through training and job opportunities. Only then will scarce resources be allocated more efficiently and economies move into the high road scenario.

Poverty and social inequities

Due to many economic, socio-economic, political and institutional factors over time, huge socio-economic disparities developed in many African countries. However, nowhere is it more evident than in South Africa. The poorest segments of society, mainly residing in the rural areas, are the hardest hit by unemployment, low quality education and poor accessibility to basic services, such as electricity, water, housing and sanitation. It is estimated that in Africa, 340 million people or half of the population live on less than US $1 per day. The mortality rate of children under five years of age is 140 per 1000 and life expectancy at birth is 54 years. In South Africa it is estimated that the latter will drop to less than 40 over the next 10 years. Only 58% of the population have access to safe water while the economic literacy rate for people of working age is only 41 percent. There are only 18 mainline telephones per 1000 people in Africa compared with 146 for the world as a whole and 567 for high income countries. Also, the economic hardship in rural areas is causing more and more people to flock towards urban areas. It is estimated that by 2030 the majority of Africa's people will be urbanized compared to the current level of about 37 percent. On top of these serious poverty conditions, two other important threatening clouds hang over the economies of Africa.

Firstly, the AIDS\HIV problem may cause havoc even if the most conservative estimates should eventuate. The fact is that talk about economic stability and growth should ring hollow in the absence of an efficient strategy to fight the HIV/AIDS pandemic. In South Africa the national discourse on AIDS seems to be shaped by denial and evasion. The main consequences of the epidemic are sickness and death, but it is extremely difficult to track either of these. The model of the Actuarial Society of South Africa indicates that about 300 000 people will die in the coming year of AIDS related causes; another 400 000 will die of normal causes. The following year AIDS deaths will exceed that of normal causes. The impact that this will have on the South African economy is difficult to determine. The only information available are calculations based on questionable data and anecdotal evidence from e.g medical clinics and gossip. Meanwhile the epidemic goes unreported with the national debate swirling around the pseudo information of politics - policy statements, press conferences, name-calling, accusation and the search for somebody to blame. Unless this pandemic, as well as other such as tuberculosis and malaria are brought under control real gains in human development will remain an impossible hope.

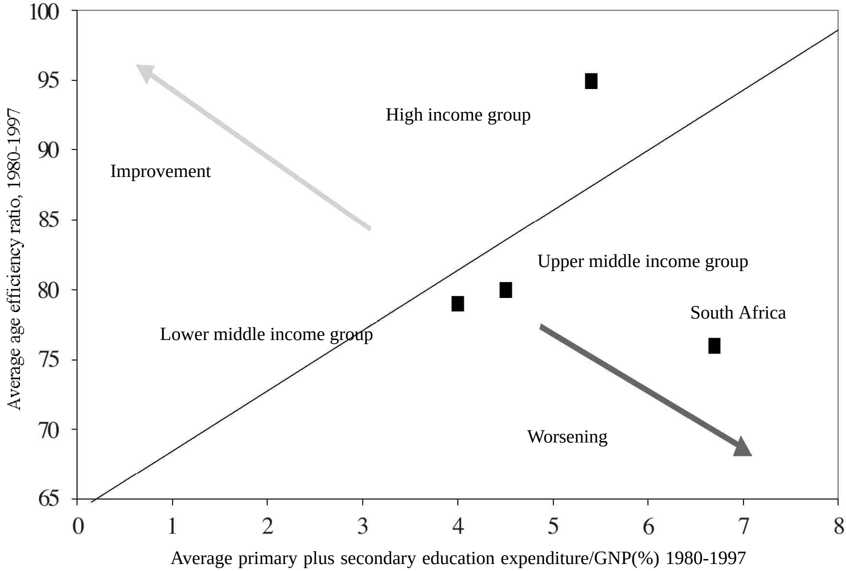
Secondly, in South Africa for example, environmental quality compares rather unfavourably with that of many other countries in the world. The country reflects the carbon footprint of a developed country with 1,6% of the world CO_2 emissions in 2000. However, in terms of size and level of economic activity it represents far less than 1,6% of the world economy. Cheap low quality coal is used which burns inefficiently and contrary to world tendencies production and use of coal is still on the increase. In the rest of Africa it seems the CO_2 emissions are much lower but scientific data on this issue is difficult to obtain.

Pressure on government spending

Over the past decade the fiscal situation in Africa has improved in the francophone zone, East Africa and Central and West Africa. However, in SADC countries (with the exception of South Africa) the ratio has increased substantially from 7,8 percent in 1992 to 16,6 percent in 1997. In years to come the improvement in the fiscal position of the former countries will leave room for fiscal expansion in those areas where government expenditure is most needed. Furthermore, most African countries have to deal with a high and increasing debt burden. In South Africa, for example, interest payments still represent the second largest vote on the budget. In general the challenge for African countries lies with improvements in the efficiency of public expenditure. Studies done in South Africa have shown that expenditure on quality education and health services compare unfavourably to that in other developing countries when the amount spent is measured in terms of efficiency.

South Africa compares rather unfavorably to lower, middle and upper income countries regarding the efficiency of its expenditure on primary and secondary education (see Figure 3). Effectiveness of expenditure is measured as a ratio of the expenditure on education and the average age-efficiency ratio. In the case of South Africa, expenditure on education as a percentage of GDP is relatively high but its effectiveness relatively low (approximately 70 percent). Upper middle-income countries spend only about 4,5 percent of their GDP on education against South Africa's 6,7 percent but their effectiveness ratio is 80 percent.

Figure 3: An international comparison of educational expenditure efficiency (cost-outcome measure)



The problem with the effectiveness of expenditure on education is highlighted by the fact that increased budgets on schooling do not necessarily contribute towards school successes as represented by the number of grade 12 passes. Thus much room exists on the expenditure side to improve in terms of efficiency and accountability although figures for Africa are hard to get, newspaper reports about crime and corruption seriously damage the continent's image in the eyes of foreign investors.

Local government inefficiencies

In the local government sphere, a general lack of fiscal and human capacity is a stumbling block in the way of economic development. Many rural municipalities do not have the capacity to deliver the much needed services and facilities, especially due to problems such as budgetary and infrastructure constraints. Data in this regard is fairly nonexistent but in South Africa the financial difficulties of municipalities are clearly shown in the decline in resources directed towards capital expenditure as a percentage of total expenditure from 1997 to 1999, with only a marginal increase again in 2000. However, despite the decline in capital expenditure, both short and long term borrowing have increased indicating that current expenditure financed through loans has crowded out capital expenditure during that period.

Domestic saving and direct foreign investment

The neo-classical panacea with increased levels of saving as a remedy for economic growth has been thrown out of the window in favour of a more balanced human centred approach. This development should be commended. However, the importance of saving in order to finance expanded investment should not be underestimated. Little if any progress has been made thusfar regarding the savings/investment gap with the result that most African countries rely heavily on foreign investment flows to close this gap. Since 1992, net foreign direct investment has remained mostly negative. This was despite the fact that real positive interest rates had risen significantly. Various reasons may be advanced why Africa has performed poorly in attracting foreign direct investment. In the case of South Africa it was found that one important reason is the decreasing tendency in capital productivity in the private sector, a factor that acts as a disincentive for direct investment. Furthermore, the increased global exposure has resulted in huge and volatile investment flows that created financial turbulence, distortion and uncertainty in the domestic economy.

International competitiveness

Although Africa's real exports have grown, the continent's relative international competitiveness seems to have decreased. Despite a substantial growth in its volume of exports since 1990, Africa's share in world dollar exports could not improve and has in fact deteriorated from about 4,5 percent in the early eighties to just over one percent at the end of the nineties. One important explanation for this tendency is the fact that the advantages of the currency depreciation have mostly been negated by the increase in domestic labour costs and the deterioration in the terms of trade in favour of secondary goods and services in the international markets.

Furthermore, the nature of export growth in manufacturing tapped heavily into the skilled labour resources. In South Africa statistics show that while the country's manufacturing exports increased, unskilled/semi-skilled workers had to bear the brunt of the job-shedding processes that accompanied the growth in exports.

CONCLUSION

The poverty of so many in Africa coupled with a nearly non-existent labour absorption capacity in the economies of the countries of the continent pose enormous challenges to economic policy in the new millennium. Clearly, bold, innovative and coordinated policy choices are now necessary to put the continent on the high road within the foreseeable future. As highlighted in this paper, the embarkation on this high road faces many constraints, mostly on the supply side of the economy.

The macro-econometric research group at the School of Economics at the University of Pretoria has found that the economy responds growth-wise more favorably to policy approaches that directly address supply-side constraints (e.g. decreases in unskilled real wages, improvements in education, human development levels and FDI), than to demand-side expansions. The demand-driven policy approaches (such as increases in government expenditure and exports), seem to encounter supply constraints at the four to five percent growth level. However increased investment in human skills and foreign direct investment, easily raise economic growth to levels above six per cent.

The answer to higher levels of growth and development lies in a balanced approach between well-targeted government expenditure aimed at increasing investment in human capital, research and development and productivity. The problems noted above, of high poverty and large socio-economic inequities are not insurmountable. Only through a better qualified and capable labour force with motivated employers and employees will it be possible to change the depressing atmosphere that plagues the economies of this continent and causes so much volatility in capital flows (and brain drain) due to negative perceptions, internally as well as externally.

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