Why cannot Africa export manufactures?

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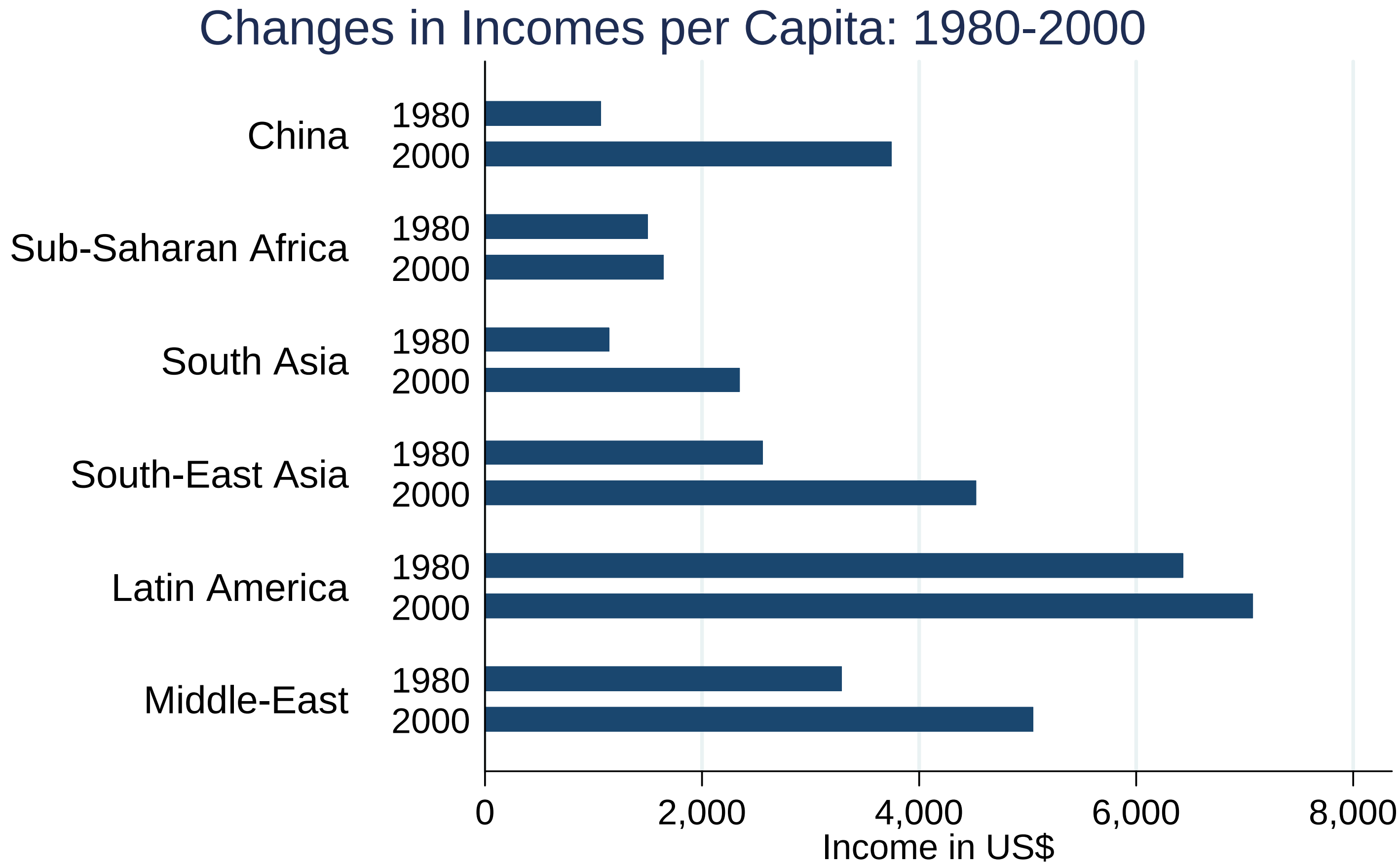
Outline of the Talk

- How has Africa grown since 1980?
- What is the relationship between exporting and growth?
- Why manufactures?
- Exporting and skill acquisitions: which way does it go?
- Why not Africa?

How has Africa grown since 1980?



Note:Sub-Saharan Africa excludes South Africa.
Source: PENN World Tables. Incomes are weighted by population and expressed in 1996 PPP$.

What is the relationship between exporting and growth?

- The picture from these overall data presents both bad and good news.
- The bad news is that Africa’s position has fallen radically relative to other regions.
- The good news is that very high rates of growth in very poor economies have proved possible – they have moved China from being one of the poorest regions in the world to being nearly as rich as South East Asia in the space of twenty years.
- The Report of the Commission for Africa argues that the goal ‘should be to increase the average growth rate to seven per cent by the end of the decade and sustain it thereafter’ (p. 211).
- The implications of the achievements in China and South Asia for Africa are obvious: the target growth can be achieved.

The key to growth

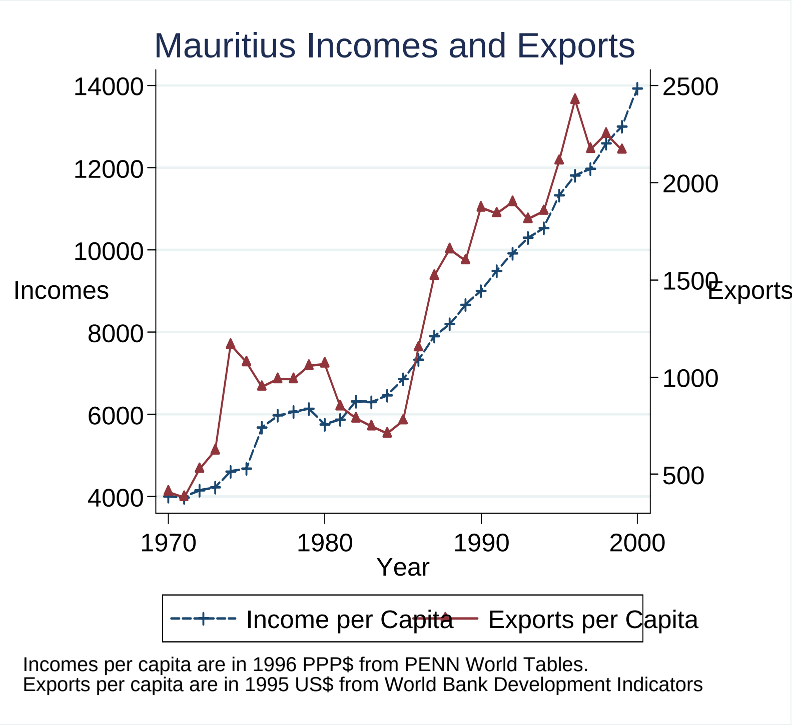
- So what is the key to growth and how can Africa emulate the experience of rapid development that China has followed?
- The Report of the Africa Commission identifies a large number of possible answers to the question as to how the growth rate can be increased.
- I want to argue that one of these answers is central and without success in this area all the other possible policies will fail.
- The key to growth for Africa is to export more.

Why exports and growth?

- What are the fundamental reasons why success in exporting is so closely linked to successful growth?
- African economies are rich in natural resources - the domestic market for these products is negligible, the world market huge.
- The speed of export growth for these economies is limited only by the speed with which they can increase output.
- When African economies have grown successfully - and it is often forgotten how frequently in the past this has happened - it has been through this mechanism of using the world market place to sell produce for which there is no domestic demand.

How rapid can growth be?

- How closely related the links are between the rise in incomes and exports in Mauritius is demonstrated in the Figure.
- For a continent that has become notorious for economic failure, this success is worth highlighting.
- Unfortunately Mauritius is an exception within Africa.

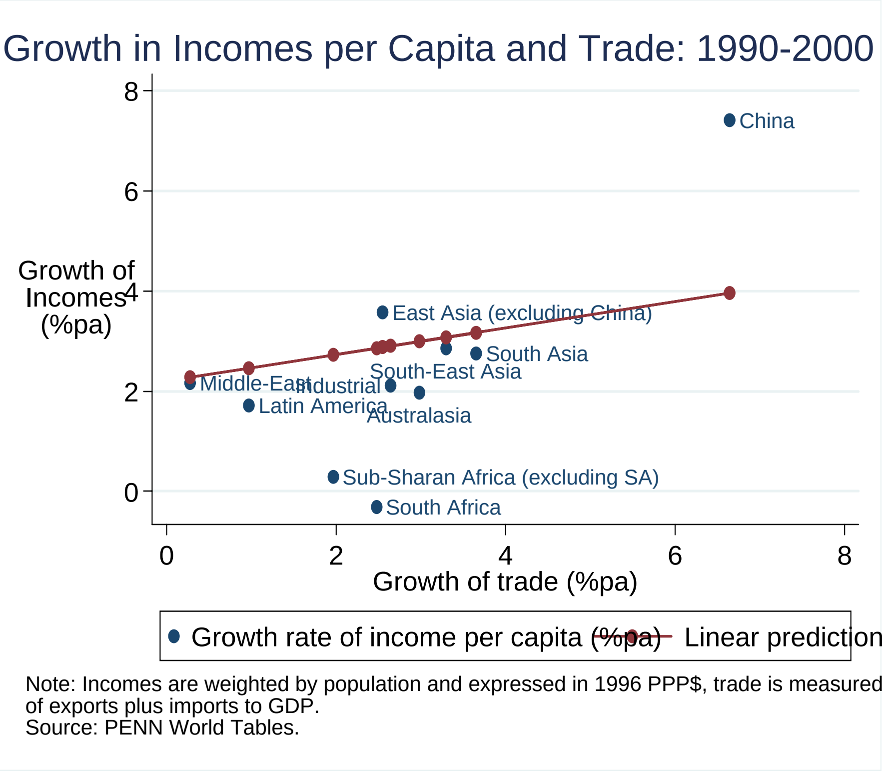


Africa in a global context

- It is useful to put Africa in the context of other regions of the world.

- The Figure shows that China in the 1990s grew by nearly 8 per cent per annum and trade as a proportion of income expanded by a similar amount.

- In contrast African growth was virtually zero and trade growth while positive very low relative to the successes in South Asia and China.

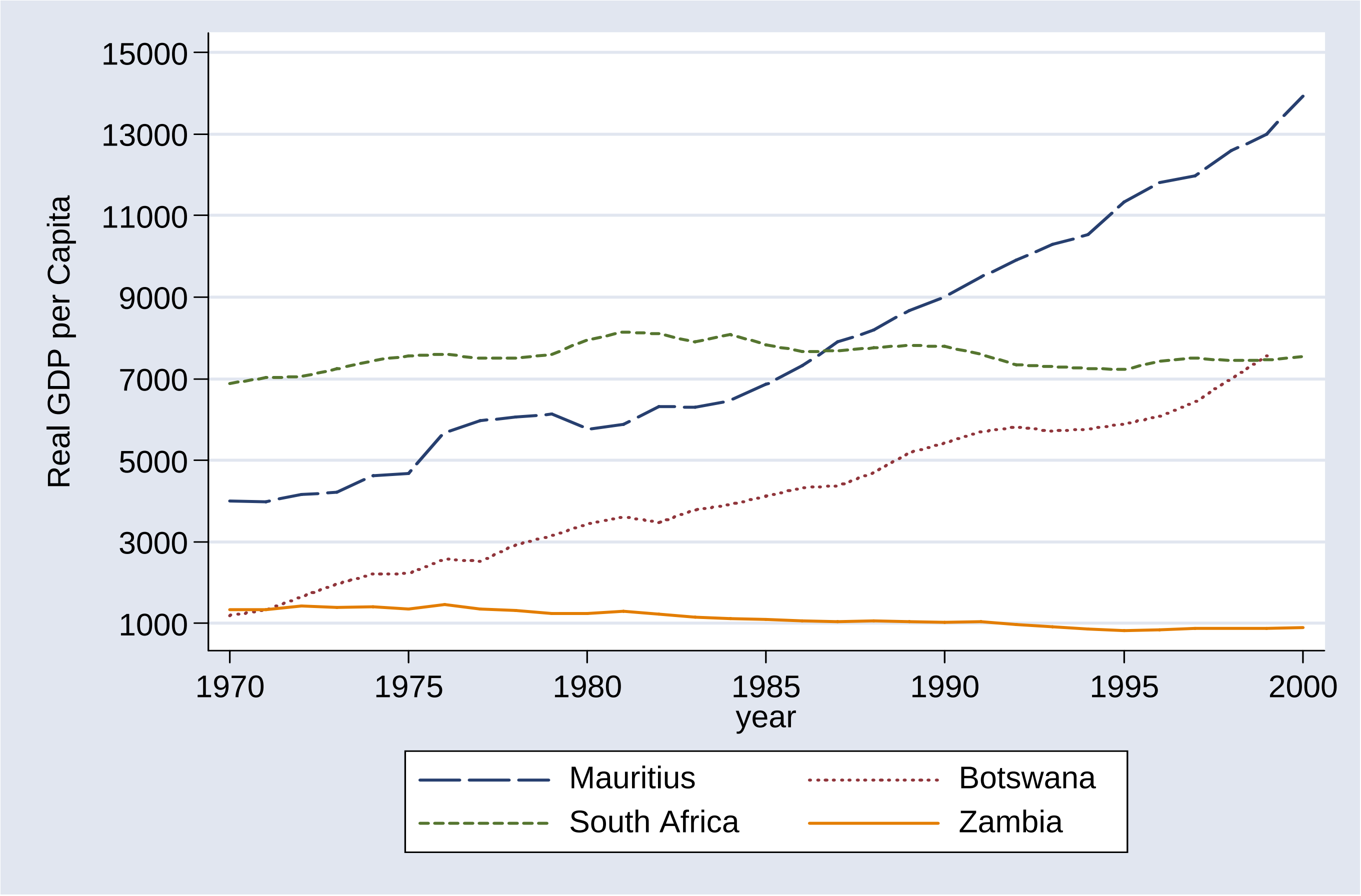


GDP per Capita (in 1996 US$ PPP)

Source: PENN World Tables 6.1

Chart shows Mauritius in the context of another successful Africa country – Botswana -and two unsuccessful ones – South Africa and Zambia.

NB levels of per capita income in 1970 over US$1,000.

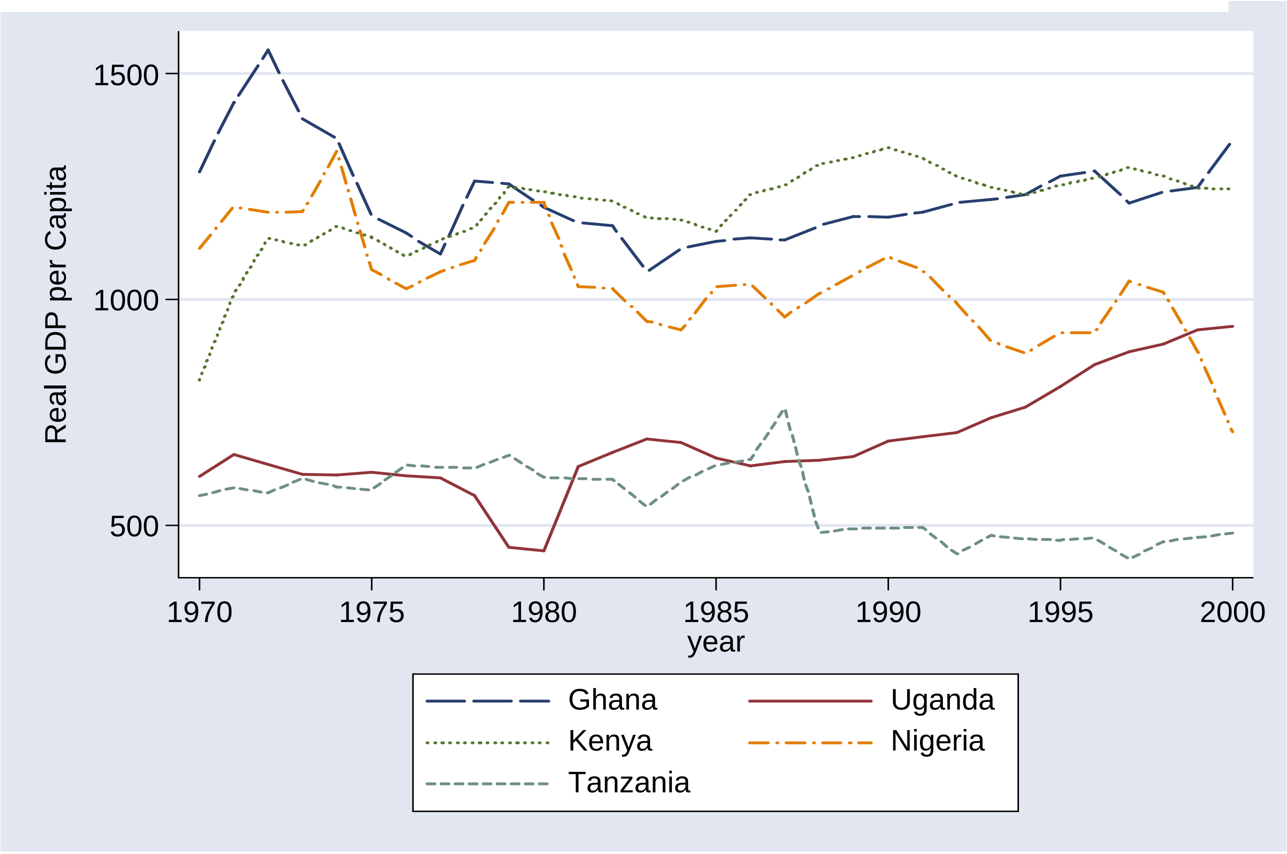


GDP per Capita (in 1996 US$ PPP)

Source: PENN World Tables 6.1

The five countries shown here have incomes ranging from US$500-1500.

Both Uganda and Ghana have seen a major change round in the 1990s.

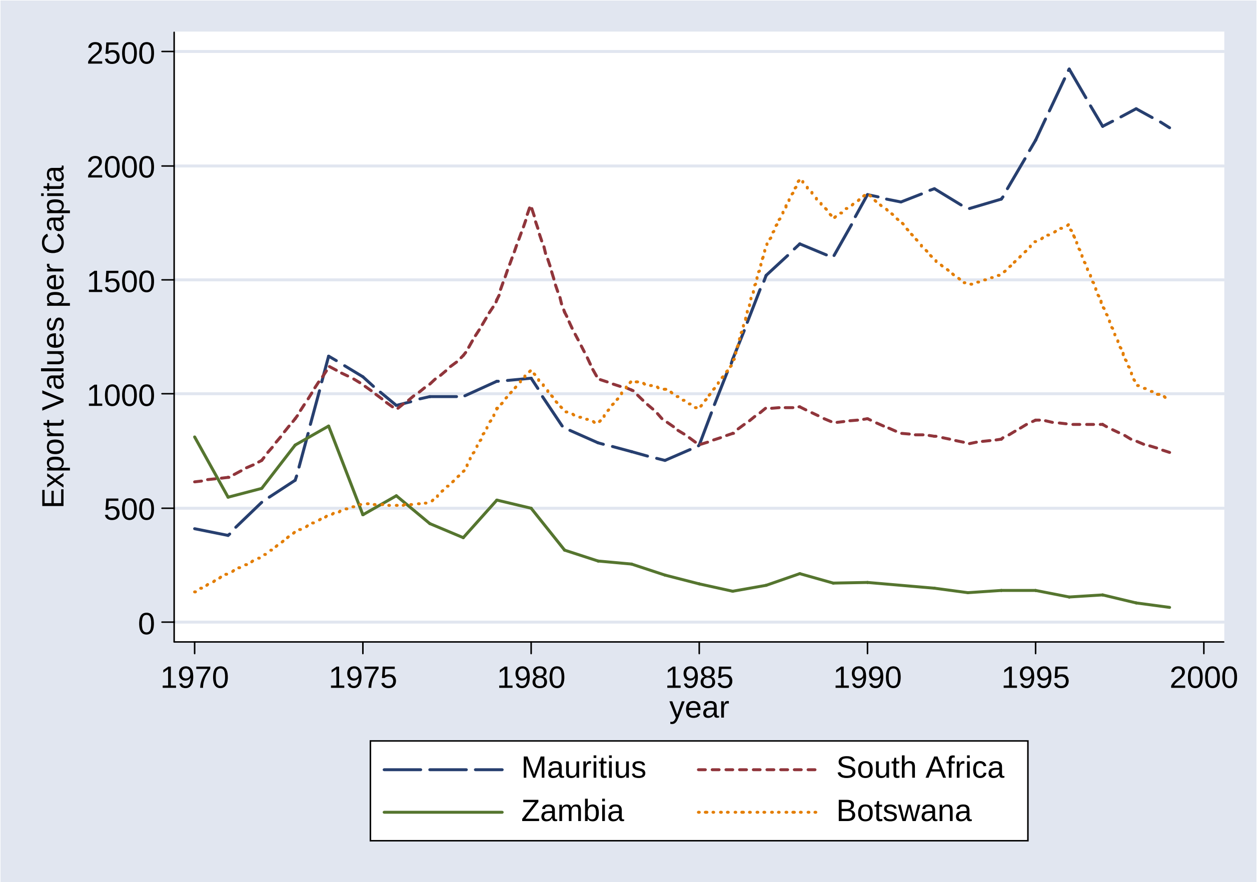


Export Values per Capita in US$ (1995) prices

Source: World Bank Development Indicators

The link between income growth and exports is obvious.

What the chart does not show is that for Botswana it is almost all diamonds while Mauritius diversifies into manufacturing.

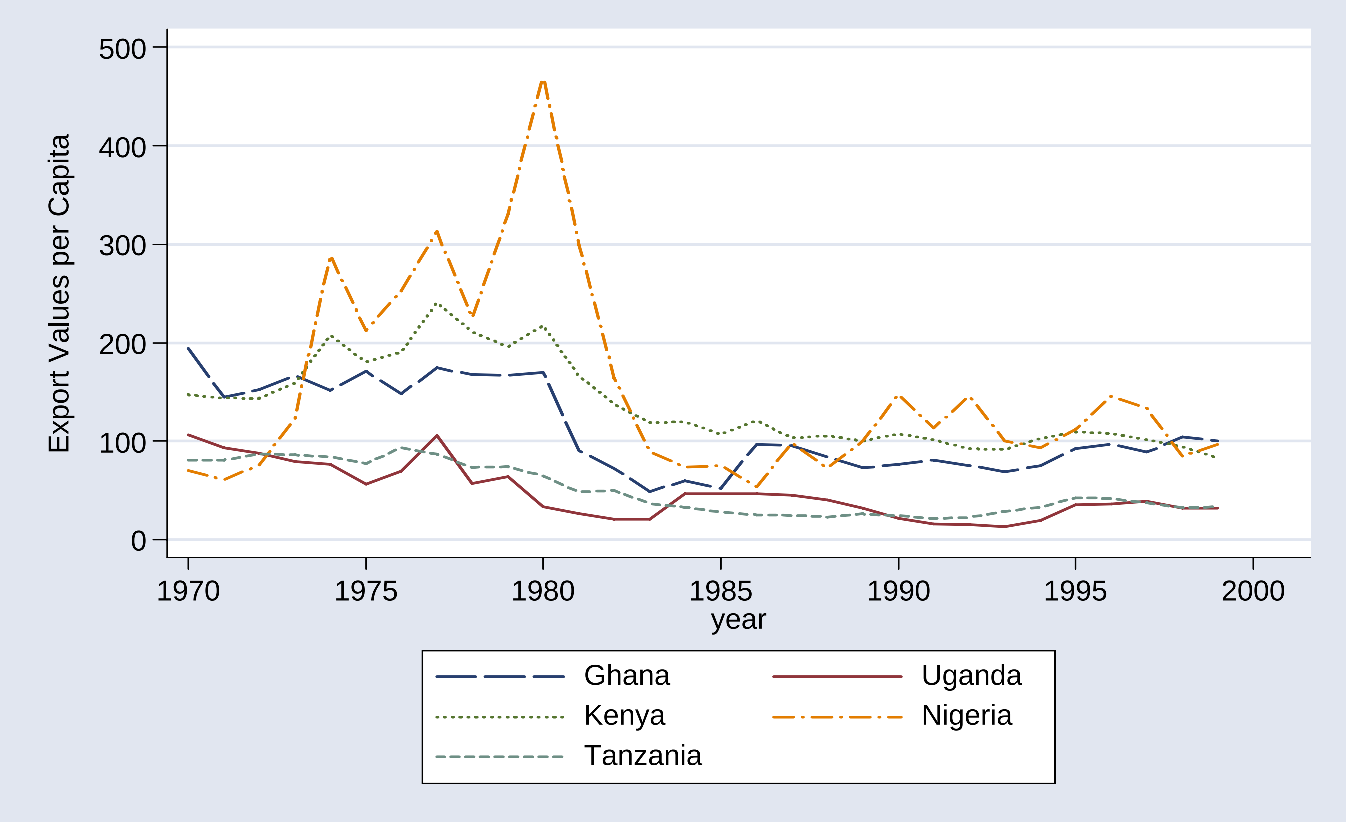


Export Values per Capita in US$ (1995) prices

Source: World Bank Development Indicators

For these five countries we see very modest growth and very low levels of exports.

For all these countries at the end of the 1990s exports average about US$100 per capita.



Why manufactures?

- Many reasons have been advanced as to why manufacturing exports will be more closely associated with growth than primary products. These include
  - Higher income elasticity of demand
  - Benefits from skills transfer
  - Increased possibilities of learning by doing.
- The second and third point to the possibility of higher TFP growth with manufactures than non-manufactures.

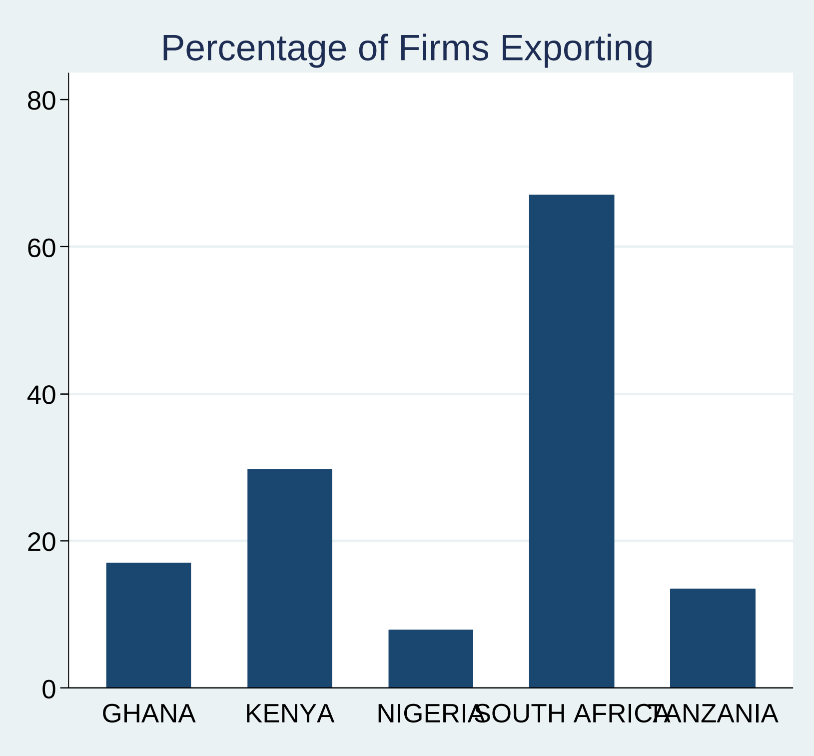
Are these arguments convincing?

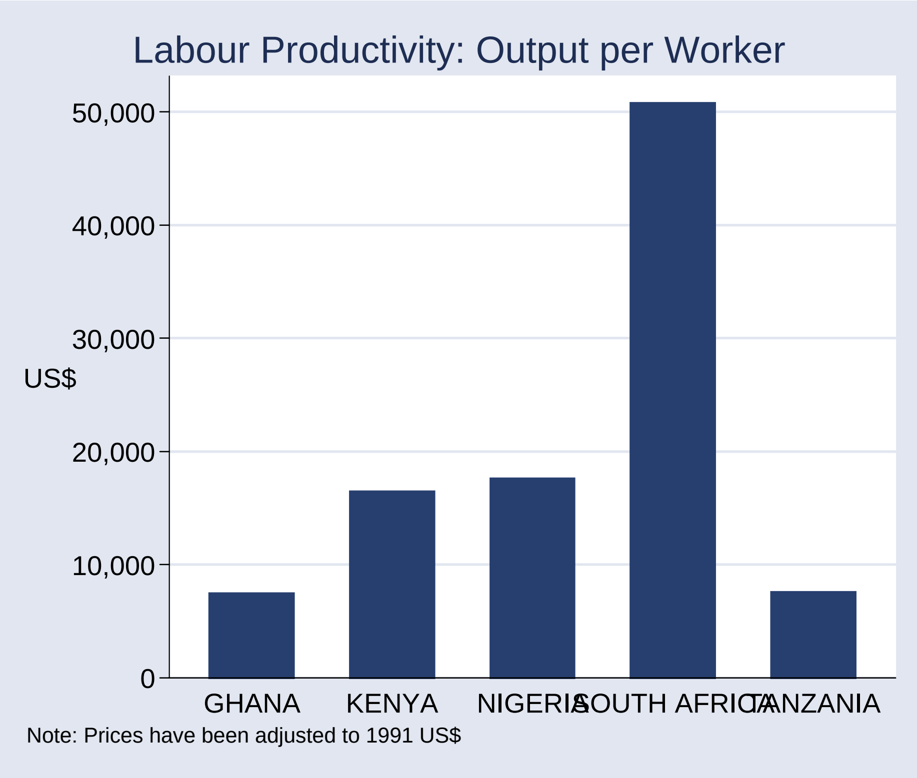
- Higher income elasticity of demand
  - Possibly but look at the impact China is having on the prices of primary products
- Benefits from skills transfer
  - Possibly but the primary problem poor countries have is finding jobs for the unskilled
- Increased possibilities of learning by doing.

What is the evidence on TFP and Exporting Manufactures

- There is a finding across virtually all micro data sets that exporting and higher levels of efficiency are positively correlated.
- Exporting and efficiency go together.
- However it could either be that
  - Efficient firms are more likely to export or
  - Exporting helps firms learn.

Exporting and labour productivity

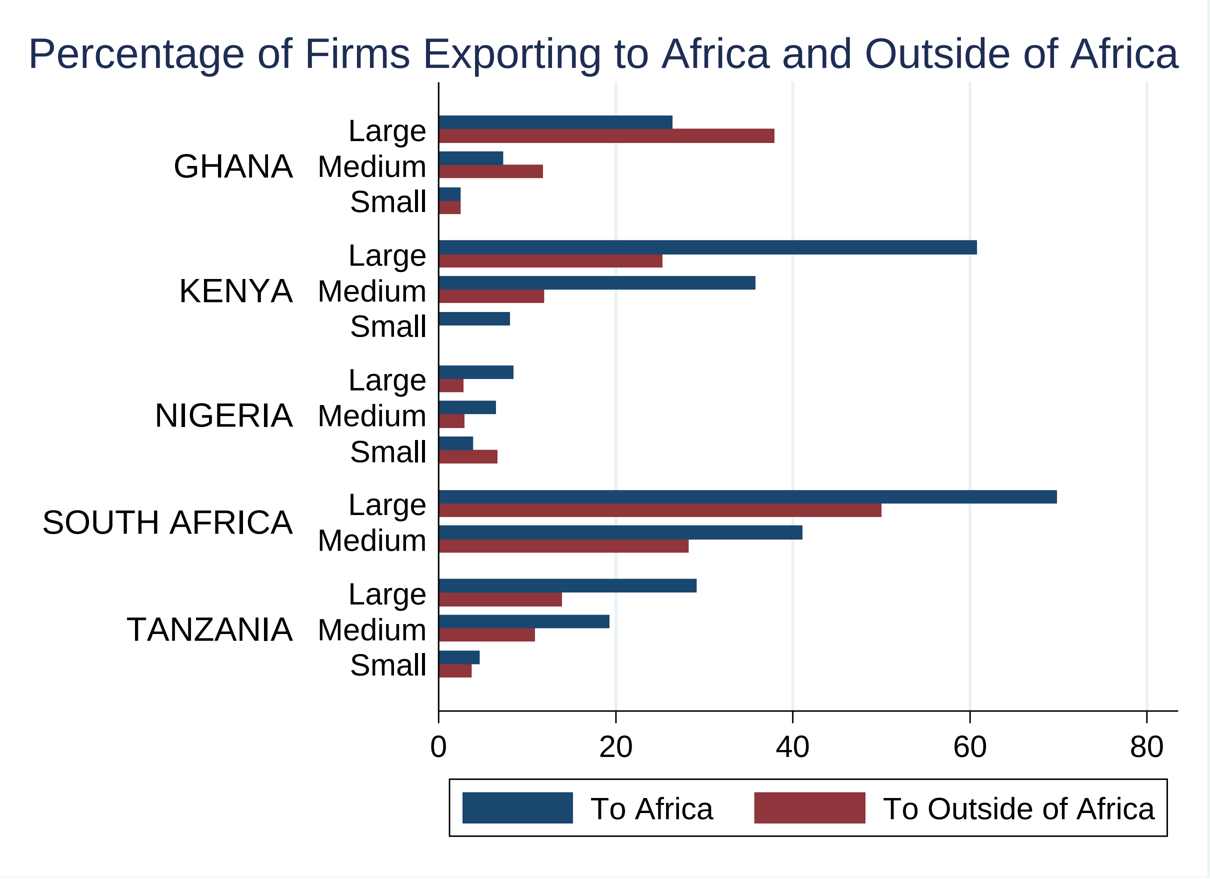




What is the evidence for Africa?

- There is a lot stronger evidence that exporting leads to rises in efficiency than there is evidence that efficiency helps exporting.
- The most strikingly robust result to emerge from surveys of African manufacturing firms is the strong correlation between firm size and exporting.

Exporting and firm size



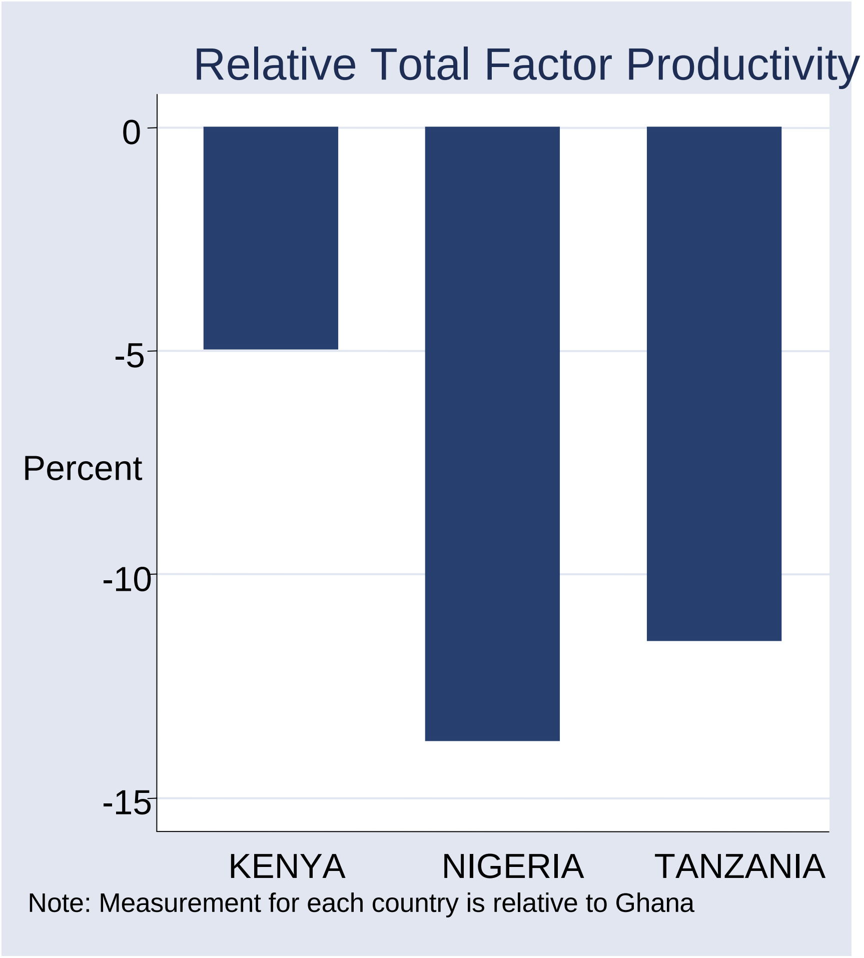
Why not Africa?

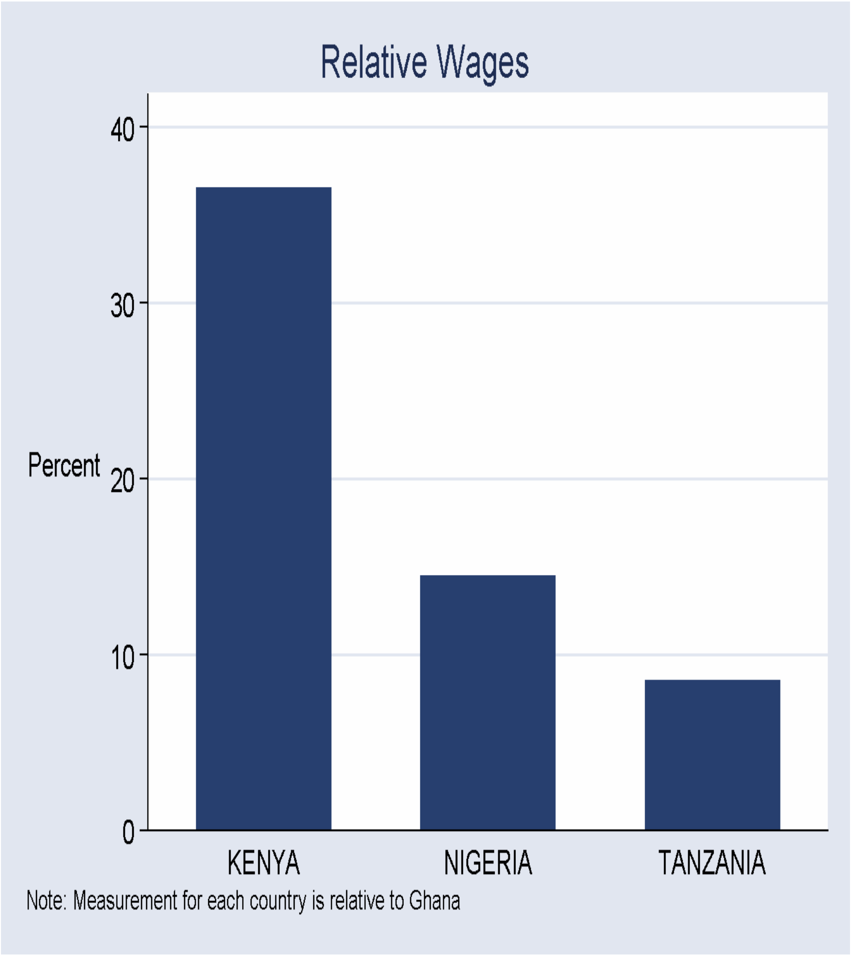
- The picture you have that Africa does not export manufactured goods is quite correct.
- However in most African countries (Nigeria is the exception in our sample) most large firms export and
- Further, by international standards these firms are not particularly large
  - usually just with more than 100 employees.

So we need a slightly different question

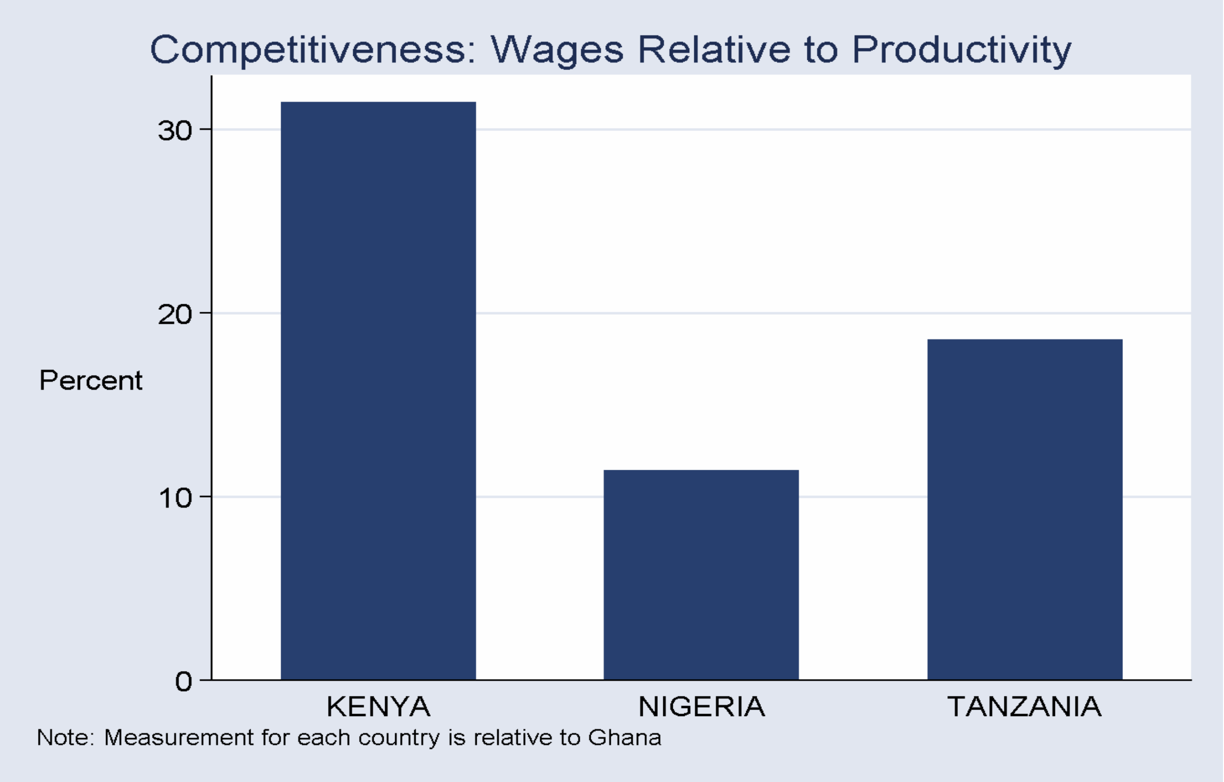
- Why is firm growth so limited in Africa and what limits their ability to enter the export market?
- I do not wish to suggest there is only one answer to that question but part of the answer comes from the link between wage and TFP.

TFP and Wages

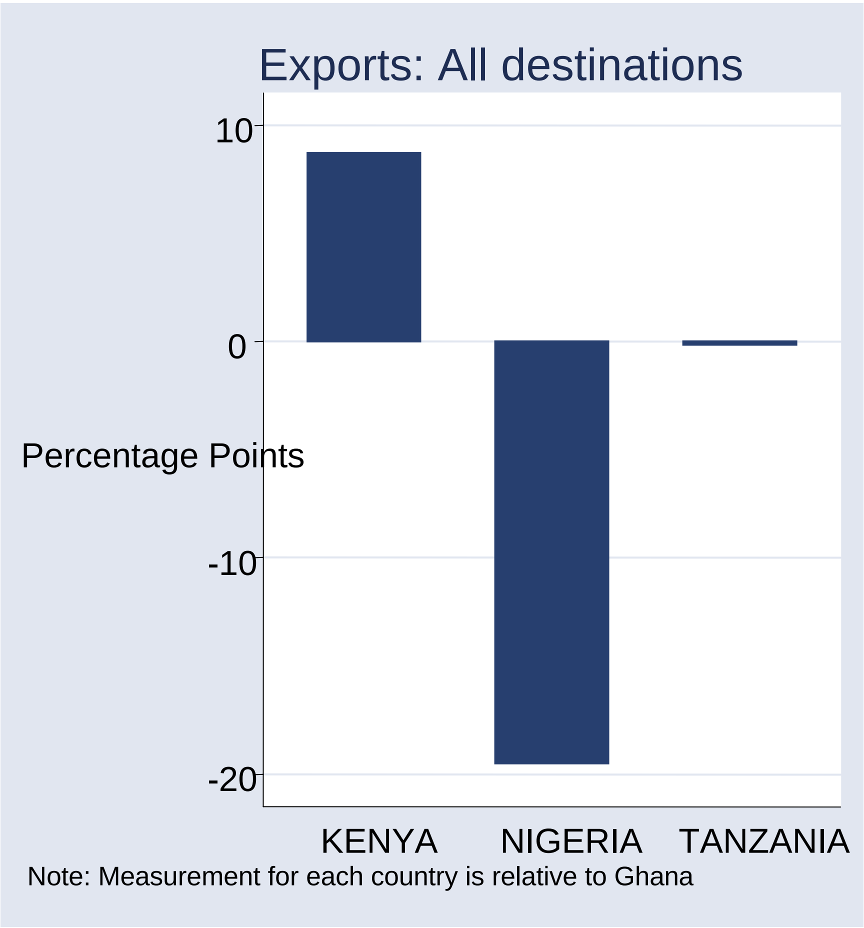




Linking Wages and TFP



The ability of firms across our countries to export



Summary

- I have argued that the cause of Africa’s failure to grow is to be found in its inability to export.
- The problem is not confined to manufacturing but is particularly acute in manufacturing.
- Rapid growth is possible – it has happened in Mauritius.
- Most large firms in most African countries export.
- I have suggested that we need to understand how firm growth links to exporting and that the ability to export is linked to issues of efficiency and costs – both wage and capital costs.