

# Discussion of “Multispeed Growth”

Remi Jedwab

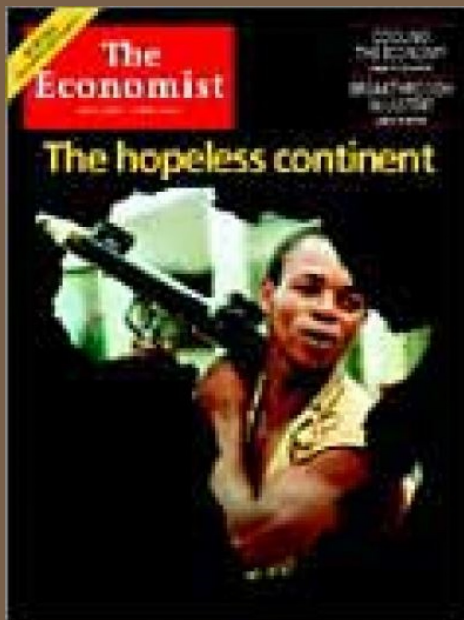
01-23-2017

# Introduction

- **1) Context of low economic growth:**
  - Low commodity prices
  - Macroeconomic instability: Inflation due to monetary policy or currency depreciation, governments running fiscal deficits, rising debt levels
  - Security risks and natural disasters
- **2) Multispeed growth:**
  - Oil-rich countries: recession or low growth.  
Angola, Nigeria, etc.
  - Other resource-rich countries: better.  
Botswana, South Africa, etc.
  - Non-resource countries: fast growth.  
Ivory Coast, Kenya, etc.

Temporary setback? Or were we wrong that Africa was “rising”?

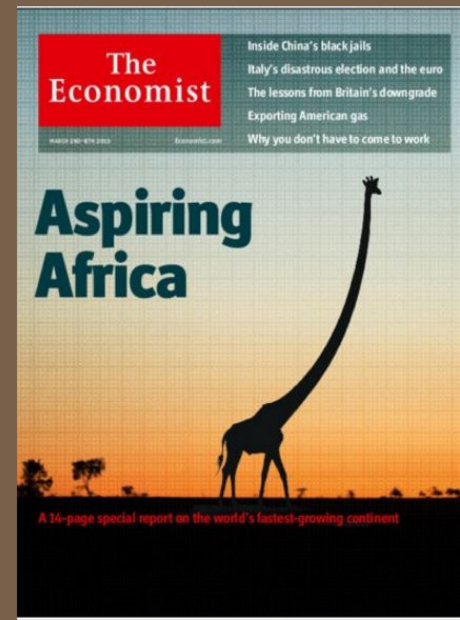
2000



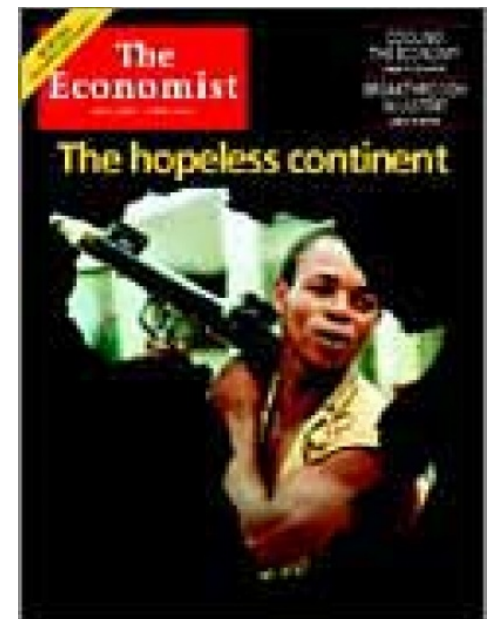
2011



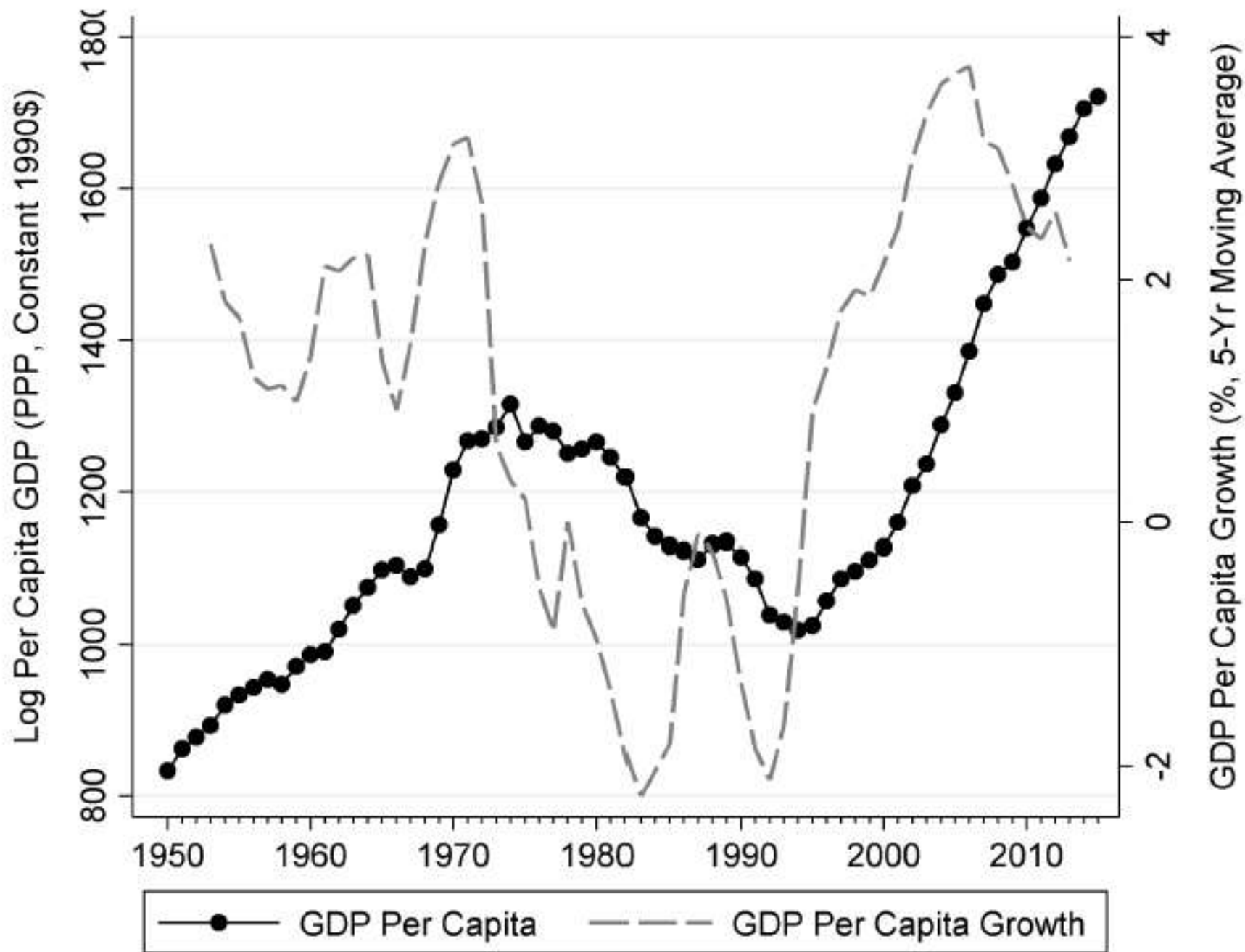
2013



2017?



Is history repeating itself? Late 2010s = late 1970s?



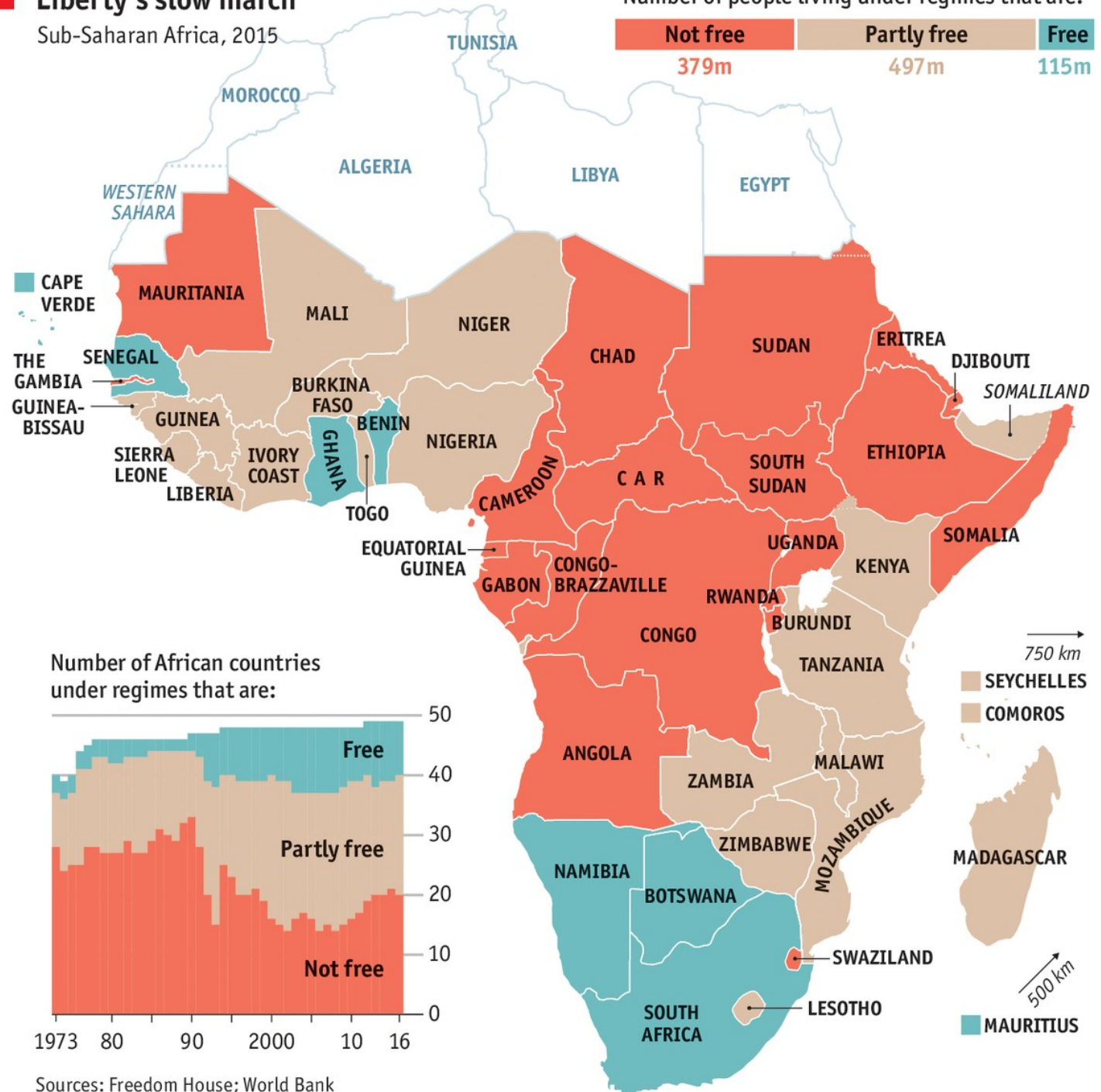
2010s vs. 1970s:  
African countries are  
more “democratic”.

## Liberty's slow march

Sub-Saharan Africa, 2015

Number of people living under regimes that are:

Not free	Partly free	Free
379m	497m	115m



Sources: Freedom House; World Bank  
Economist.com

# “Multispeed”?

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- I was expecting more from the title...
- 1) Is growth in Africa more “multispeed” than in the rest of the world?

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- 3) Classification of countries. Fast-growing resource-poor countries include Ethiopia (coffee), Ivory Coast (cocoa), Kenya (coffee)...
- 4) Resource-rich countries are richer, so grow slower if convergence. Analysis conditional on initial income level?

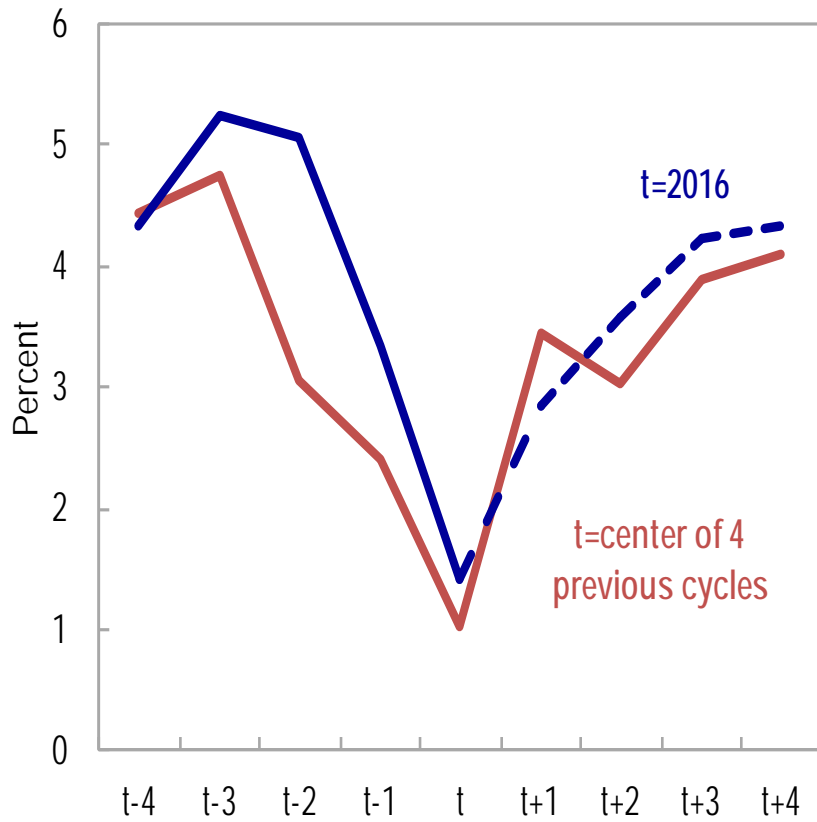
Discussion of  
***Sub-Saharan Africa***  
***Fall 2016 IMF REO:***  
***Multispeed Growth***

Discussion for IMF-IIEP Forum

Stephen C. Smith

GWU, 24 January 2017

# 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

# Multiple speeds, longer-term

- One dramatic way can parse as two speeds:
- Half growing reasonably well, half stagnant:
- ~20 SSA countries have around the same p.c. income as two decades ago;
- ~20 SSA countries have order of magnitude doubled income p.c. last two decades
- (Note, however: great progress in most countries in non-income dimensions, e.g. child survival, school enrollments, etc.)

# 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)

What do we Want?

EVIDENCE BASED SCIENCE

When do we Want It?

AFTER PEER REVIEW

# 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

# Climate Forecast: Hot, Variable, Stormy

(Photo: NOAA - NASA Research, US Pavilion, Paris, COP-21)



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

- A politician : *Protection will lead to great prosperity and strength...*
- So a recommendation to the new administration and new Congress not to put up trade barriers with Africa:
- An economically strong Africa is in America's interests
- Maintaining geopolitical balance
- Allies in counterterrorism
- Allies in antinarcotics
- Reduce spread of disease without regard to borders
- Reduce global environmental destruction
- Reduce risk of international conflict
- Reduce migration pressure, not just to Europe but here also - soon
- Poverty reduction amplifies these benefits, and may *cause* growth
- By the way... one might also consider poverty reduction a public good