ERSA Research Brief

March 2016

Recent Growth Performance in Sub-Saharan Africa (SSA): What should Policy Makers in these countries be concerned with?

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Key Messages

- The skilled labour immigration creates shortages in skilled workers which is detrimental to economic growth. Preventing this migration flux could reduce the importation of international skilled workers which is costly for SSA countries already vulnerable to economic losses.
- In the presence of poor governance and institutional qualities, trade booms can create the opportunity to shift government spending towards less productive types in order to satisfy influential groups; resulting in inefficient fiscal policy.
- International trade taxes drive the fiscal performance of SSA countries due to trade booms and this triggers the vulnerability of these countries to world shocks. Reducing the dependence to international trade taxes can be considered.
- While a growing youth population remains an important asset for economic growth, the double digit unemployment in SSA countries evicts the positive externalities associated with population development.

Introduction

The recent decades have witnessed a series of global turbulence with significant impact on the economic performance worldwide. Unlike western economies which have been weighed down by weak economic activity, the recovery has remained strong in developing countries and particularly in Sub-Saharan Africa (SSA) with an average economic growth rate of 5.8 percent in 2012, higher than the developing countries average of 4.9 percent (World Bank, 2013). This favourable growth prospect is broadly attributed to oil production, mining, agriculture, services

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and the domestic demand (McKinsey Global Institute, 2010). However, SSA countries still face significant challenges in terms of limited economic diversification, poor governance and quality of institutions and unemployment which will adversely impact their long term economic growth path.

Assessment of the recent performance

Long term growth performance requires structural transformations mainly induced by diversification and industrialisation (Lin, 2011). SSA countries continue to export mostly raw materials; the entire African continent accounting for only one percent of the global manufacturing. This creates a trade structure dominated by the resource based export sector with important consequences.

International trade taxes drive the fiscal performance of SSA countries

The emergence of new industrialisation poles such as China, India and Brazil has increased the world demand of resources; leading to resource trade booms in resource rich economies. During the commodity boom price of the mid-2000s, resource abundant low-income countries such as SSA countries significantly intensify their growth performance with the discovery of key metals and minerals, resource investment and expansion of commodities exports. This has left SSA countries vulnerable to the strike of the global commodities boom as illustrated by the recent decrease in oil and other strategic commodities prices which has strengthened the slowdown of economic activity and the fiscal spending pressure; resulting in insistent shortages in key infrastructures. This puts a premium on policies that ease the economic diversification to non-resource export sector such as industrial and technological upgrading accompanied by a less dependence to international trade taxes which render the fiscal performance of these countries vulnerable to world shocks.

Trade booms, source of inefficiencies in the fiscal policy

Because of the poor governance and institutional qualities, SSA countries are subject to the so called “voracity effect” induced by trade booms. This effect occurs when the institutions are fractionalised and influential groups contend to appropriate a larger share of national wealth amid a temporary windfall gain by exerting pressure on the fiscal authorities to increase public spending that directly benefits their constituencies (El Anshasy and Katsaiti, 2013). This voracity effect results in the shifting of government spending towards less productive types. In such condition, an efficient allocation of resources can be achieved through fiscal decentralisation providing that the economic benefit of decentralisation relies on good governance.

The skilled labour immigration

Knowledge accumulation contributes to economic growth through human capital improvement. However, SSA countries have not yet been able to diversify their economies and produce a range of increasingly sophisticated goods, end products of the research development capacity. Therefore, in the absence of a dynamic scientific sector, African human capital migrate to developed counties with sophisticated technology sector and attractive labour market conditions. Recognising the inherent contribution of the immigrant skilled labour to the development of the high-income economies (Ruhs, 2008), the labour policy in SSA, at its core, should prevent this migration flux which creates shortages of skilled workers. This could reduce the importation of international skilled workers which is costly for these countries already vulnerable to economic losses.

Unemployment evicts the economic benefits associated with youth population growth

While population development rises the domestic demand favourable to economic growth improvement, large population growth can be associated with more unemployment, food insecurity and education and health inequalities. The fact is, SSA countries are losing ground in labour-intensive manufacturing due to their sluggish industrialisation. Accordingly, their rapid population growth seems to have intensified the development constraints in terms of social infrastructures and human capital (including health, education and training facilities upgrading) resulting in a decrease in savings per capita as well as growth of physical capital per worker. Social development solutions can therefore be advocated as efficient strategy to maximise the positive externalities associated with population development which in turn promote economic growth. More specifically, investments in health and employment-driven education, promoting equalities (income and gender) can help reduce the adverse effects of population growth in SSA.

Conclusion

The growth performance of SSA countries remain vulnerable to world shocks since they mostly depend on commodity exports and investment. To ensure a sustainable growth, policymakers in these countries should promote the development of manufacturing based on their endowment structure which reflects their comparative advantage. Labour-intensive by nature, the improvement of the manufacturing is the pathway towards diversification required to address long term growth challenges in SSA countries including the double digit unemployment, the dependence to international trade taxes, the poor quality of human capital and more importantly the skilled labour immigration.

Further readings

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