Discussion of *Sub-Saharan Africa Fall 2016 IMF REO: Multispeed Growth*

Discussion for IMF-IIEP Forum

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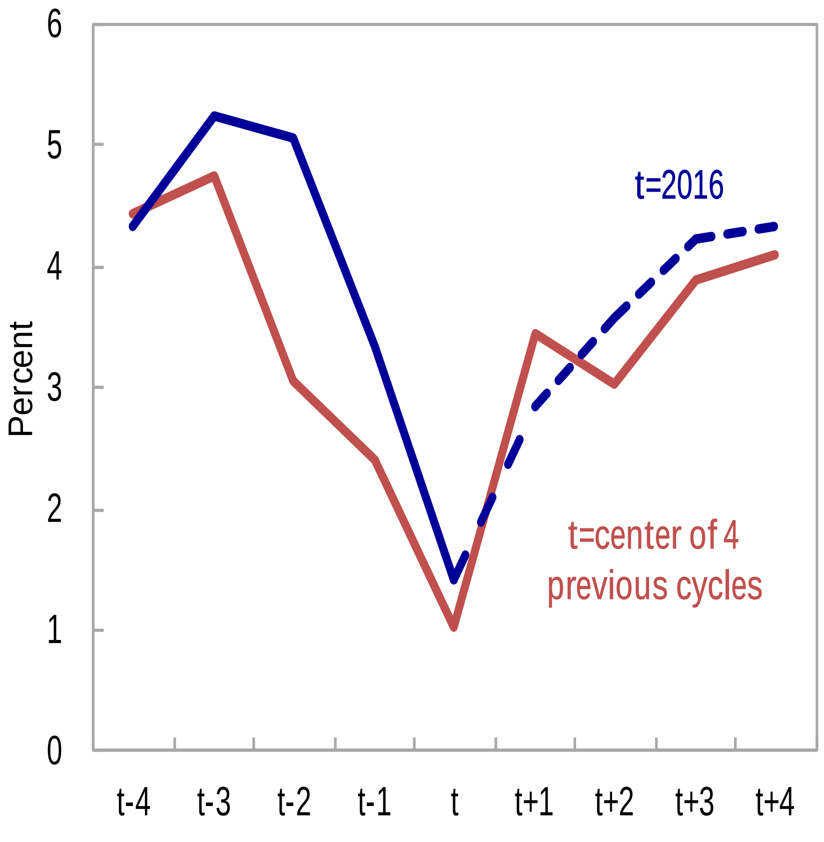
We hope your overall forecast is correct!



Red line is an average: We may be below average, e.g. slower recovery…

… and hopefully we are not actually at period t-1

There are reasons for concern, but also some opportunities

Serious Challenges Presented

- Challenges highlighted in SREO shown little improvement in the 3 months since publication
- Oil price almost exactly where it was 90 days ago
- Slowdown in trade, risks from China, …
- Protectionist noises from rich countries not softer
- Volatility: Further inflating of the (possible if not likely) bubble may disguise current calm

Reasons to be skeptical about recovery from declines in oil and other commodity prices

- Temporary shock, or return to a 300-year trend line? (Harvey et al 2010)
  - Longer term downward price pressures seem unavoidable
  - Data through 20th Century show in general declining trend in real prices
  - The super-cycle never quite broke out of the very long term trend
  - "In the very long run, there is simply no statistical evidence that relative commodity prices have ever trended upward."
- Fall on demand side, e.g. from China, is clear
- On supply side, there are apparently permanent capacity increases
- Also: "Oil exporters… represent about half of the region's GDP": lost demand side potential for non-oil SSA countries from oil exporting SSA?
- Report shows clearly bifurcation of commodity exporters and others

Recently, the Main "Gear-Shift": Commodity and Non-Commodity Speeds

- Oil exporters: Angola, Cameroon, Chad, Congo (Rep), Equatorial Guinea, Gabon, Nigeria, South Sudan
- Other resource intensive: Botswana, Burkina Faso, Central African Republic, DRC, Ghana, Guinea, Liberia, Mali, Namibia, Niger, Sierra Leone, South Africa, Tanzania, Zambia, Zimbabwe
- Non-resource intensive: Benin, Burundi, Cabo Verde, Comoros, Côte d'Ivoire, Eritrea, Ethiopia, Gambia, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, São Tomé & Príncipe, Senegal, Seychelles, Swaziland, Togo, Uganda

- "At risk to becoming resource intensive": Do we need a new country category? (There are a few candidates on the "Non" list…)

Encouraging that Export Diversification Is Encouraged…

- Export diversification possibly the main new SREO topic
- As report says, importance long-established…
- But for many years Africa received advice to focus on current comparative advantage including resource focus
  - And it takes a long time to turn around a "Supertanker"…
- Almost all SSA has a low manufactured exportables base, high pop growth; so even if growth rate high, SSA countries need to focus on agriculture development also
  - Ag development can include diversification dimensions
- Further analysis on diversification could add weight – seems a good focus topic for a future SREO

Export Diversification Encouraged

- If market failures inhibit diversification, there can be an efficiency case for policy intervention
- REO raises six policy areas helpful for diversification (related to regression Table 1.1.1, p. 22 (causality noted as an issue)
  - 1 Human capital
  - 2 Stronger Institutions
  - 3 Stronger infrastructure
  - 4 Higher degree of openness in international trade
  - 5 Less appreciated real exchange rate
  - 6 Less gender inequality; balance in labor force participation
- *Note*: Benefits of moving "Policy from" something are generally a lot easier to recognize than choice of "Policy to" something else…

Export Diversification Encouraged

- Improvements in the six areas would be beneficial in general…
- Some questions about possible limitations of the six areas *as* export diversification policies:
  - Would these policies be *sufficient* to diversify exports?
  - How can countries *act* on these policies?
  - Institutions are a cause of policy: how to implement institutional change *as* a policy?
  - Do those six policy areas span *all* of the most important market failures?

Market Failure Case for Industrial Diversification Strategy in Export Policy: Role of Technology and Know-how

- Market failures also in *transfer/absorption* of innovations
  - Export expansion may facilitate technology transfer through contacts with foreign firms, industry spillovers, scale economies
  - Learning by doing or "watching" effects in manufacturing sectors
  - Performance is tested when firms attempt to export
  - Export targets more visible than OP; focus on manageable problems
- Too little "self-discovery"/ exploration (Hausmann and Rodrik)
- Exporting a mix of goods more typical for higher-income countries predicts higher growth (Hausmann, Hwang, and Rodrik)
- Thus, export oriented industrial policy may help overcome market failures in technological progress and diversification
  - Focus on interventions to encourage exports with higher skill and technology content (industrialization strategy/policy)
- [Need attention to incentives, or may be counterproductive]

Commodity Export Revenue Policy

- But, how to finance diversification while addressing the resource curse?
- Policy – invest abroad until high return domestic investment opportunities emerge
- Sterilizes
- Use funds for investment goods (broadly understood, including human capital)
- Norway model?
- Can this be the basis of financing for the export (and output) diversification?
- (Institutions create obstacles to implementation)

Climate change threats to growth and development

- "Two Fragilities" – in governance and environment – reinforce, and are reinforced by, extreme poverty
- Risks of climate change are no longer projections - making a significant impact sooner than was predicted
- Current droughts in East and Southern Africa regions – whatever the proximate cause – could be a forerunner
- Agriculture plays unavoidably outsized role in SSA for next two or three decades –
- Increased deep uncertainty itself may inhibit investment in agriculture and other sectors
- Projections of future climate risks are, if anything, worsening

Lastly: raising trade barriers with Africa is self-defeating on economics and everything it affects

- Concluding with a recommendation and plea to the new administration and new Congress (both sides of the isle) not to put up trade barriers with Africa:
- An economically strong Africa is in America's interests
- Trade with Africa - and AGOA, the bipartisan African Growth and Opportunity Act, is in the interests of both Africa and America
- A stronger Africa will help maintain global geopolitical balance
- Wealthier countries are less vulnerable to terrorism
- Allies in counterterrorism
- Allies in the fight against narcotics
- Development in Africa reduces spread of disease without regard to borders
- Reduces global environmental destruction
- Reduces risk of international conflict
- Reduces migration pressure, not just to Europe, but will also affect the U.S.
- Poverty reduction amplifies all these benefits, and may *cause* growth
- By the way… many Americans consider global poverty reduction a public good
- This is before raising any of several good reasons to expect economic gains from trade in almost all cases
- Trade protection against Africa cannot create prosperity or strength for anyone