

Africa's development policy dilemmas: learning from the global experience and challenges

A presentation by Jean-Michel Severino
at the African development Bank

This is Africa's moment...

But for how long?

And how taking the best and most sustainable
advantage of it?

1. World Growth is Changing its Engine

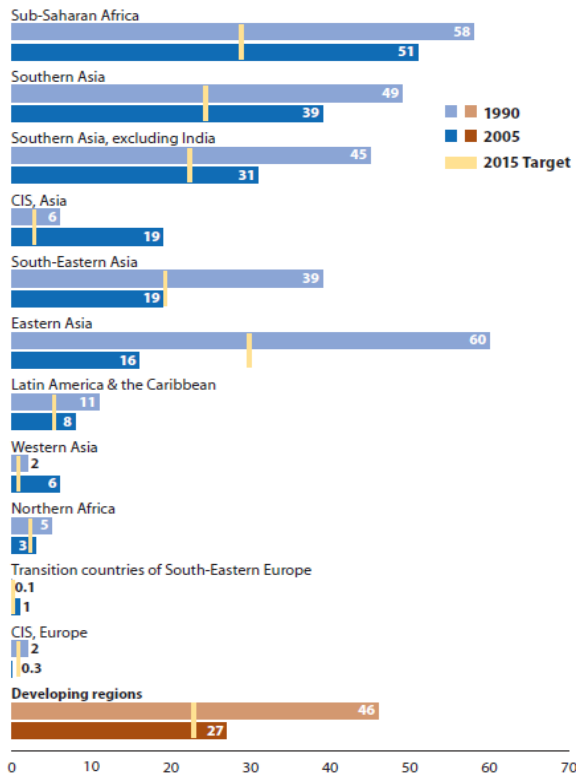
Development is the success of the twentieth century

Relative poverty is declining sharply

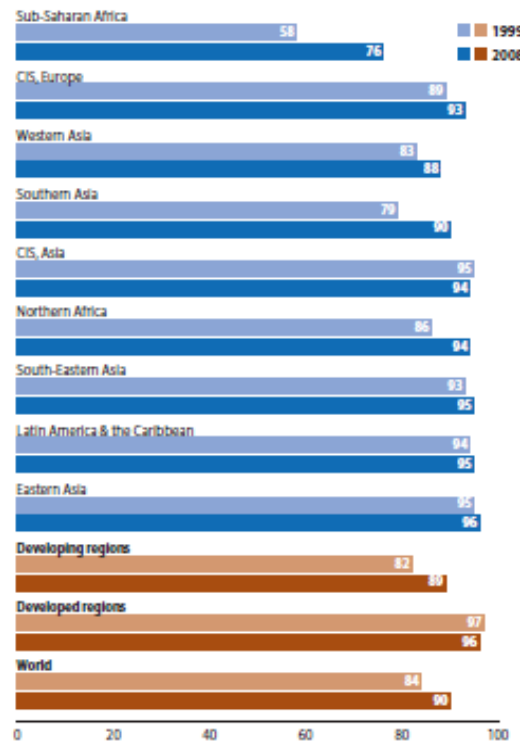
Education is in fast progress

Child mortality is declining

Proportion of people living on less than \$1.25 a day, 1990 and 2005 (Percentage)

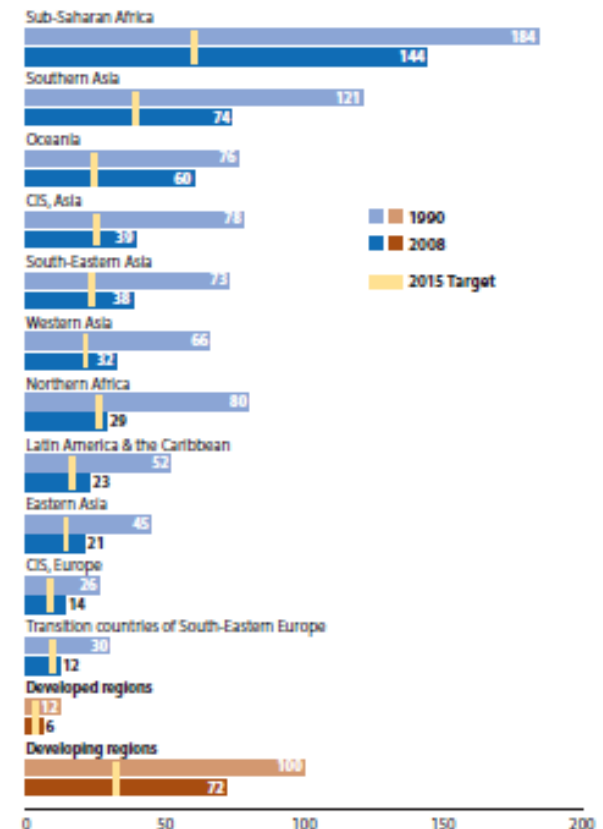


Adjusted net enrolment ratio in primary education,* 1998/1999 and 2007/2008 (Percentage)



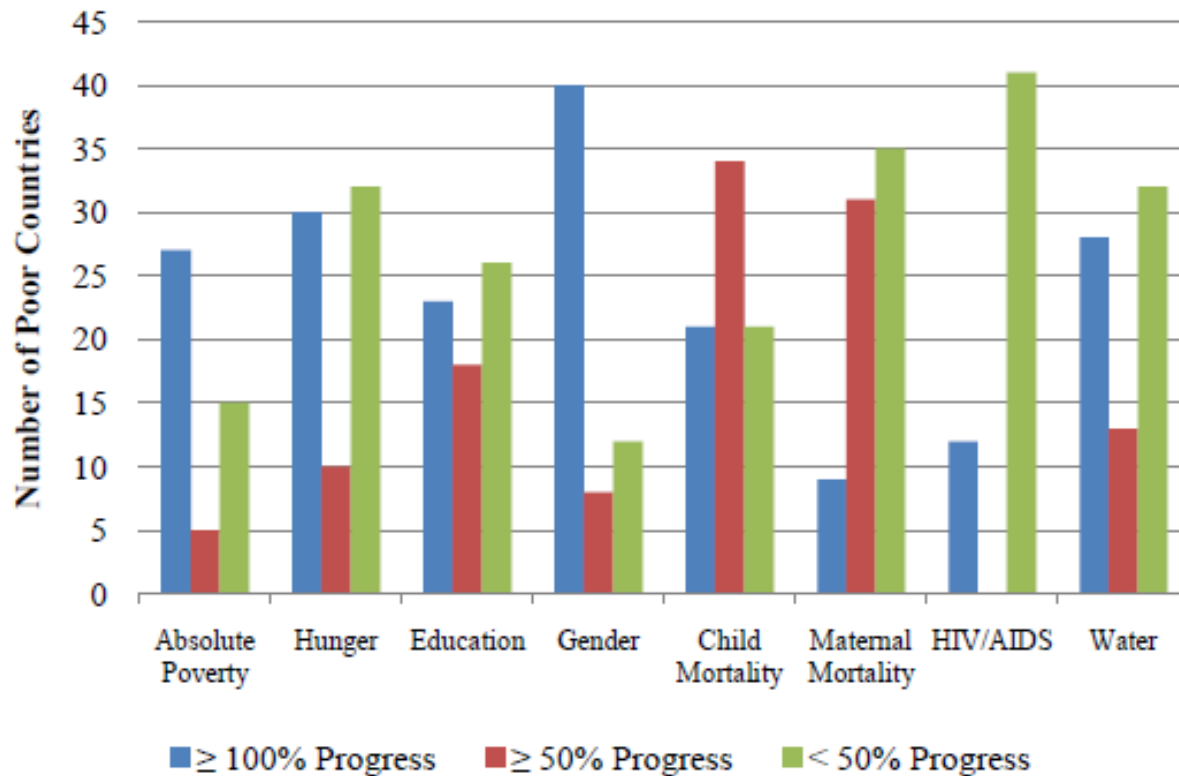
* Defined as the number of pupils of the theoretical school age for primary education enrolled in either primary or secondary school, expressed as a percentage of the total population in that age group.

Under-five mortality rate per 1,000 live births, 1990 and 2008



MDGs are in real progress

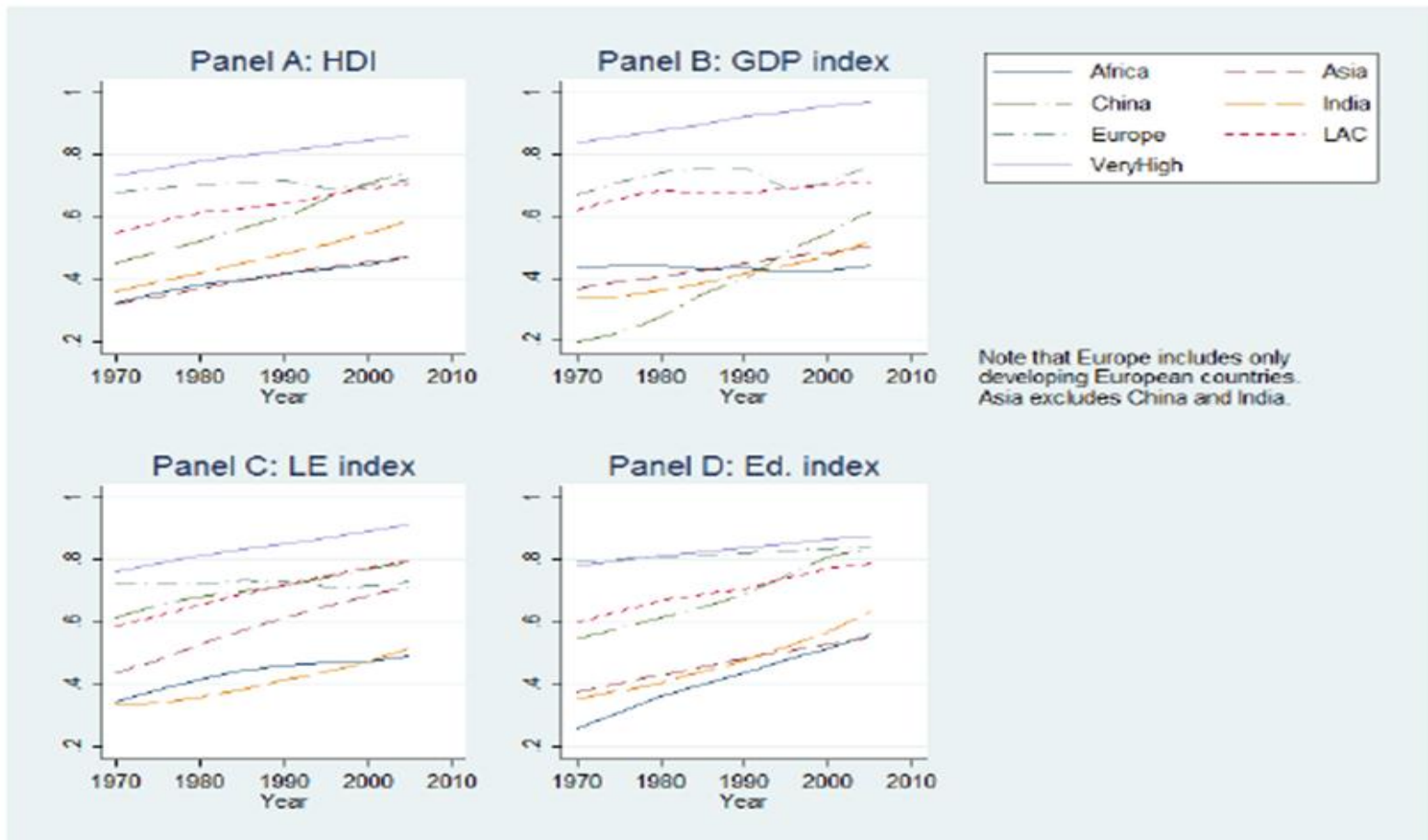
Figure 9 –MDG Indicator Progress, Number of Poor Countries



Millennium Development Goals Indicators

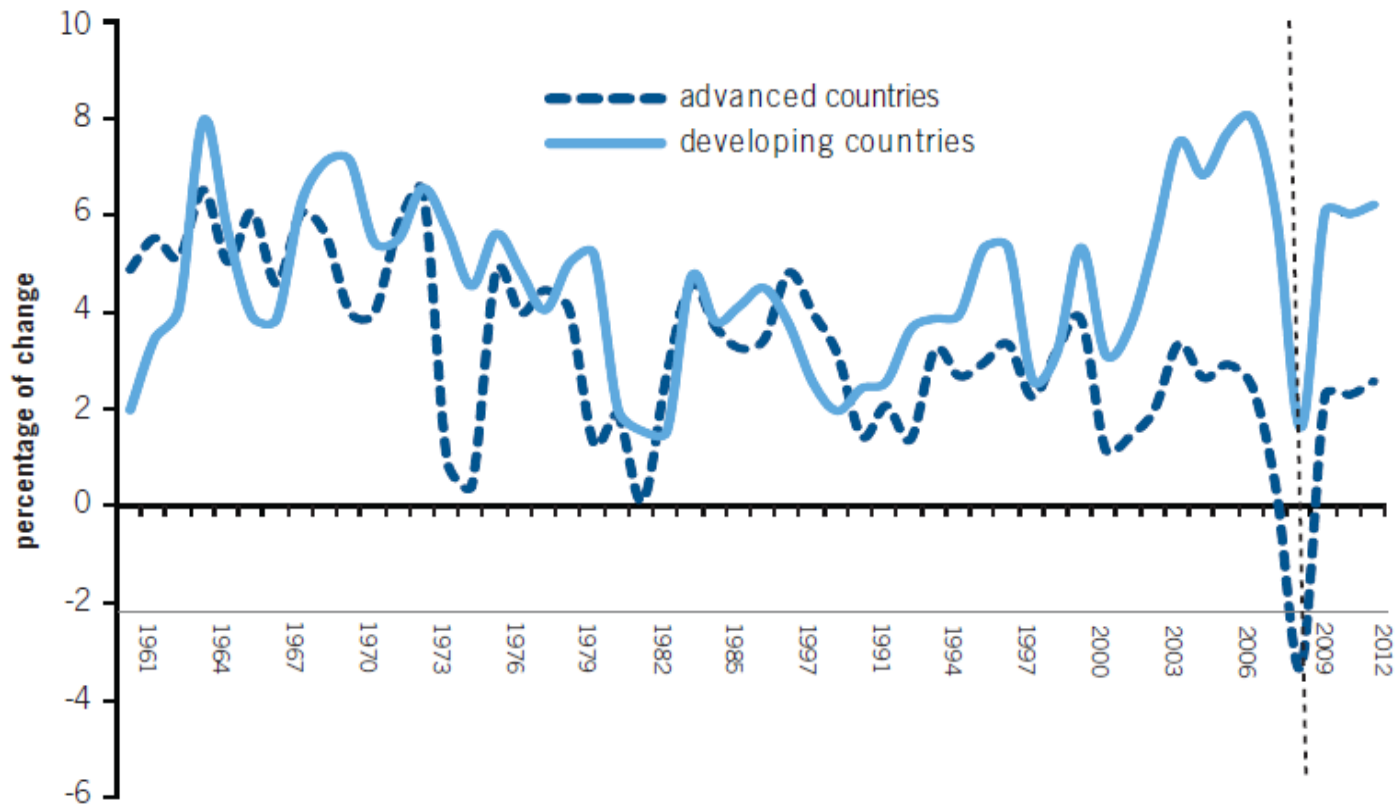
As well as HDI

Figure 5 – HDI Trends, by region, 1970-2005



Developing countries are becoming the engines of growth for the world

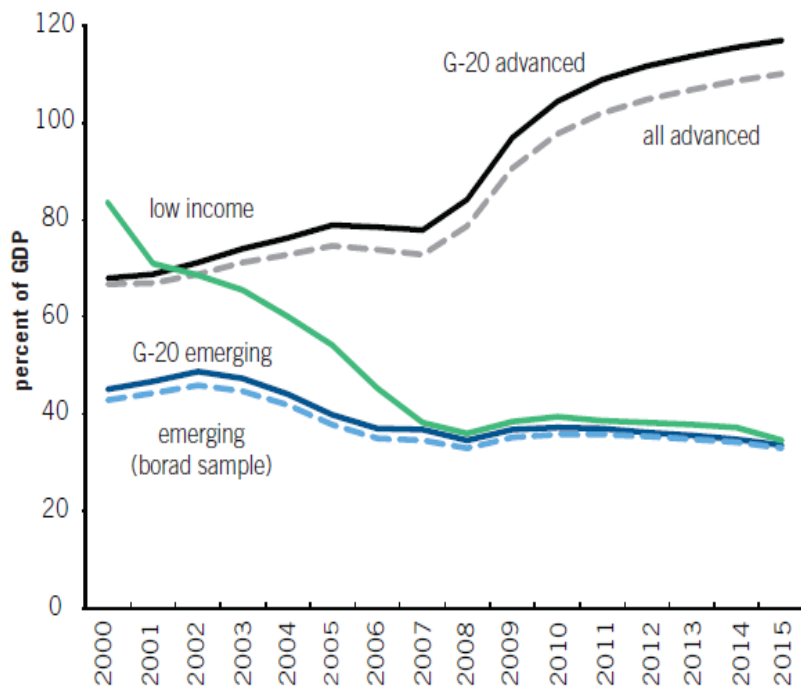
Figure 1. World Output Growth, 1961–2012



Source: World Bank WDI and DEC Interim Forecasts April 2010.

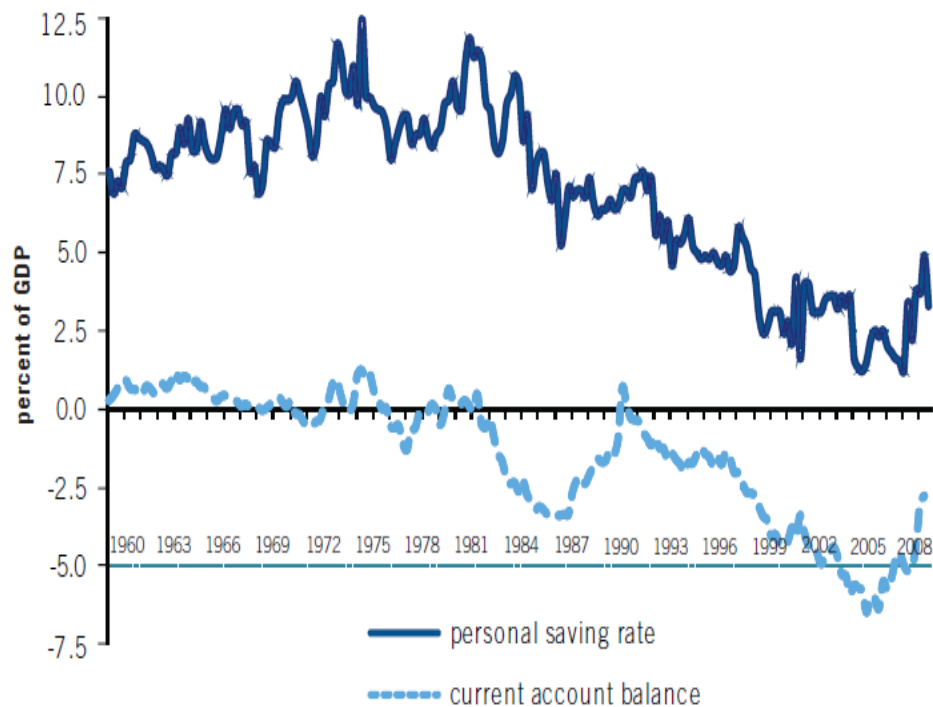
OECD countries will face a difficult adjustment and the US above all

Figure 2. General Government Gross Debt Ratios



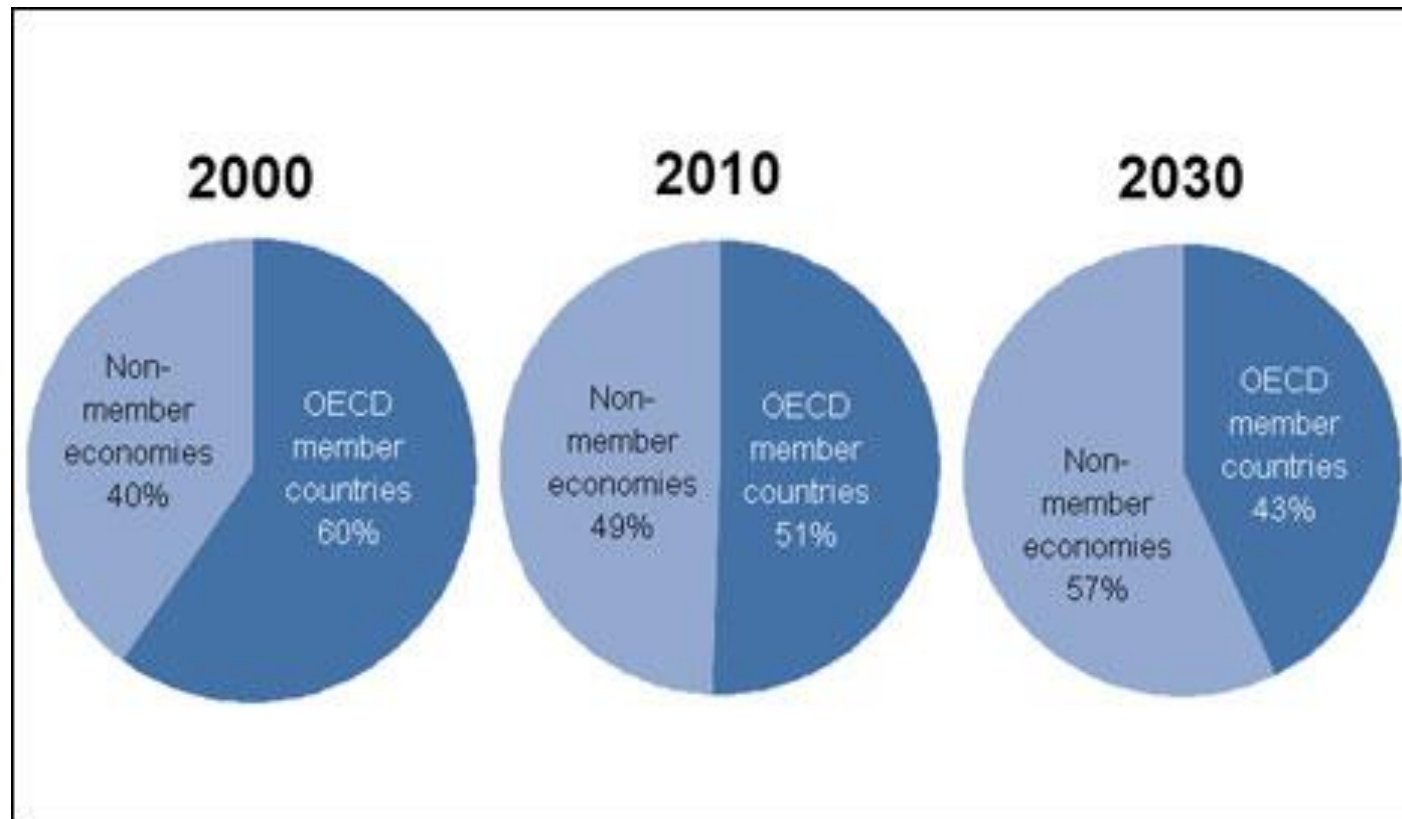
Source: IMF staff estimates based on IMF (2010).

Figure 3. United States: Personal Savings Rate and Current Account Balance, 1960–2009



Source: U.S. Bureau of Economic Analysis.

World's demand structure is shifting



Changes in absolute volumes of GDP – source OECD

Many are lagging behind but more and more are catching up

Table 2: Summary Statistics of Population, Class Size, and Total Expenditures by Region for 1990 and 2008 Survey Means

Region	Total Population (million)	Percent of Population			Total Annual Expenditures (2005 PPP \$ billion)			
		Poor (<\$2 per person per day)	Middle (\$2-\$20 per person per day)	High (>\$20 per person per day)	Poor (<\$2 per person per day)	Middle (\$2-\$20 per person per day)	High (>\$20 per person per day)	Total
1990								
Developing Asia	2692.2	79	21	0	843	721	42	1605
Developing Europe	352.3	12	84	4	23	638	141	802
Latin America and the Caribbean	352.5	20	71	9	31	641	480	1153
Middle East and North Africa	162.3	18	80	2	16	247	39	303
OECD	639.0	0	24	76	0	735	9636	10371
Sub-Saharan Africa	274.8	75	24	1	70	109	44	224
2008								
Developing Asia	3383.7	43	56	1	696	3285	350	4331
Developing Europe	356.6	2	87	11	4	974	425	1403
Latin America and the Caribbean	454.2	10	77	13	22	1008	924	1953
Middle East and North Africa	212.8	12	86	3	14	365	66	445
OECD	685.4	0	16	84	0	542	12617	13159
Sub-Saharan Africa	393.5	66	33	1	100	206	69	376

PPP = purchasing power parity.

Source: Author's estimates.

And more is to come

Table 2. Numbers (millions) and Share (percent) of the Global Middle Class

	2009		2020		2030	
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1740	54%	3228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1845	100%	3249	100%	4884	100%

Table 3. Spending by the Global Middle Class, 2009 to 2030
(millions of 2005 PPP dollars)

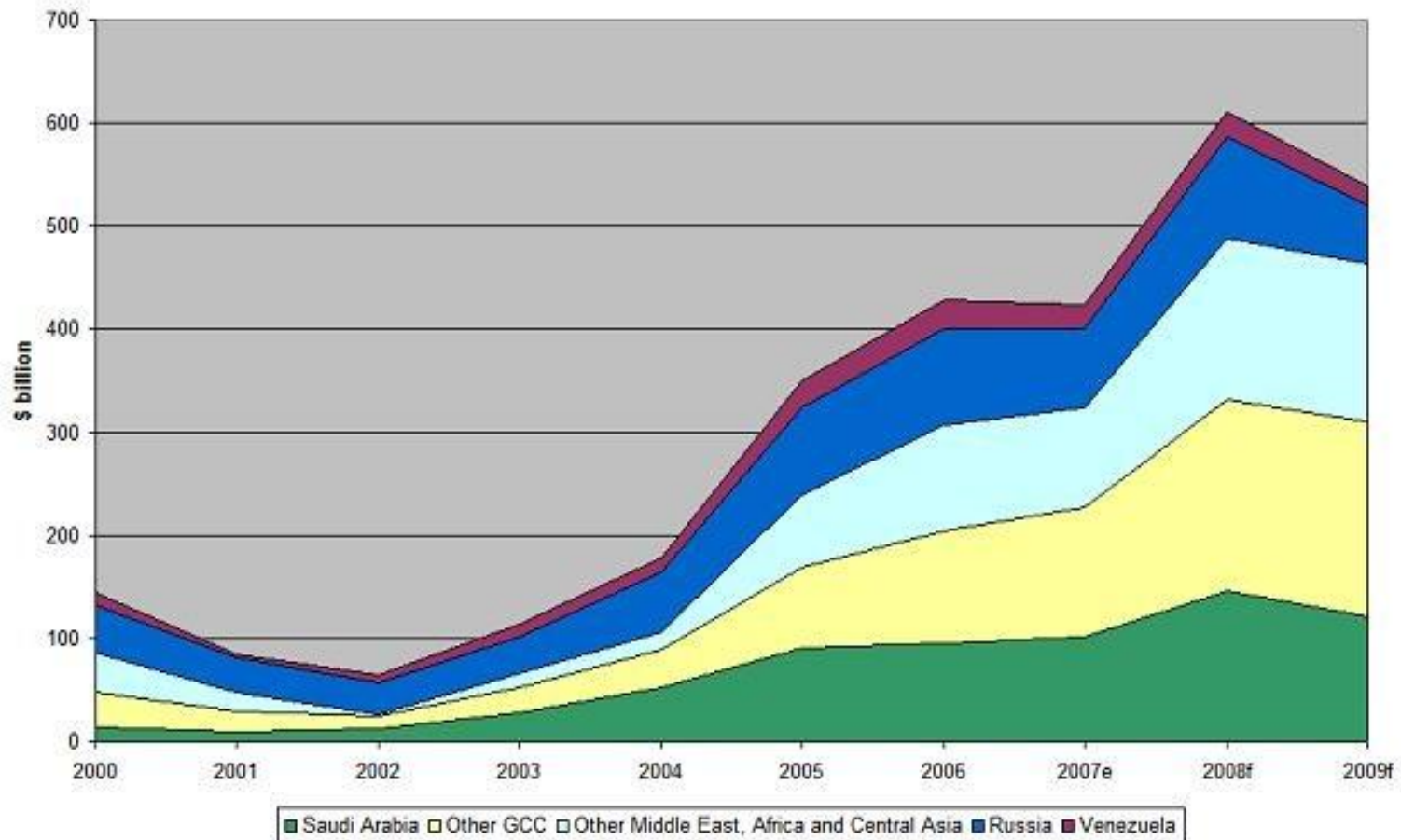
	2009		2020		2030	
North America	5602	26%	5863	17%	5837	10%
Europe	8138	38%	10301	29%	11337	20%
Central and South America	1534	7%	2315	7%	3117	6%
Asia Pacific	4952	23%	14798	42%	32596	59%
Sub-Saharan Africa	256	1%	448	1%	827	1%
Middle East and North Africa	796	4%	1321	4%	1966	4%
World	21278	100%	35045	100%	55680	100%

2. Four main development models based on world inequalities shape the modern growth

- 2.1 The “dutch disease vanquisher” model
- 2.2 The “double surplus sweatshop” model
- 2.3 The “sweatwalker” model
- 2.4 The “@sweater” model

2.1 The “dutch disease vanquisher” model

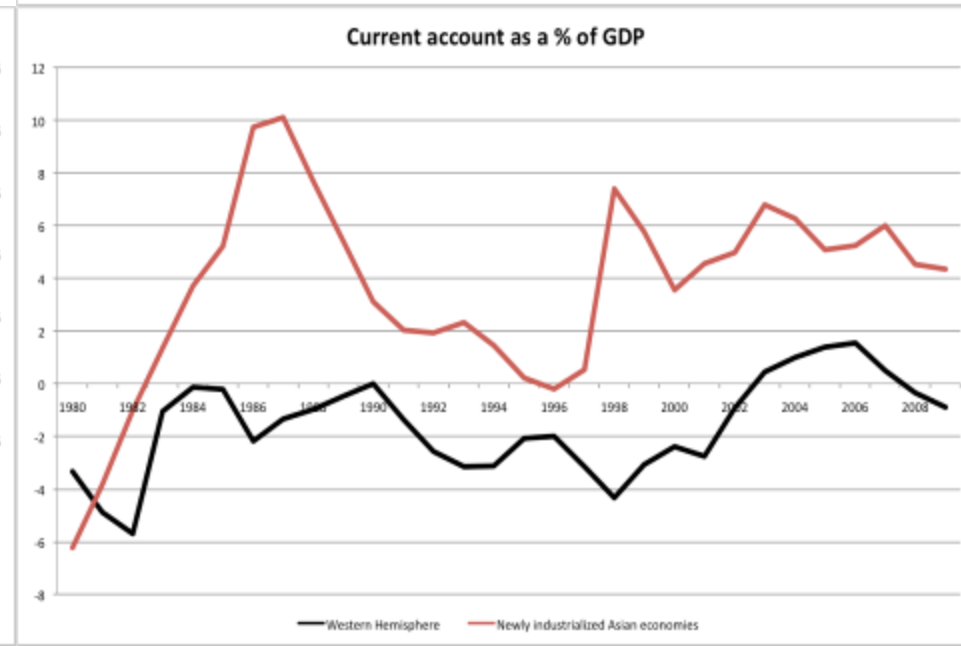
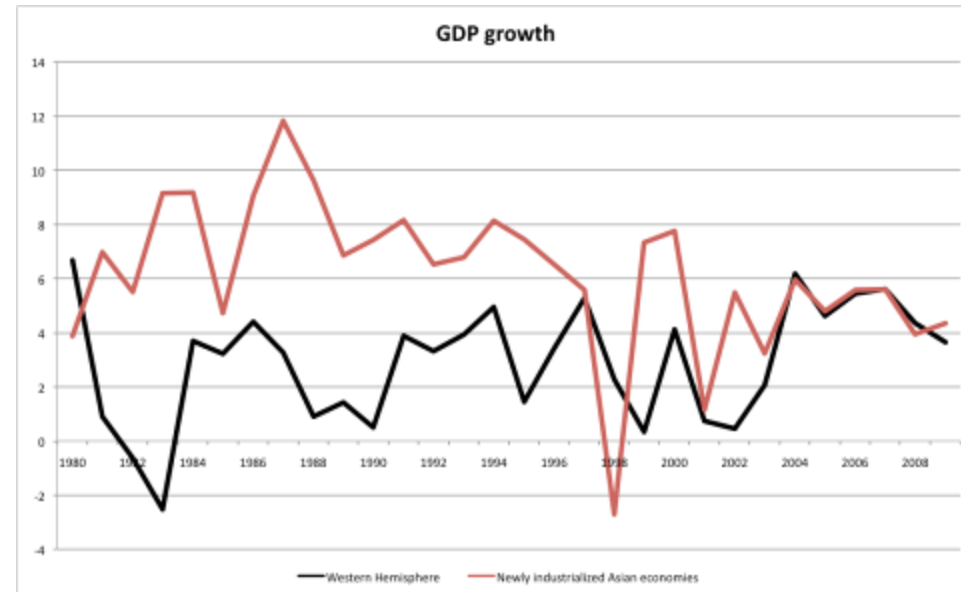
Current Account Surpluses of Oil Exporting Countries



2.2 The double surplus sweatshop models (i)

Killing the old double deficit models and theory

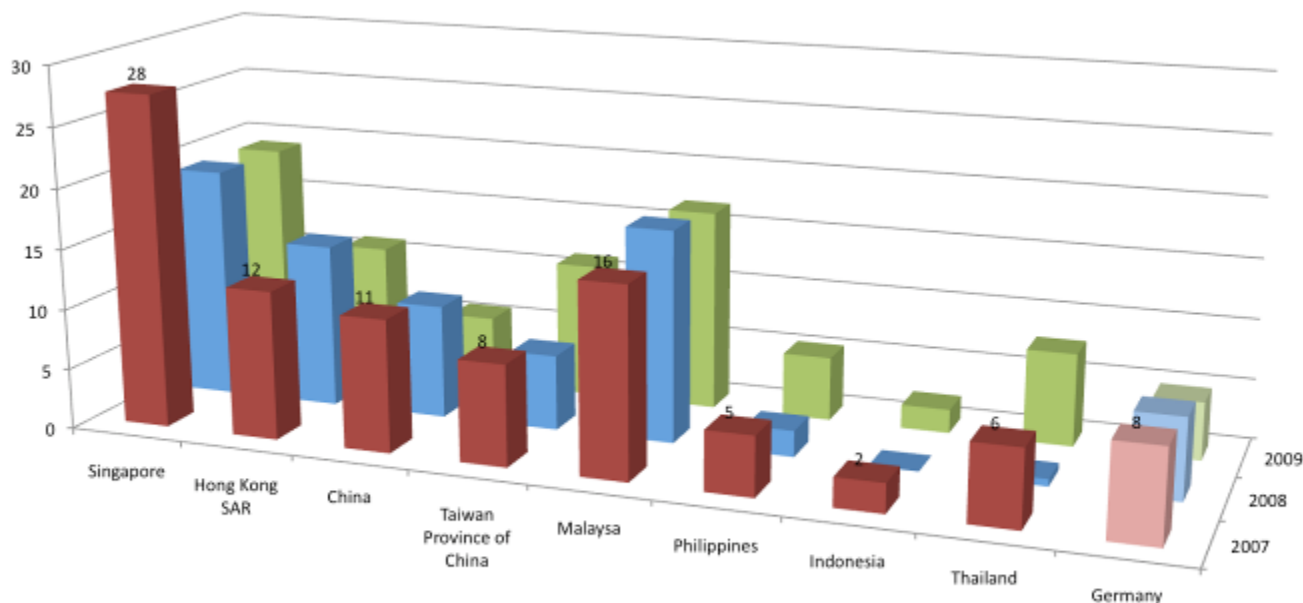
Debt crisis and economic collapse in 80's Latin America (please do not forget Africa's failure)



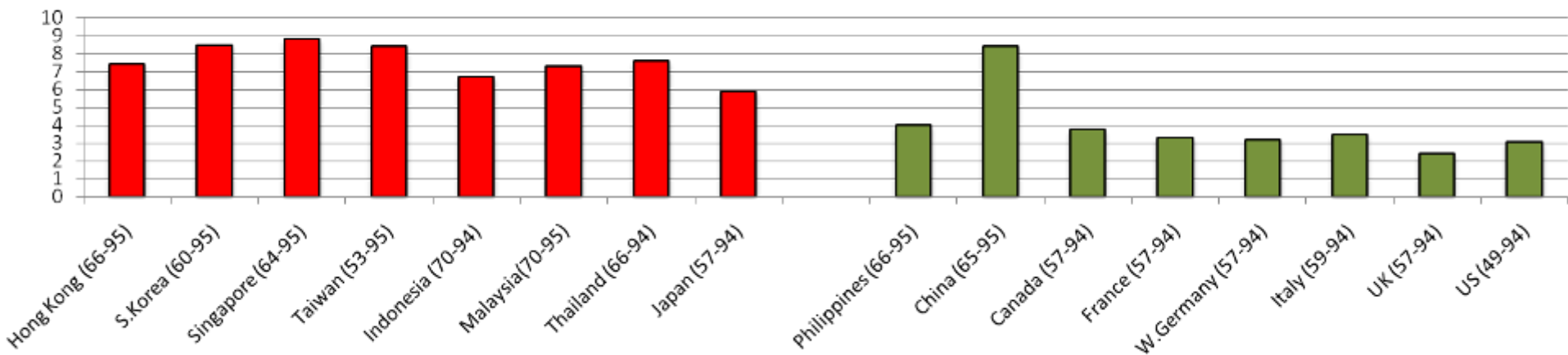
2.2 The double surplus sweatshop models (ii)

The reign of double surpluses

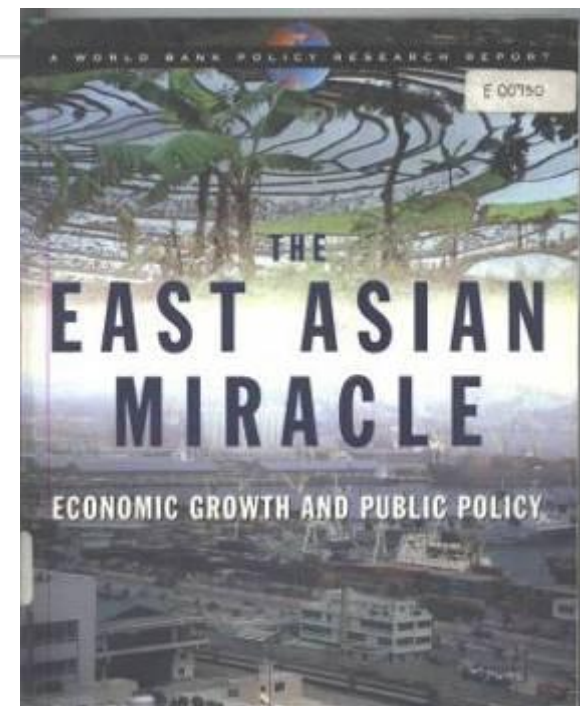
Current account of selected export-led economies (% of GDP)



Average GDP growth*



* : Periods specified in parenthesis



2.3 Exporting men: the emergence of the sweatwalker model



Principaux pays bénéficiant d'envois de fonds, 2006 :
(en % du PIB)

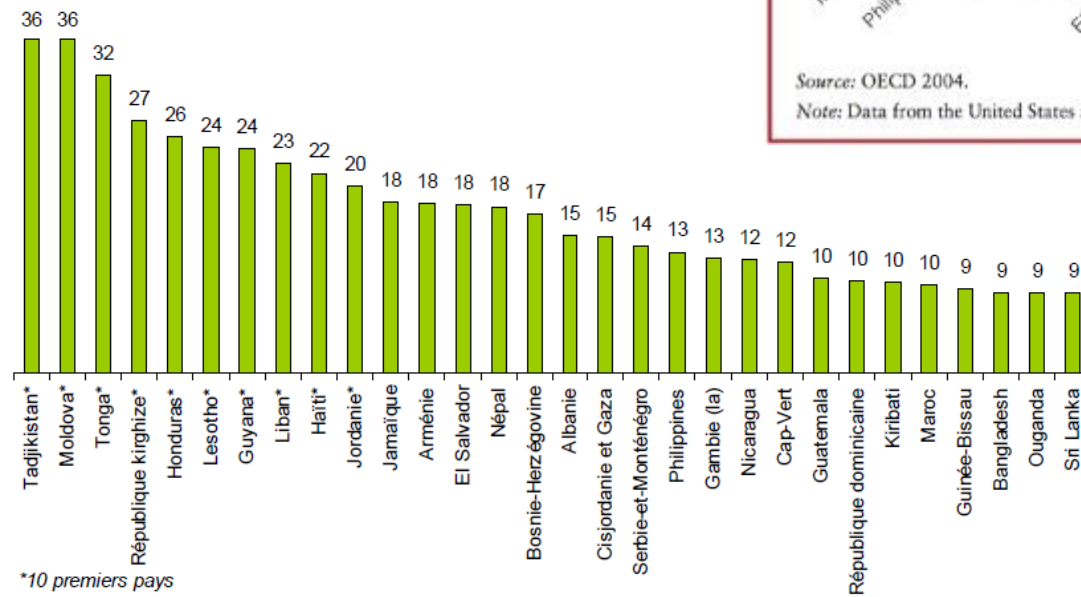
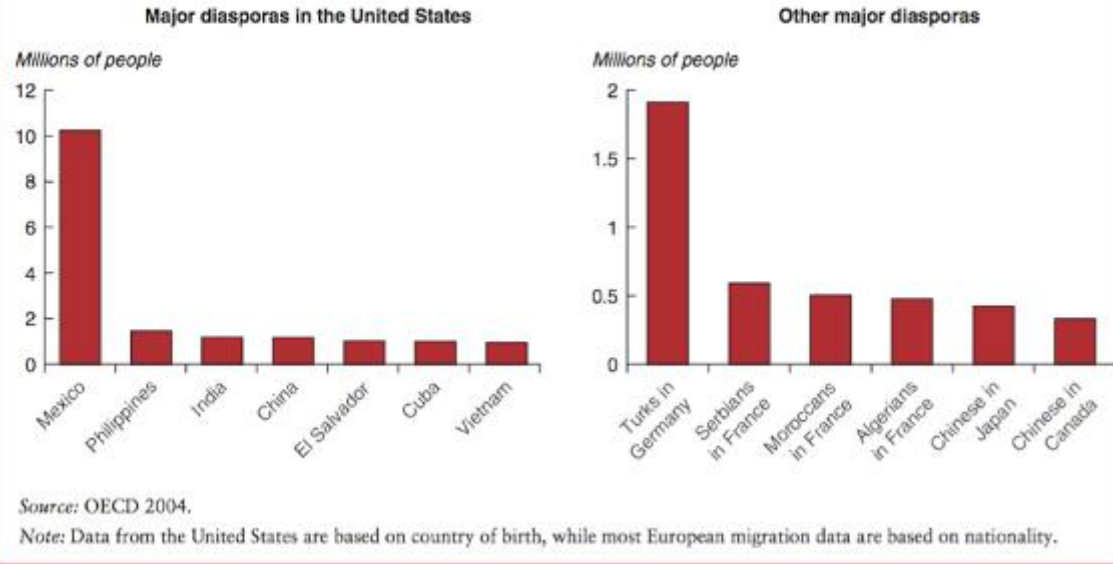


Figure 3.2 Major developing country diasporas in developed countries

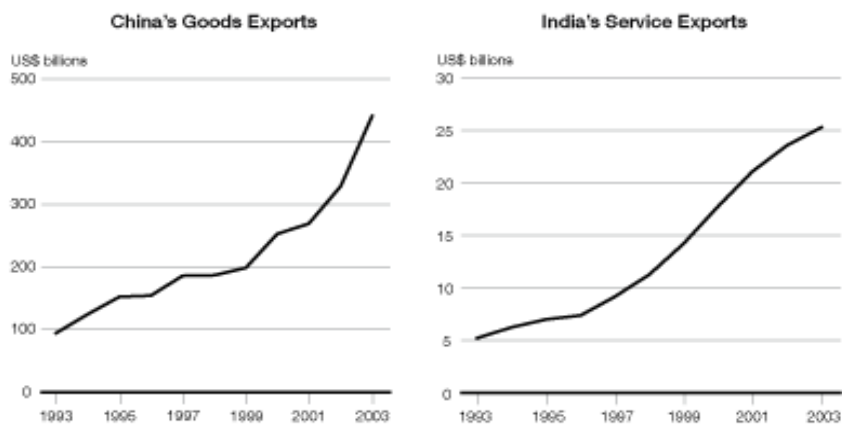


*10 premiers pays

Sources : Groupe d'étude des perspectives de développement, Banque mondiale

2.4 Newcomers to fast growth pattern: from @sweaters to globalservice sweaters

After the world's factory, the world's desk (and hospital)?



Source: World Trade Organization.

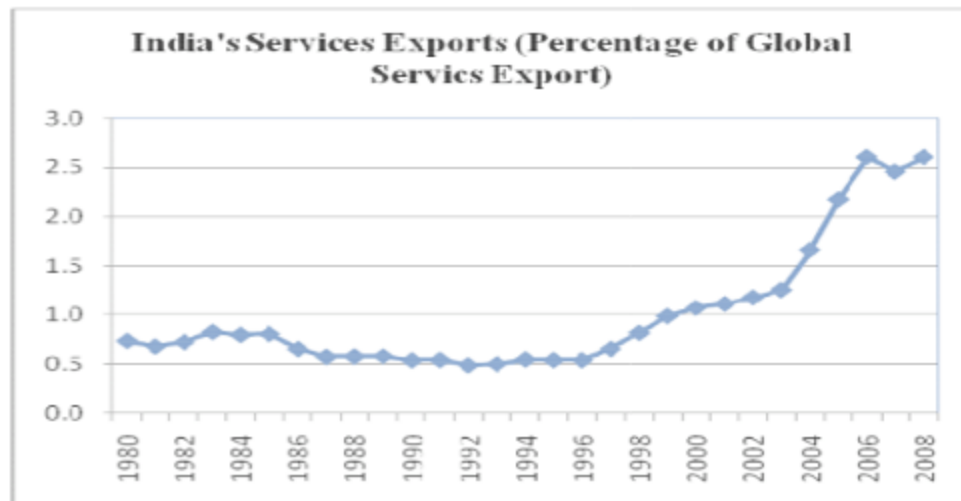


Table 1. Hourly wages for selected occupations in the United States and India, 2002/2003 (in US dollars).

Occupation	Hourly wage rate, US	Hourly wage rate, India
Telephone operator	\$12–\$13	Under \$1
Health record technologists/ medical transcriptionists	\$13–\$14	\$1.50–\$2
Payroll/Data entry clerk	\$15–\$20	\$1.50–\$2
Legal assistant/paralegal	\$17–\$18	\$6–\$8
Accountant	\$23–\$24	\$6–\$15
Financial researcher/analyst	\$33–\$35	\$6–\$15
Software developer	\$60	\$6

Sources: Bardhan, AD and CA Kroll (2003). *The New Wave of Outsourcing*. Research Report. Berkeley: Fisher Center for Real Estate and Urban Economics, University of California; and McKinsey Global Institute (2003). *Offshoring: Is it a Win-Win Game?*. San Francisco, August.

Table 2. Leading destinations of offshore outsourcing.

Today's Leader (1st Tier)		Up and Comers (3rd Tier)	
India		Belarus	Lithuania
		Brazil	New Zealand
		Caribbean	Singapore
		Egypt	Ukraine
		Estonia	Venezuela
		Latvia	
Challengers (2nd Tier)		Beginners (4th Tier)	
Canada	Mexico	Bangladesh	Nepal
China	Northern Ireland	Cuba	Senegal
Czech Republic	Philippines	Ghana	Sri Lanka
Hungary	Poland	South Korea	Taiwan
Ireland	Russia	Malaysia	Thailand
Israel	South Africa	Mauritius	Vietnam

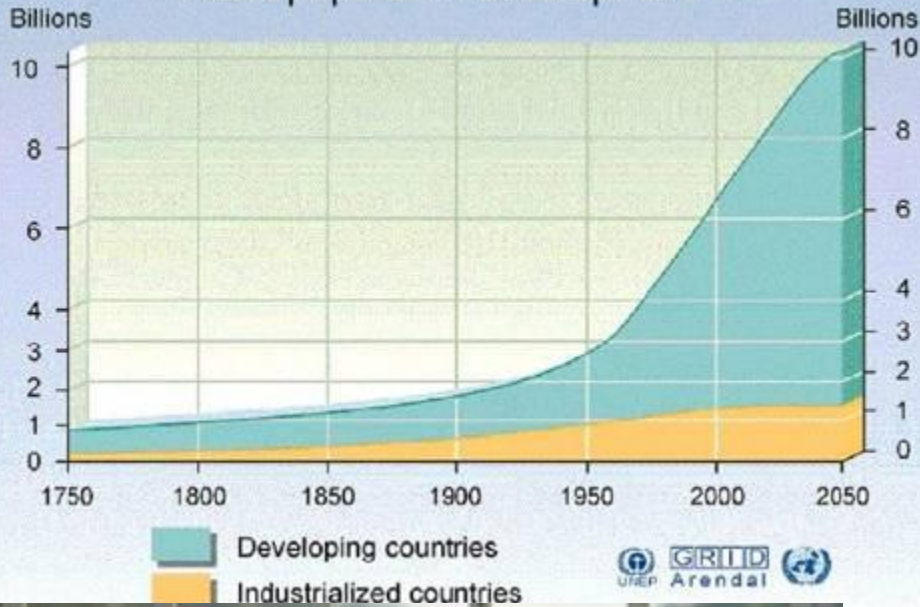
Source: Gartner Research Inc. (2003). *The Changing Shape of Outsourcing*, June.

3. High growth and rapid increase
of welfare apparently shape the
world, but...

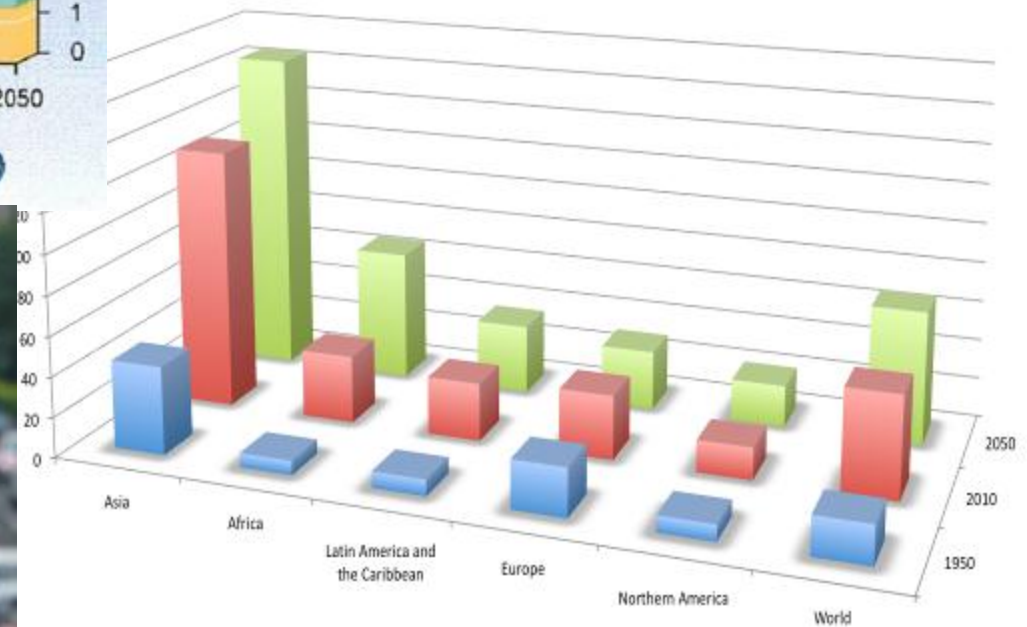
the inversion of scarcities
questions the sustainability of this
successful pattern

3.1 The great demographic shift, or Man as a disposable commodity

World population development



Density (hab/km²)



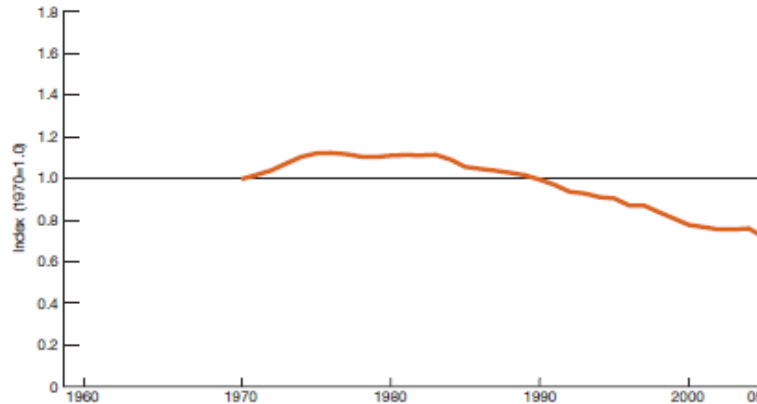
Source : UN Population division



3.2 The end of nature

Overshooting: mankind's footprint

Fig. 1: LIVING PLANET INDEX, 1970–2005



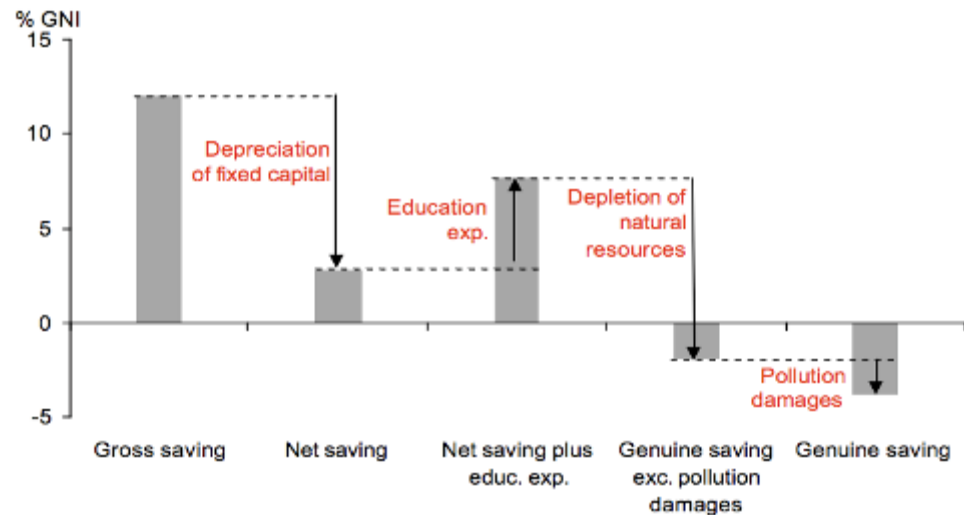
LIVING PLANET REPORT 2008

Nature as a competitive asset



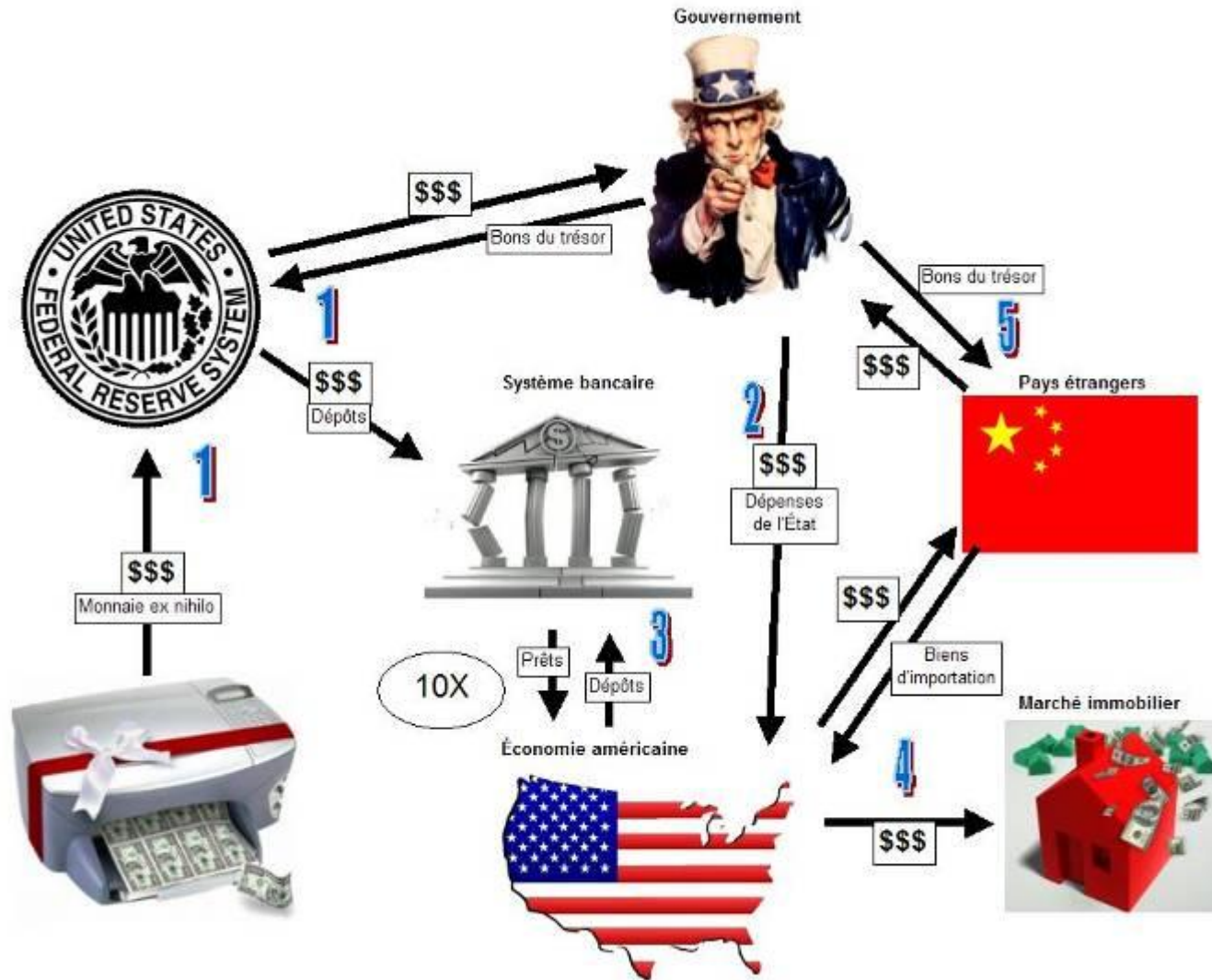
Kribi waterfalls, Southern Cameroun

Figure 3.2: Adjustments in the Genuine Savings Calculation for Bolivia (2003)

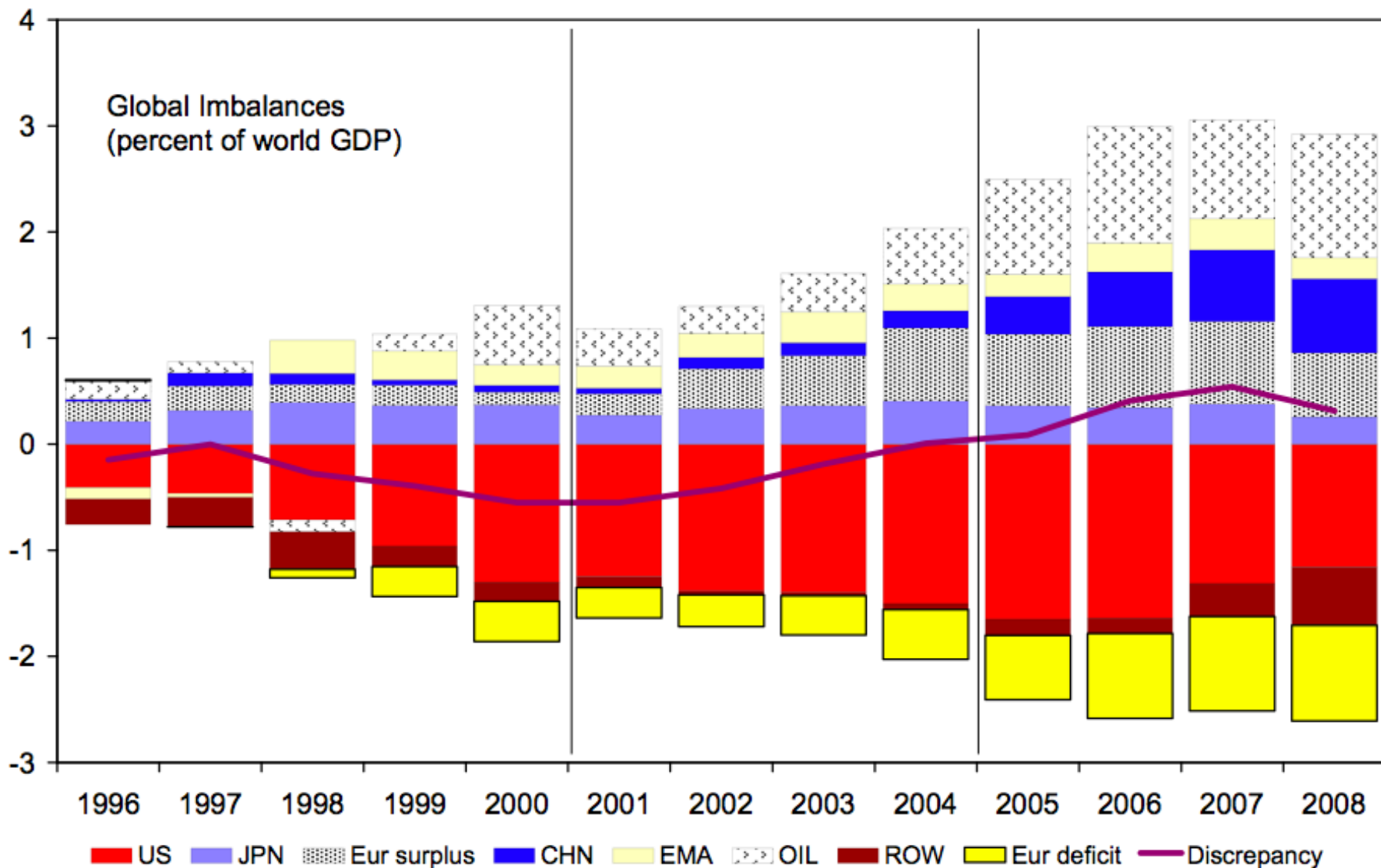


4. The three main channels for unsustainability

4.1 Macroeconomic un-sustainability: the global link



Global imbalances in a world of reversed scarcities generate financial volatility, private and public unsustainable indebtedness pressure, exchange rate wars, and ultimately lead into global recession



4.2 Social un-sustainability: both North and South

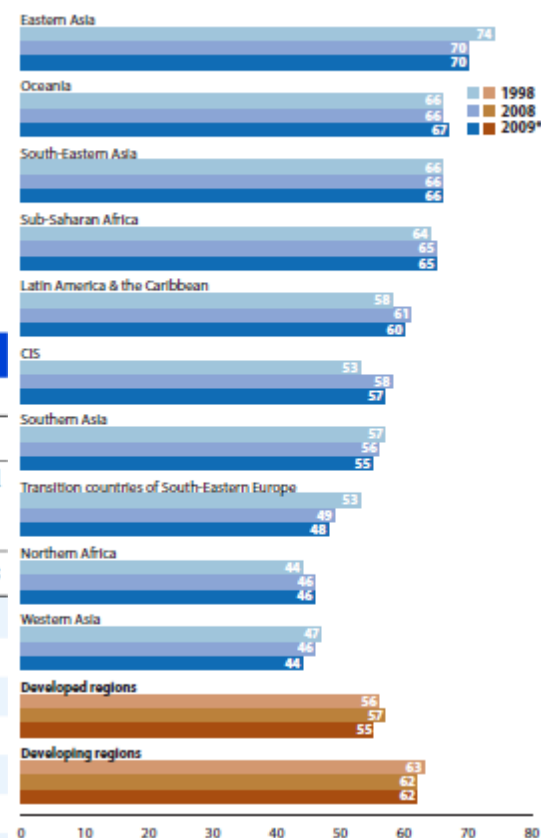
It is mainly rooted in inequalities and low employment generation growth

Table 2 Trends in minimum wages

	Real growth in minimum wages (%)	Minimum wages/ average wages (%)		Minimum wages/ GDP per capita (%)	
	2001–07	2000–02	2004–07	2000–02	2004–07
Developed countries	+ 3.8	39	39	38	37
Developing countries	+ 6.5	36	40	76	68
Total	+ 5.7	37	39	68	60

Source: ILO Wage Database

Employment-to-population ratio, 1998, 2008 and 2009 preliminary estimates



* Data for 2009 are preliminary.

Tableau 3c : Évolution des salaires par décile

France			Allemagne			Royaume-Uni			États-Unis		
Taux de croissance annuel moyen, en pourcentage 2000-2005			Taux de croissance annuel moyen, en pourcentage 1984-2004			Taux de croissance annuel moyen, en pourcentage 1980-2003			Taux de croissance annuel moyen, en pourcentage 1980-2005		
	Hommes	Femmes		Hommes	Femmes		Hommes	Femmes		Hommes	Femmes
P10	1,02	1,14	P10	1,07	1,75	P10	1,24	2,05	P10	-0,65	0,12
P20	0,71	0,93	P20	0,99	1,74	P20	1,24	2,08	P20	-0,52	0,32
P30	0,52	0,72	P30	1,13	1,41	P30	1,35	2,22	P30	-0,42	0,46
P40	0,38	0,43	P40	1,25	1,42	P40	1,50	2,34	P40	-0,30	0,55
P50	0,19	0,26	P50	1,39	1,71	P50	1,67	2,53	P50	-0,24	0,75
P60	0,10	0,16	P60	1,39	1,65	P60	1,82	2,70	P60	0,07	0,93
P70	0,06	0,22	P70	1,44	1,79	P70	1,99	2,90	P70	0,21	1,16
P80	0,07	0,31	P80	1,56	1,72	P80	2,19	3,13	P80	0,49	1,30
P90	0,09	0,47	P90	1,56	1,72	P90	2,54	3,19	P90	0,78	1,51

Source: MDGs Report 2010

All linked



Food riots in Haiti, April 2008



Riots in French suburbs, 2005



Subsaharan migrants on their way to Europe

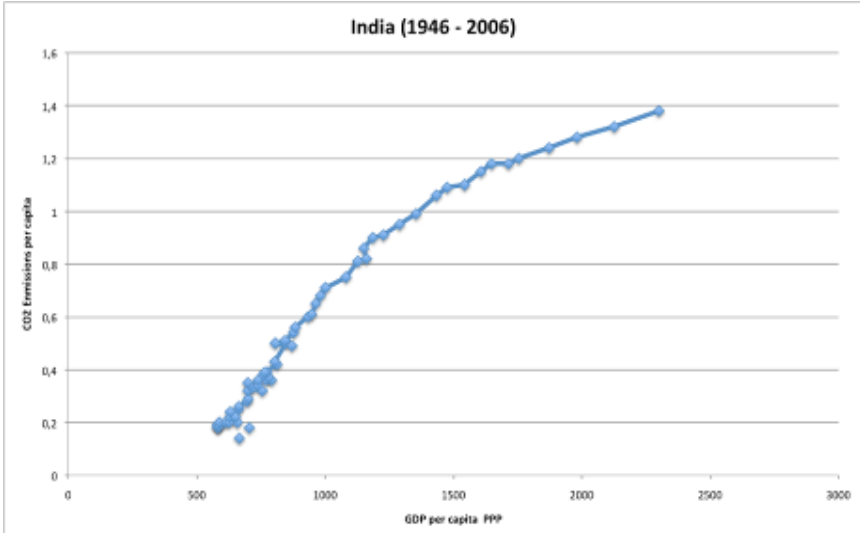
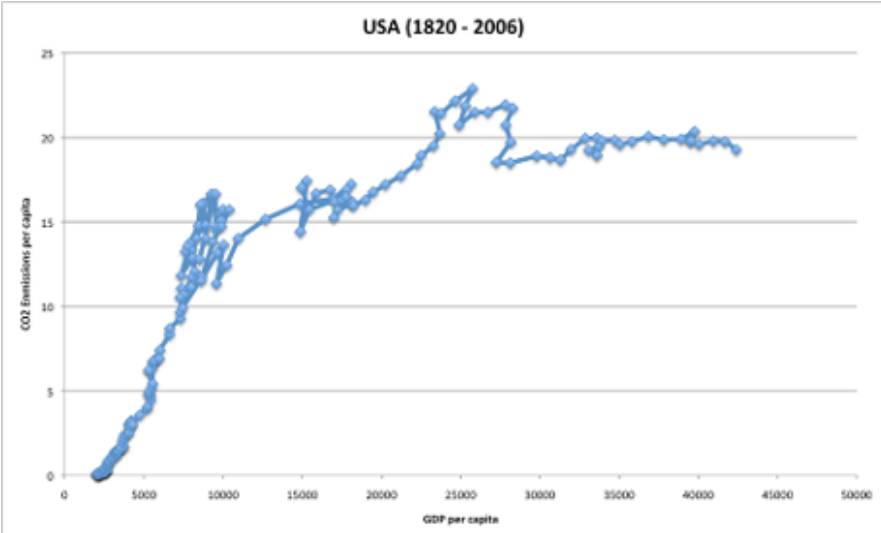
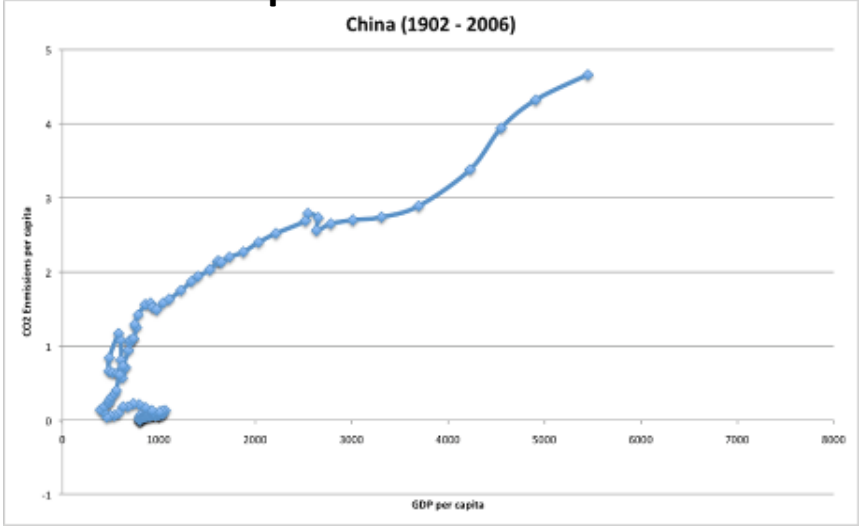
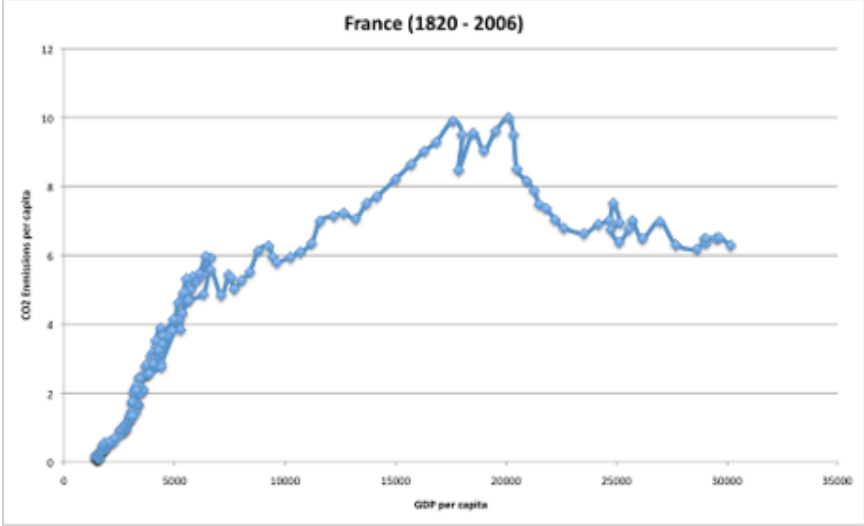


Al Qaida au Maghreb Islamique (AQMI), October 2010

4.3 Environmental unsustainability: the major structural economic realignments

The environmental Kuznets Law

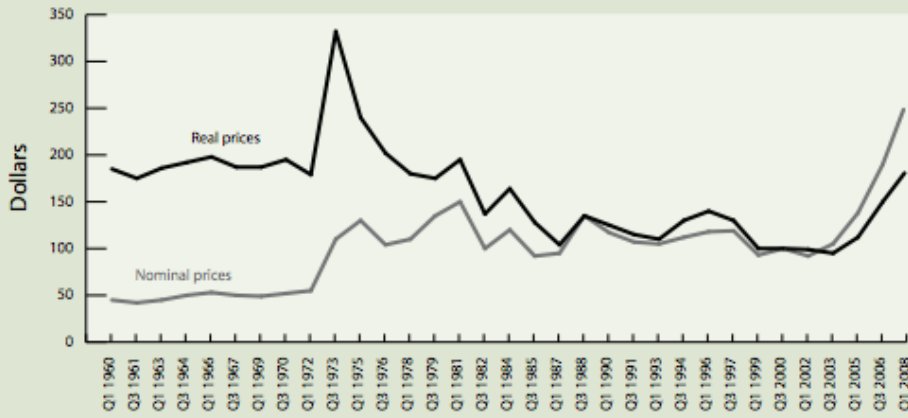
Carbon emissions, biodiversity loss, local and global pollutants... all wrong directions: back to the club of Rome? The laws of relative and absolute impacts



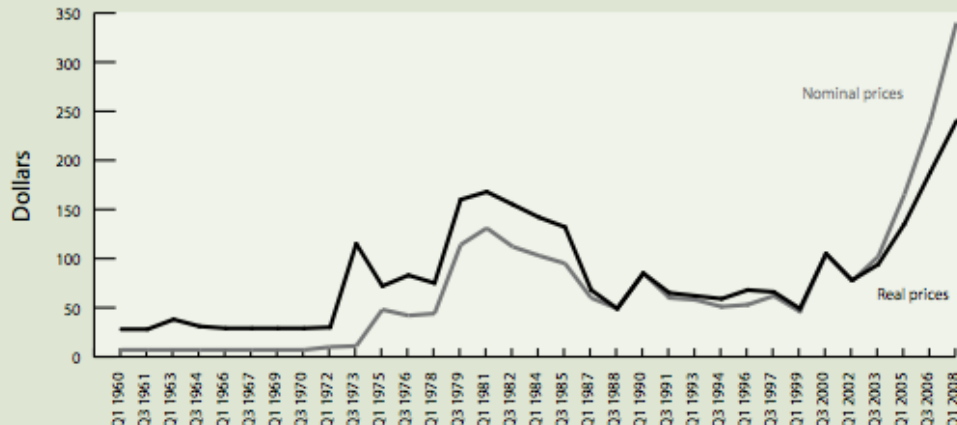
From the economics of flows to the economics of assets

Commodities, space, air, water, land: from expansive to expensive

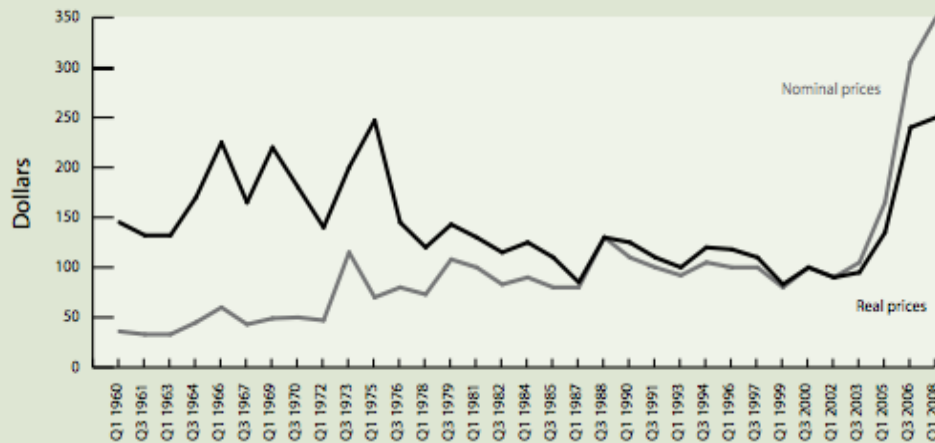
All commodities



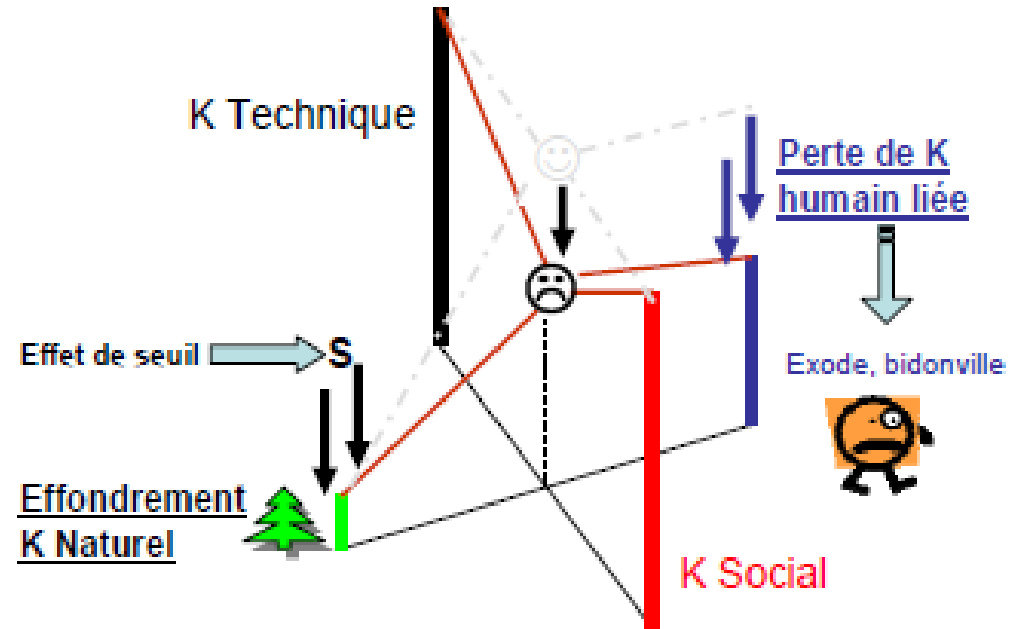
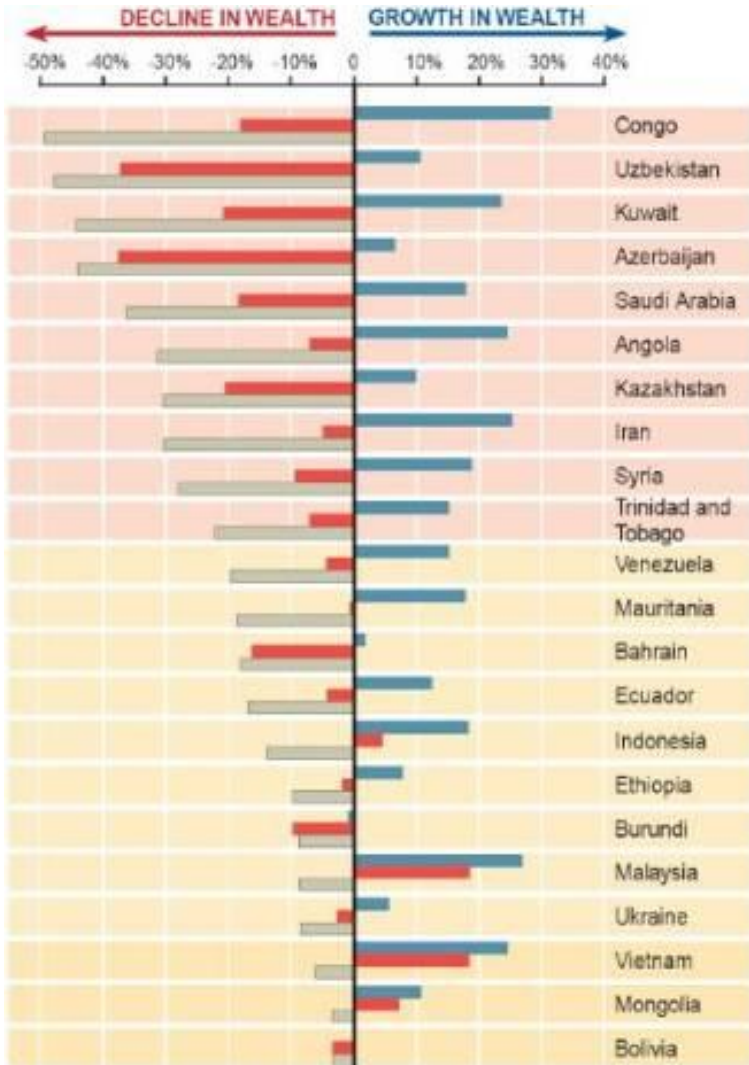
Crude petroleum



Minerals and metals



Genuine growth, hidden realities



Pierre-Noël Giraud, Denis Loyer, Capital naturel et développement durable en Afrique, octobre 2006

Legend for the columns

- █ Net savings, in % of GNI: indicator of wealth taking into account only economic parameters.
- █ Adjusted net savings, in % of GNI: net savings indicator inclusive human capital (e.g. education) and natural resources depletion (e.g. unsustainable forestry, energy use, CO₂ pollution)
- █ Difference between net savings and adjusted net savings in 2001

Legend for the background

- Resource depletion and damage accounted for loss of:
- 25 to 60%
 - 10 to 25%
 - 5 to 10%

Towards a slow and dirty growth path?



2. This is Africa's Moment (but how long will it be?)



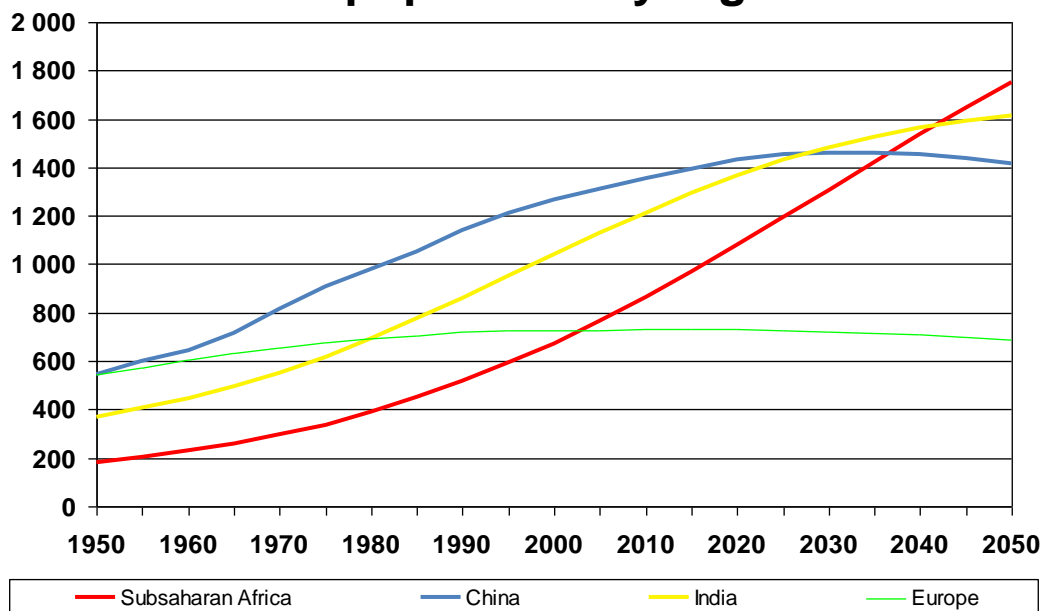
Streets of Lagos

Africa is the major question mark of sustainability for the second half of the century

- Growth and demographic patterns make it the combination of India and China in social, environmental and macroeconomic challenge
- Africa's size is the addition of Europe, the US, China, India, and more: it is the cornerstone of the twentieth century assets economy
- Africa is already a disputed territory between the "new hungrys": its fate is structured south-south

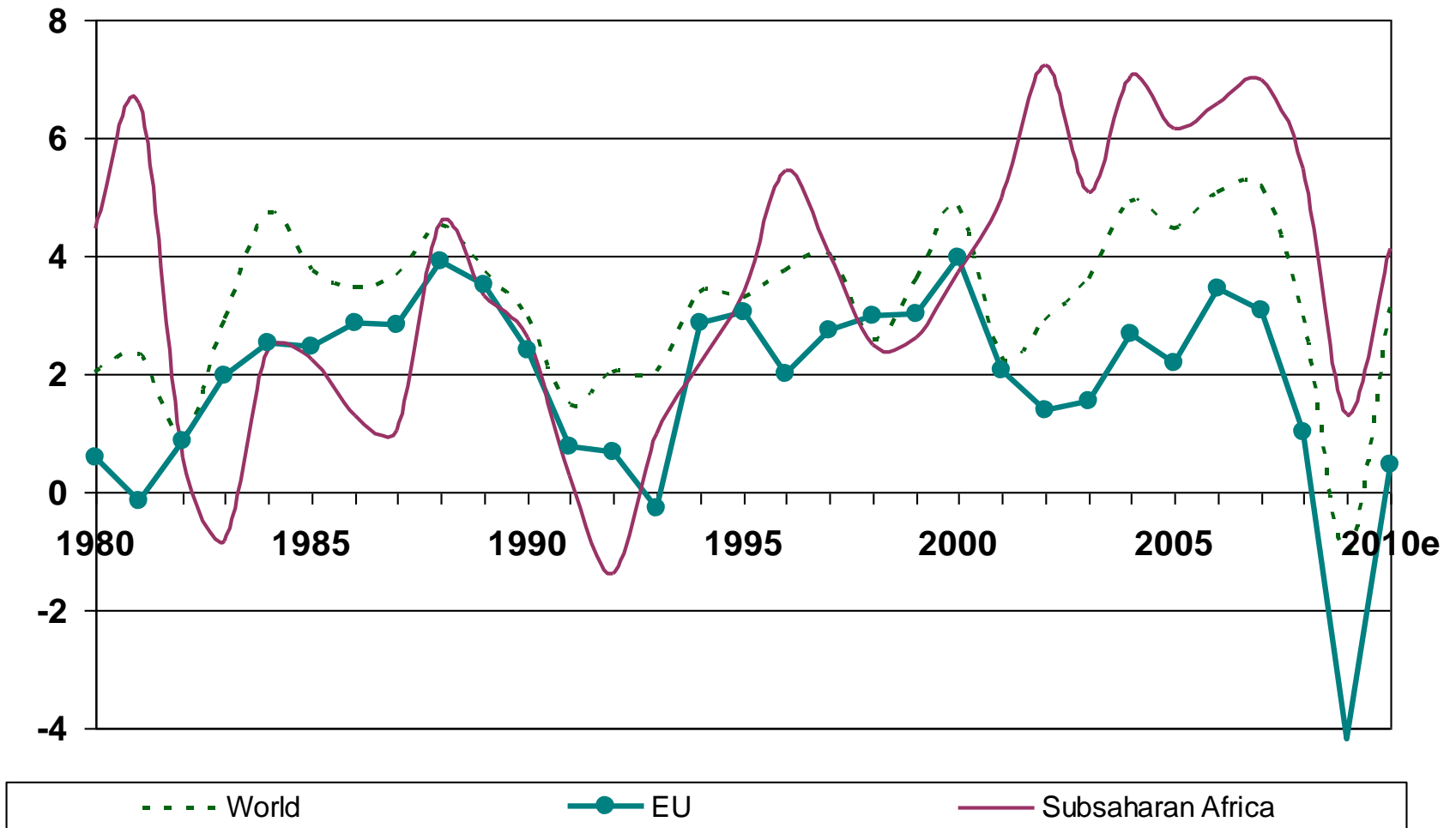


World population by region



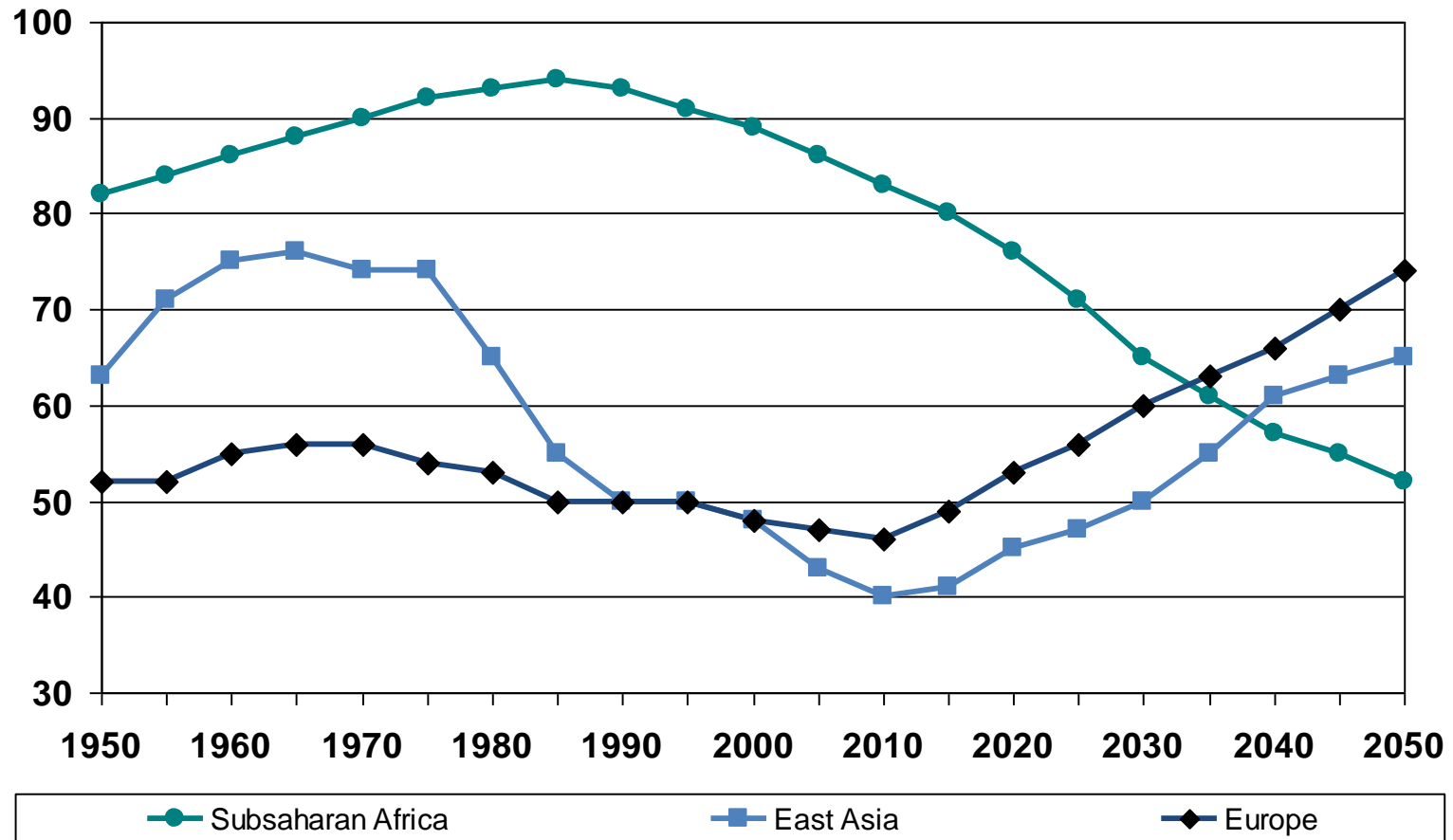
Growth has resumed

Economic Growth, by region, 1980-2010



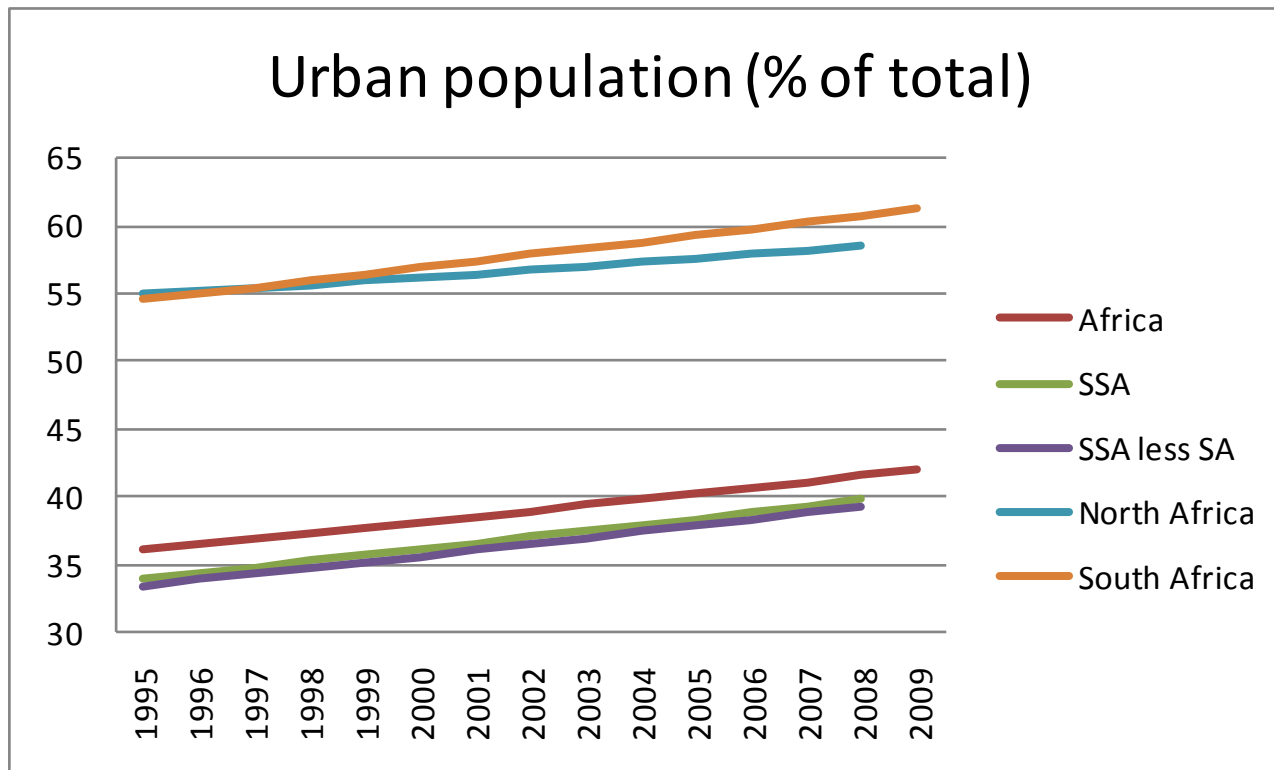
And should last (for some time)

Africa dependency ratio

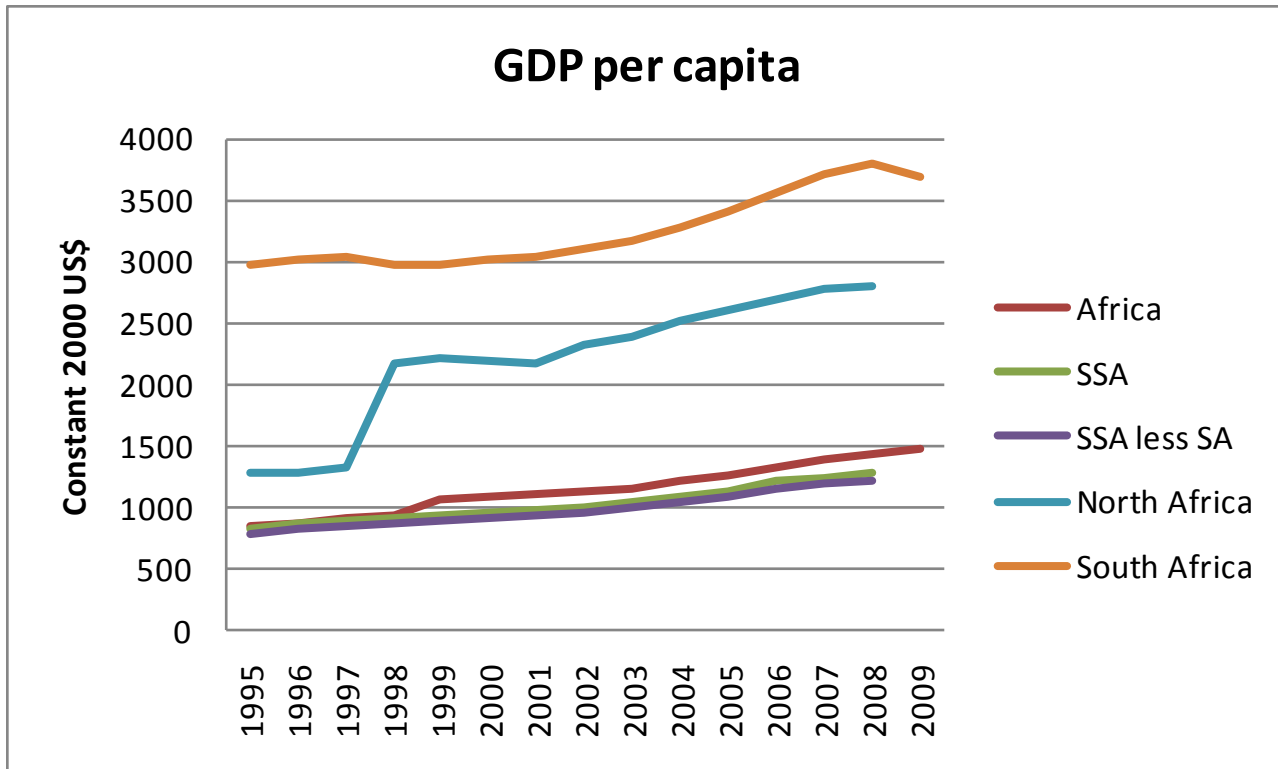


Note: the dependency ratio is the ratio between the "dependent" population (aged 0-14 years old and 65 more) and the population in "working age" (between 15 and 65). It is expressed as the number of "dependent" for 100 people in working age. East Asia = China, Northern, southern Korea, Japan Mongolia Korea. Europe including Russia. Source: United Nations, World Population Prospects: The 2008 revision (median scenario), 2009.

A potential horizon of thirty years?...



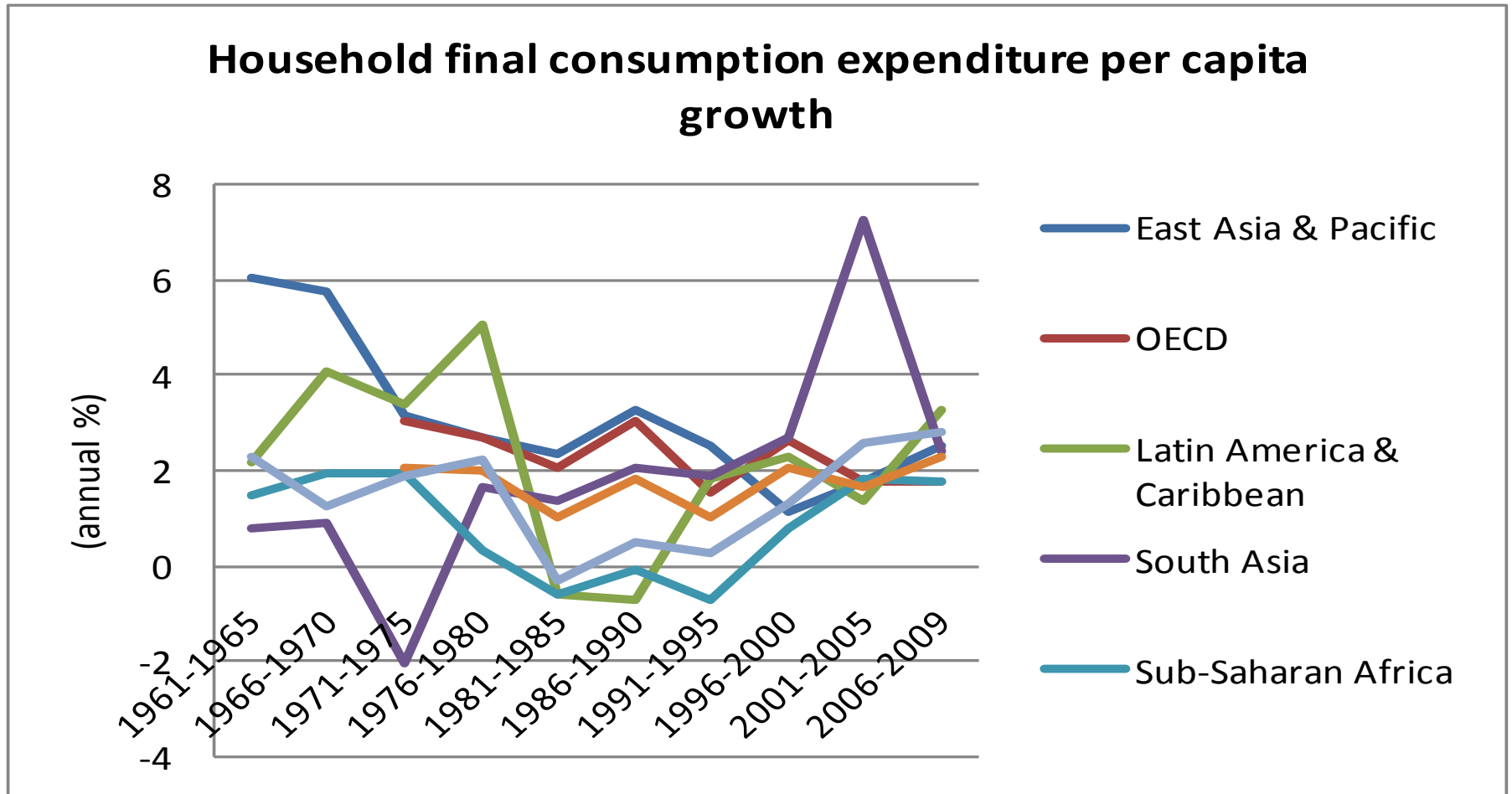
It is producing real impact



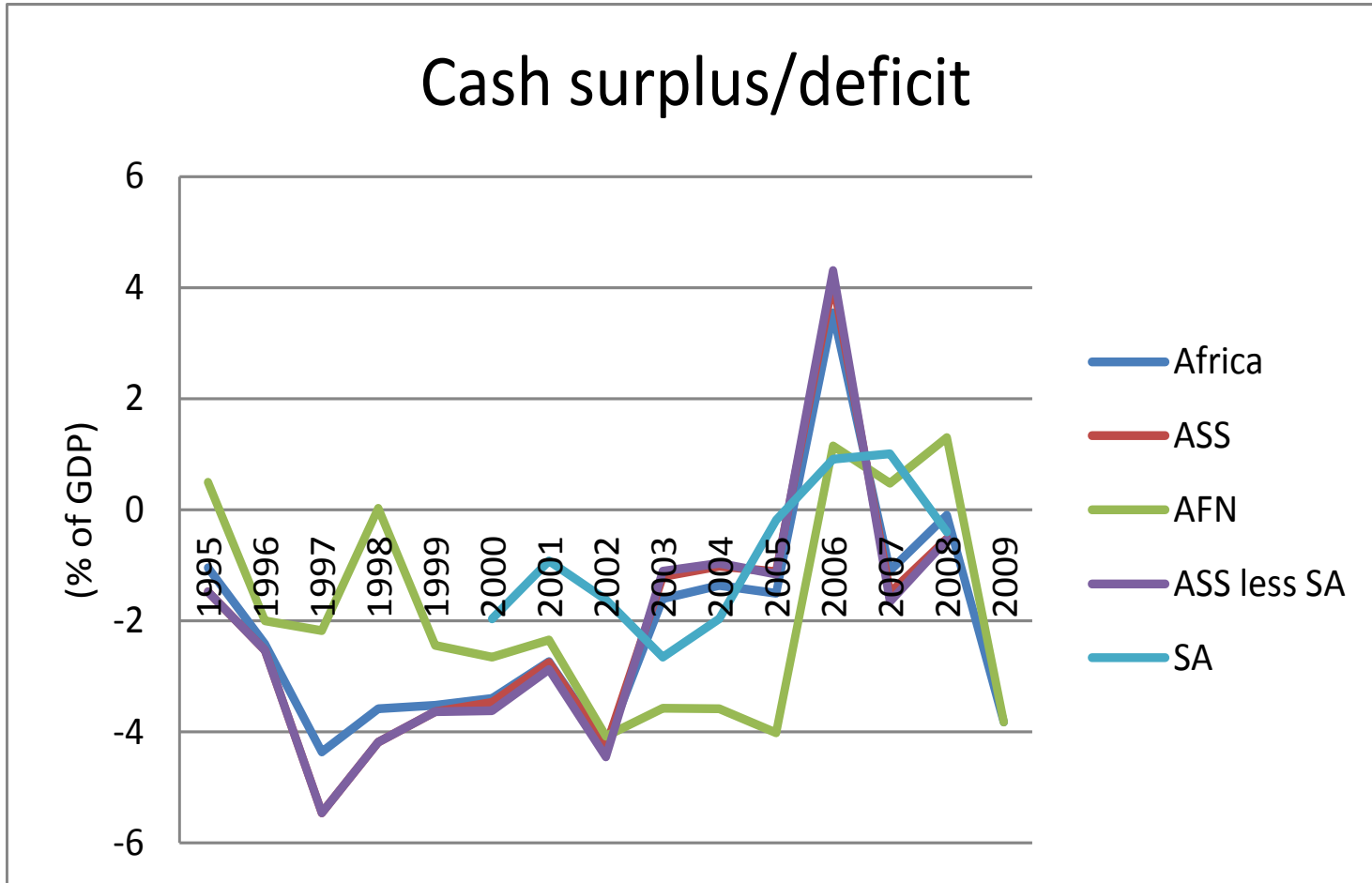
Africa is also carried by the global move towards the universal middle class

Countries	Number living between \$2 and \$13 per day		Percent of the population	
	1990	2005	1990	2005
East Asia & Pacific	315,5	1117,1	19,8	59,3
China	173,7	806	15,3	61,8
Latin America & Caribbean	276,7	362,1	63,2	65,8
Middle East and North Africa	170,2	240,1	75,5	78,7
South Asia	192,7	380,2	17,2	25,8
India	146,8	263,7	17,3	24,1
Sub-saharan Africa	177,7	197,1	22,8	25,8

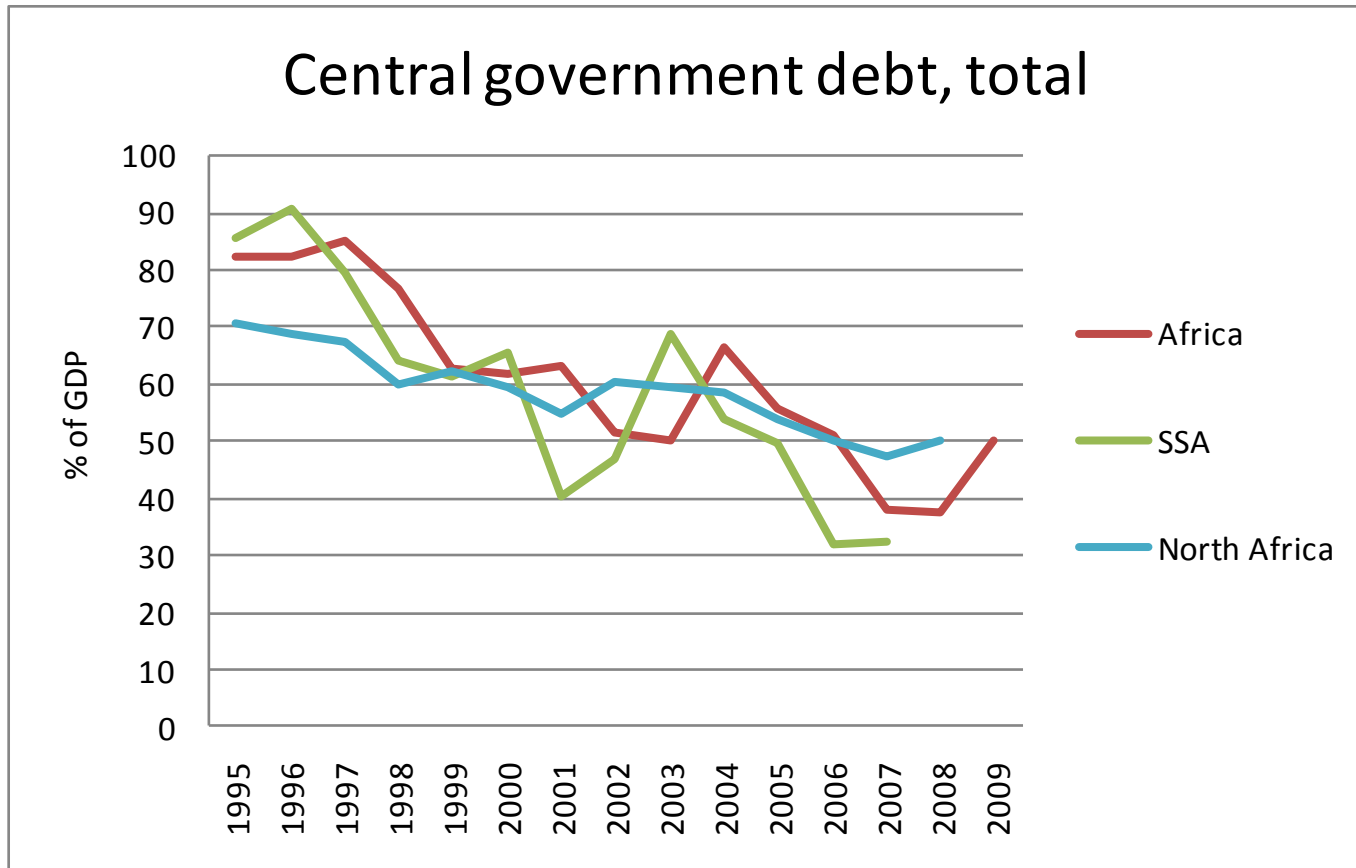
A class that is joining the global consumer's feast



Thanks to fiscal space...

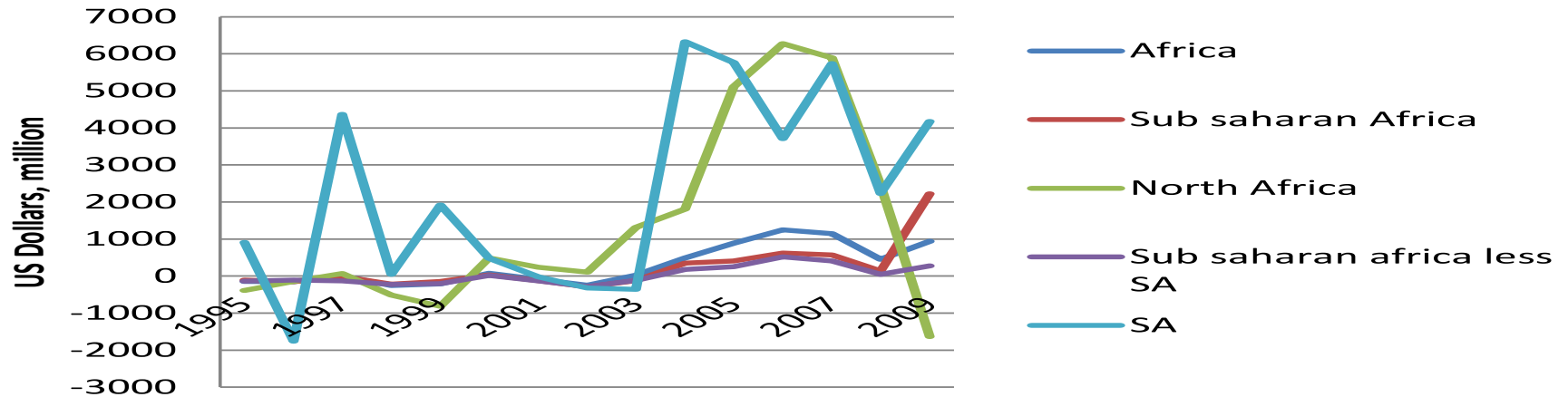


Leading to lower endebtment

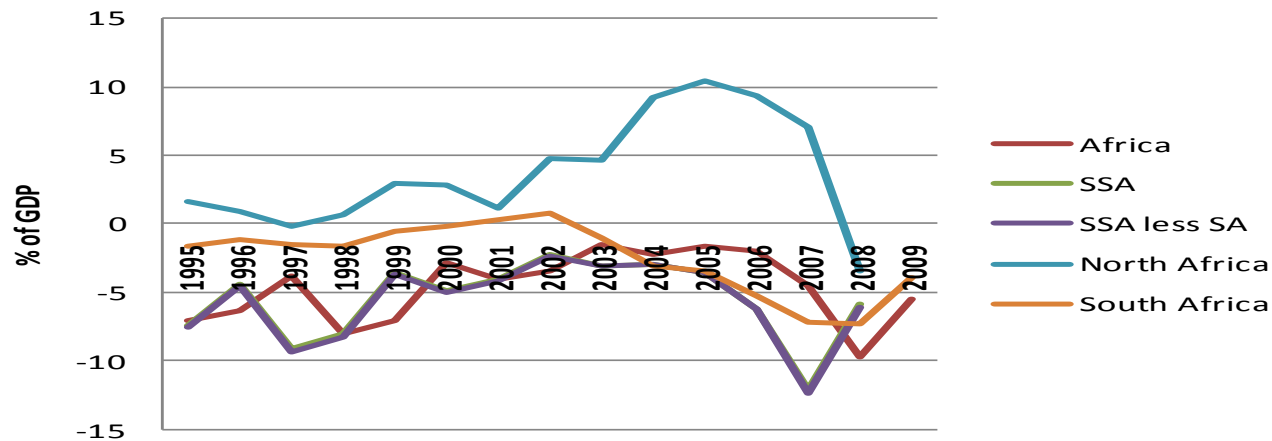


And improved external accounts

Overall balance



Current account balance



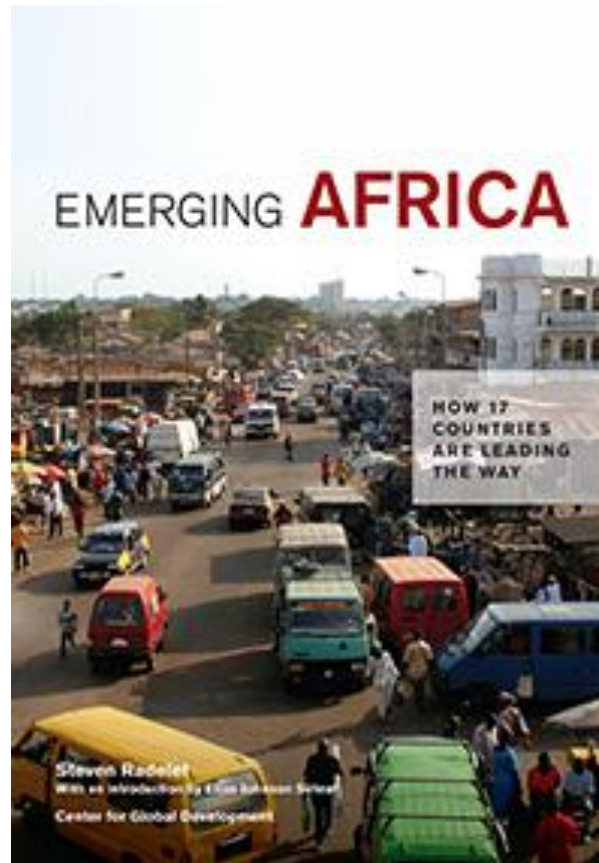
Overstated hopes?



Lions on the move:
The progress and potential
of African economies

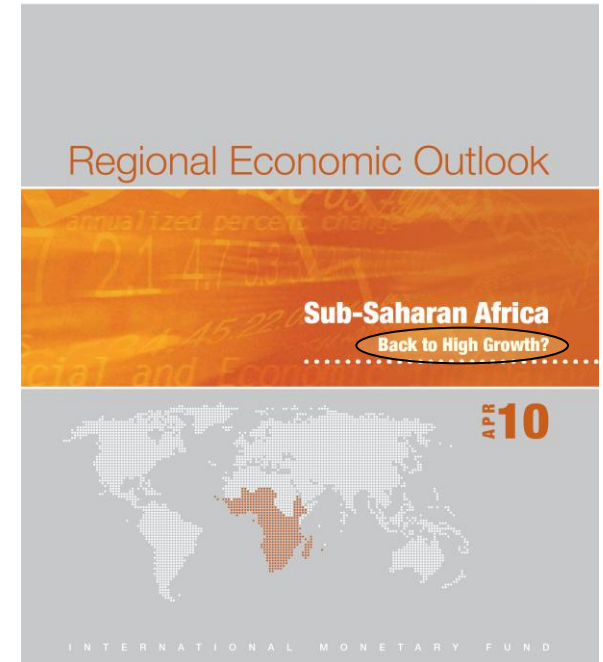


A McKinsey report, 2010

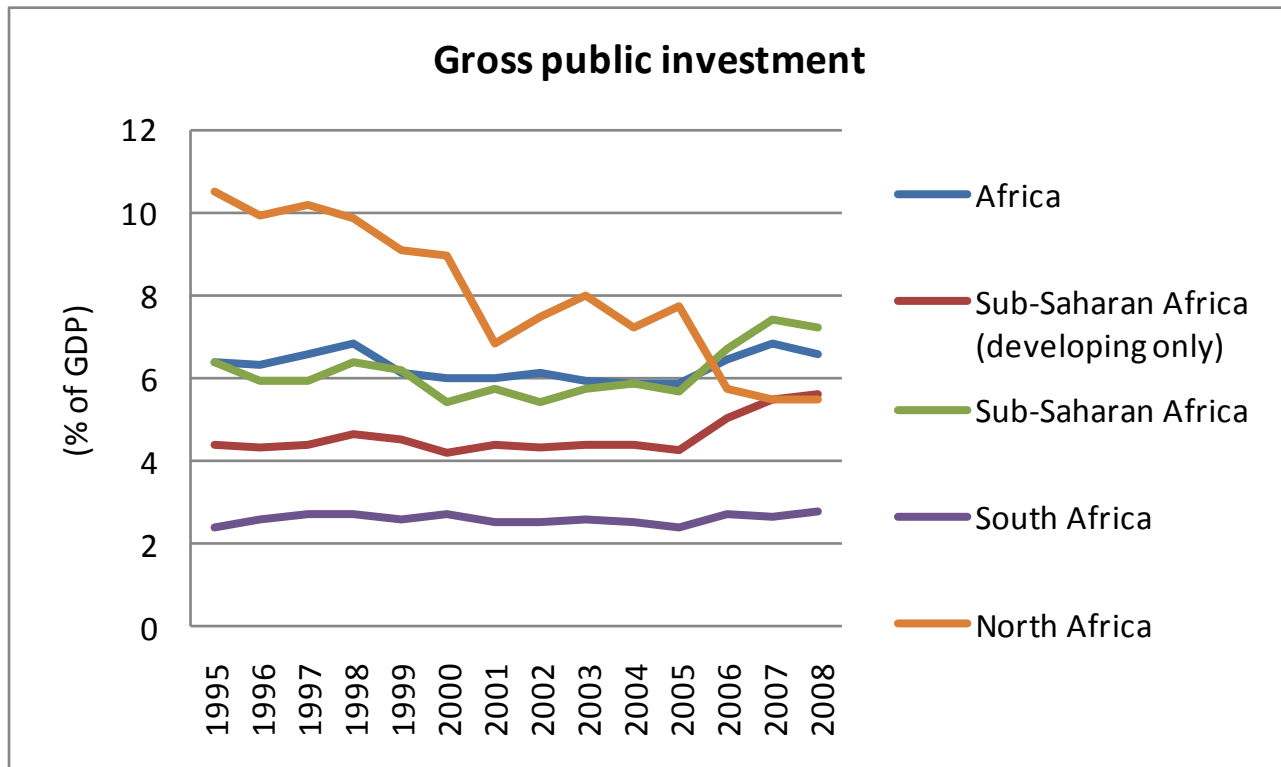


Emerging Africa: a book by Steven Radelet, formerly CGDEV, 2010

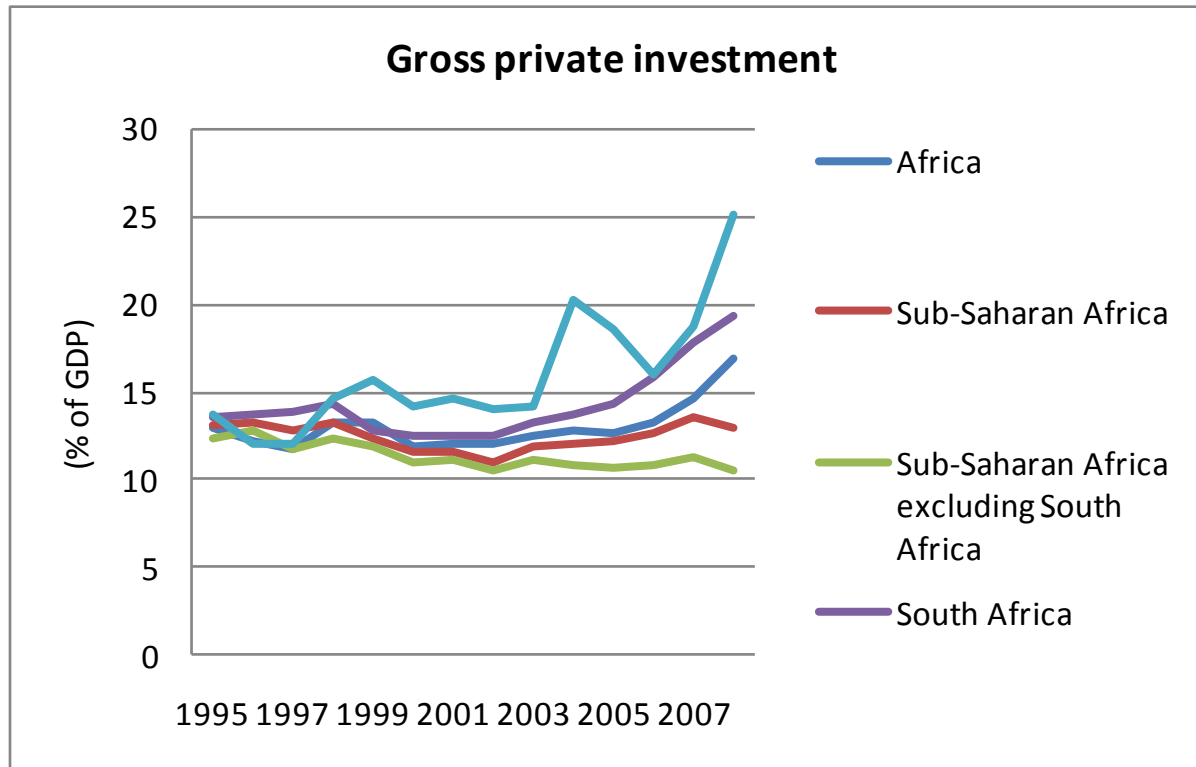
World Economic and Financial Surveys



Actually Africa has to accelerate public investment...



As well as private!



Source: World Bank

It will also face huge environmental and social challenges...

- How many wars and civil wars due to migration led conflicts in 2050?
- No more land and water – and expensive energy in 2050?
- How many failed states still in 2050?
- One billion Africans below 2 usd a day in 2050?
- And how many “dependant”? (on which economic model base?)

One major question is what model will bring Africa its fastest and most sustainable pace of growth?

- The resources model still carries huge macro and environmental challenges
- The double surplus model may not be under reach anymore
- The @sweater and the sweatrunner models cannot fix it all
- Is there a room for a domestic market making oriented policy?

key structural “benchmark policies” are “no mistake” options

- An energy policy that reduces dependency
- An urban and transportation policy that ensures productivity gains and environmental upsides
- “externalities generating” policies have to be favored: the case of water and health
- Africa has to take care of its elites, and has still to generate its own private sector
- A financial market that allows domestic currencies long term funding

ADB matters

- ADB has to and can carry an african vision of development
- It links from South to North
- Its volumes matter
- Its instruments can make a difference
- It has imposed itself over the past years as the premier bank of Africa

Let's discuss!