Towards structural change or locking in path dependence? Sub-Saharan African economies at the crossroads

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1. Introduction: emerging ‘lions’

‘African lions’?
Notion promoted by, e.g., The Economist, Mc Kinsey, Boston Consulting Group, and others... Eg, *The Economist, 10 June 2010, Uncaging the lions.* “business is transforming Africa for the better”;
*The Economist, 6 January 2011, The lion kings?:* since 2001, SSA had been home to six of the world’s top ten fastest growing economies, the gains being attributable not only to global demand for commodities, but also to structural reforms and better economic management....

### Go south, young man
World’s ten fastest-growing economies*
Annual average GDP growth, %

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<th>Country</th>
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<td>Nigeria</td>
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*Excluding countries with less than 10m population and Iraq and Afghanistan*
†2010 estimate ‡IMF forecast

Source: *The Economist, 6 January 2011.*
‘Lions’? **Ambiguity of the term:**

- Becoming a ‘lion’ **from existing market and export structures**, for example the benefits of the export of a primary commodity, e.g., oil, gas, copper, coffee...

- Or, in contrast, a ‘lion’ is characterised by **structural transformation**.

**Structural transformation**: i.e. **break in the pre-existing structure of the economy**:

- i.e. **diminution of the share of primary products, industrialisation** – or increase in the share of services -, and **productivity growth**

- Many studies: Hausmann and Rodrik, 2006; Rodrik, 2008; McMillan and Rodrik, 2011....
2. Sub-Saharan African countries growth performances

Many arguments for optimism
The episodes of growth of SSA countries over the 2000s
The overcoming of the impact of the 2008-09 financial crisis: what the IMF has called ‘resilience’.

Sub-Saharan Africa: output growth

Sub-Saharan Africa: real GDP growth

Example of a region, the East African Community (EAC): taking off?

Real GDP Growth, EAC and Sub-Saharan Africa

Source: IMF (2011c): Weighted by purchasing power parity GDP

Cumulative growth in real per capita GDP

Source: IMF (2011c).
More mixed performances from other countries, however: e.g., Guinea

**Growth boost**

Guinea's growth rate has rebounded from near stagnation, and the authorities have taken drastic measures to curb inflation and cut the budget deficit.

Source: IMF Survey online, 6 April 2012.

Source: IMF, Guinea, Article IV, 2011.
This confirms economic historians’ findings: no long-term growth failure: over the long term, SSA characterised by patterns of ‘rise and fall’.

M Jerven’s studies: similar pattern of rise and decline:
Africa has not suffered a chronic failure of growth. African growth has been recurring.
The proximate cause of low income in SSA: growth spurts have always been followed by a bust.
High growth at the time of independence, until the 1970s.
The global economic downturn in the 1980s hit Africa harder than other continents.

Number of African countries experiencing sustained growth, 1950-2006

Source: Jerven (2010), based on Angus Maddison’s data.
Possible opportunities for structural change?

Not only trade and investment from ‘traditional’ partners, but increase in trade and investment linkages from emerging countries: China, and also India (and Brazil).

China contributes to an ‘exceptional’ period for SSA since the 1970s: the basis for structural change and virtuous cycles of industrialisation, or preservation of the status quo?

China as a driver of high commodity prices: the boom of the 2000s stems from the increasing importance of China’s demand in commodity price formation, and other emerging countries (India)

Especially China’s demand for metals: aluminum, coal and copper.

China now the first energy consumer in the world: energy consumption in China projected to double by 2017 and triple by 2025 from its 2008 level (IMF, 2011a).

IMF (2011b): a 1-percentage-point increase in China’s industrial production growth => 2-percentage-point increase in oil and copper prices.

The demand from emerging markets, especially China, contributed to the increase in food prices between 2010 and 2011.

China = also a key importer in global grain and oilseeds markets, cotton and rubber.
China’s share of global demand for metals, in percentage, 2000-2010

Commodity prices and commodity imports of China, 2000-2010


Source: Akyuz (2012).
China as a driver of sustained demand for SSA exports, and increase in trade flows between SSA and China: a genuine engine of growth.

If China pursues its growth rates, its demand for SSA products will remain sustained, not only for primary commodities, but for low-end manufactured products that will no longer be made in China due to increasing local factor costs.

All SSA countries export a lower share of their products to OECD than in 1990, and a greater share to China: a genuine opportunity for SSA countries.

Emerging countries also invest in SSA industrial sectors: opportunity for structural change, since industrialisation is a key determinant of long-term growth (Rodrik, 2009).

IMF (2011b): Besides oil and mining, Chinese investment is directed toward manufacturing, construction, finance, agriculture, services. India also invests in Mauritius’ manufacturing sector. China also established several SEZs in SSA, promoting manufacturing.

Chandra et al. (2012): industrial upgrading in China has increased wages and is causing China to graduate from labour-intensive to more capital- and technology-intensive industries= opportunity for lower wage countries to start labour-intensive industrialisation: ‘leading dragon phenomenon’, an unprecedented opportunity for low-income SSA.

Cumulative Chinese FDI to Ethiopia by sector, 2003–09 (percent)

Chinese FDI in selected SSA economies
Similarly, emerging countries **invest in infrastructure, and infrastructure is a key determinants of growth** (Calderon and Serven, 2010; Foster and Briceño-Garmendia, 2010).

**Indeed, infrastructure is a key problem for the competitiveness of SSA:** power, rural electrification and transport=>hence, constraints and transaction costs on the circulation of goods and people. Transportation costs are much higher in SSA than in other regions.

**Correlation between infrastructure and export diversification:** the current low levels and distorted composition of exports in SSA are partly due to poor trade infrastructure (Hummels, 2001; 2007).

**Economic cost of outages in selected countries in Sub-Saharan Africa**

![Economic cost of outages in selected countries in Sub-Saharan Africa](image_url)

Source: Foster and Briceño-Garmendia (2010).
Indeed, among the motives for optimism: possibility of linkages through primary commodities: A Hirschman’s framework
= there are unexploited opportunities for industrial development through linkages from the commodities sector, more for backward than for forward linkages, e.g., in the minerals and energy sectors: linkages between industry and services and the commodities sector (Morris, Kaplinsky and Kaplan, 2011a, b; and the ‘making the most of commodities’ (MMCP) programme, on 8 SSA countries).

Backward, forward and horizontal linkages from the timber sector

Source: Morris et al. (2011).

In a more political economy perspective, the prospects for developmental regimes in SSA (David Booth, ODI): [http://www.institutions-africa.org/](http://www.institutions-africa.org/)
3. A growth firstly fostered by commodity prices, however

The ‘supercycle’ of the 2000s: spectacular increase in all commodity prices: after 3 major commodity booms and slumps in the 20th century: 1915–17; 1950–57; 1973–74, the 2003-2008 commodity price boom= the largest and longest one since 1900.

Rebound after the 2008-09 crisis (oil prices, some agricultural commodities), due to the demand for commodities from emerging countries as inputs for their growth and industrialisation, and the demand of new middle classes (IMF, 2009a).

Source: IMF (2012b). The real price index for a commodity group is the trade-weighted average of the global U.S. dollar prices of the commodities in the group deflated by the U.S. consumer price index and normalized to be 100 in 2005. The blue vertical lines indicate long cycle peaks, and the red vertical lines indicate long cycle troughs.
Because most SSA countries are characterised by a very high reliance on a very small number of commodities for their exports:
= high commodity dependence

Table 1. Structure of merchandise exports of SSA countries, 1995-2009

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Source: adapted from World Bank World Development Indicators 2011, table 4.4.
Share of net commodity exports in total exports and GDP

SSA is progressively becoming an oil–producing region: Angola, Cameroon, Chad, the Republic of Congo, Côte d’Ivoire, Equatorial Guinea, Gabon, Nigeria....New producers, Ghana, Uganda...

Given the specificities of oil markets in terms of price formation, financialisation and global political economy, significant consequences: typically, ‘Dutch disease’ effects, deindustrialisation.

Africa’s share of global oil market

Higher growth rates, but driven by commodity prices: growth rates in SSA countries closely follow the fluctuations of commodity prices.

Sub-Saharan Africa: growth and commodity prices


Not only a distorted export structure, based on few unprocessed products, but also a distorted fiscal structure, based on the taxation of external trade.

Most commodity–based economies, especially oil producers, rely on these few commodities for the largest part of their earnings => fiscal revenues very vulnerable to terms of trade shocks and price volatility.

Commodity revenue to total revenue, 2008 (ratio, in percent of total revenue)

Example of the effects of a shock such as the 2008-09 crisis

Source: International Monetary Fund. (2009c).
Commodity-based market and export structures: the problem of their low productivity

Technological progress has reduced the quantity of commodities used per unit of GDP

The decline of SSA economies’ share in world exports

- Despite trade orientation, the share of SSA in world trade has declined.
  - The share of SSA exports in world exports was 3.9% in 1980; 1.5% in 2000; with better growth rates in the 2000s, and higher commodity prices: in 2009, 2% of world exports, and 1.5% excluding South Africa.

- Decline because SSA exports have grown much more slowly than world exports.

- UNCTAD: this marginalisation of SSA explained by the secular decline in SSA terms of trade.

- SSA declining shares of world trade reflect SSA slow GDP growth, and other countries’ outward orientation, not a decline in trade or export shares of GDP.
Sub-Saharan Africa’s exports: percentage of world exports (right scale) and value (left scale), 1948-2010

Above all, SSA countries suffer structural constraints, in particular lower competitiveness and a lower labour productivity than its competitors in the developing world, e.g., in emerging economies, especially in manufacturing.

The decline of SSA in world exports is associated with the divergence with other parts of the world: SSA share declines relatively to other regions that increase their share, i.e. Asia.

Share of exports in world exports by region, 1948-2010 (percent)

Source: UNCTAD Statistics: http://unctadstat.unctad.org; see also IMF (2007), fig. 4.1.
The IMF is aware of the problems associated with commodity dependence: e.g., IMF SSA Outlooks, World Economic Outlooks: it underscores SSA vulnerabilities, in particular the vulnerability stemming from the correlation between commodity prices and growth rates.

IMF (2012b): a typical downswing in energy and metal prices lasts 2–3 years, with a real price decline of 40 to 50% from peak to trough=>a real GDP growth reduction of ½ to 1 percentage point in the downswing relative to the upswing. For crude oil exporters, an annual global activity shock that increases the real price of oil by about 12% raises the real GDP of oil exporters by 0.4% on impact and by close to 2% 3 years afterward.

IMF warnings: sensitivity of SSA countries to global business cycles; inherent risks of its export structure, i.e. receipts generated by a few commodities.

IMF (2012a): the key characteristics of extractive industries (oil, gas, mining) sectors include: volatility, uncertainty, presence of rents, asymmetry of information, time inconsistency and exhaustibility.

For the IMF, these problems can be addressed if ‘appropriate policies’: saving during good times for use in bad times via countercyclical budgetary policies; but if higher prices appear to be permanent, spend on public investment and lower taxes to boost private sector productivity, output and welfare.
For the IMF, a characteristic of commodity prices such as volatility is not a central issue. It can be solved through financial instrument (e.g., hedging). Also, for the IMF research, commodities prices are volatile, but also manufactures’ prices.

Volatility of aggregate price indices using IMF commodity indices

Volatility of aggregate price indices using UNCTAD commodity indices

Source: Arezki et al. (2011). Note: The figure shows the evolution of the annualized standard deviations of Hodrick-Prescott filtered price series. The aggregate price indices for all primary, non-fuel primary and energy goods are from IMF Primary Commodity Price Tables (2005=100). The aggregate price indices for import and export manufactured goods are from the Bureau of Labor Statistics (2000=100). The latter data is available using the Standard International Trade Classification from 1993 to 2005 and available using North American Industry Classification System from 2005 to 2010. We constructed an extended series throughout the period 1993 to 2010 by setting the same index value for December 2005 in those two available series.
A key question: will commodity prices stay high in the medium term?
In particular, will China growth continue at the same pace?

The prospects for activity in China are crucial for many commodities, due to the increase of China’s share of global commodity demand over the 2000s: the increase in global demand for commodities strongly depends on China’s growth.

Similarly, signs of vulnerabilities: even after their post-crisis rebound, most real commodity prices remain below their levels of the 1970s.

China’s likely rebalancing of its growth toward private consumption may reduce China’s demand growth for some primary commodities (metals): decline in ‘commodity intensity’ => adverse impact on the price of these commodities and therefore these commodities exporters.

Also, the sustainability of China’s growth remains uncertain.

Eichengreen et al. (2011): China’s growth may slow down after 2015 - when its per capita income will reach around 17,000 US$ (in 2005 constant international prices).

Indeed, warnings that prices may decrease….See Economist Intelligence Unit 10th April 2012: “Oil prices, set to ease?”
4. A growth also fostered by aid flows in some countries

Some SSA countries have received ‘aid surges’ (Uganda, Ghana, Tanzania, Ethiopia, Mozambique…)
Aid in SSA: net ODA= 20 $ per capita in 2000 or 4.1% of GNI; 53 $ per capita and 4.9% of GNI in 2009 (World Bank WDI, 2011)
Aid: in 2000, 23.1% of gross capital formation, and 25% in 2009 (WDI, 2011).
Aid: in 2000, 11% of imports of goods, services and income; in 2009, 12% (WDI, 2011).

Regional shares of total net ODA (as a percentage of total net ODA)

Source:
www.oecd.org/dac/stats/reg
Source at a Glance 2012: Statistics by Region
http://www.oecd.org/document/11/0,3746,en_2649_3444297_2002187_1_1_1_1,00.htm
Example of Ghana: Osei (2012): the structure of the economy has changed over the years, but the change has not been of the developmentally transformative type. Production still takes place on the lower end of the technology scale and exports are still dominated by primary products. **Revenue from oil can at best replace foreign aid in the long run.** However in the short to medium term, Ghana will have the complement of both oil and aid.
5. Risks, uncertainties and elements of pessimism: the weight of constraints and path dependence

- **Which sustainability of this growth? Is it medium term sustainable growth?**

- These growth episodes strongly depend on ‘agency’ more than ‘structure’, i.e. on these countries’ rulers. Difference with Botswana, Ghana, Mauritius, where growth is independent from specific individuals.

- Sustained growth: only a few countries.

- Even the long-lasting growth of Botswana: is it genuine structural change? (contested by some, e.g., Hillbom, 2008).

- Lessons from history, growth is fragile, and can collapse in a few days...

- Also, debate on the **determinants of growth**: the World Bank explains this growth by ‘sound’ policies over the last decade – similar debate as for the ‘Asian miracle’ report (1993), Asian states implemented policies differing from those recommended by the World Bank (Amsden, 1994).

- The IMF recognises that the growth episodes of the decade are driven by commodity prices, but explains these episodes by the conventional ‘sound’ policies and still recommends them.
Because commodity prices are inherently volatile, and because there is a negative relationship between output volatility and stagnation, growth is sustainable only if \textbf{structural change occurs, and through the manufacturing sector}: not only industry (as industry includes construction, infrastructure, etc), and not only ‘non traditional’ exports, which can be just commodities with limited processing (Ndikumana, 2012).

- Akyuz (2012): the acceleration of growth in developing countries since the 2000s is due not so much to improvements in underlying fundamentals as to exceptionally favourable global economic conditions, shaped by unsustainable policies in advanced economies.

- The only developing economy which has had a major impact on global conditions, notably on commodity prices, is China.

- However, China’s growth has been driven by an expansion of exports to advanced economies and after the global crisis, by an investment boom: both are not replicable or sustainable over the longer term: export-led Asian economies’ dependence on foreign markets is not sustainable.

- Akyuz (2012): for SSA commodity exporters, stable growth depend on the reduction of their reliance on capital flows and commodity earnings – two determinants of their growth which are largely beyond national control.
SSA growth generated by commodity prices: the risk of lock-in in SSA past commodity export structure, of reinforcing the status quo. High commodity prices are incentives for remaining in the production of primary commodities: risks of ‘lock-in’ effects of China’ trade relationships with SSA. The export pattern of SSA to China does not differ from SSA pattern to the RoW. Oil dominates SSA exports to China, but SSA exports to the RoW exhibit the same composition. The 6 largest SSA exporting countries to the rest of the world=South Africa, Nigeria, Angola, Côte d’Ivoire, Equatorial Guinea, Gabon, almost all oil countries, plus South Africa.

SSA exports to OECD countries, and to China, Brazil and India by product composition

Source: IMF (2011b), fig. 3.5. BIC: Brazil, India, China. SSA here excludes South-Africa.
Ye (2010): the pattern of SSA imports from China and from the RoW does not exhibit significant differences.

SSA imports manufactured goods and processed commodities from the world, e.g., manufacturing goods, machinery and equipment, food and chemicals - with a greater share of manufacturing goods from China.

Africa imports from China and from the rest of the world

Source: IMF (2011b),
But the type of goods China imports from SSA are very specific to SSA. This strengthens the view that China trade relationships with SSA are keeping SSA in its specialisation of commodity-exporting region.

China imports commodities from SSA, but imports different products from other parts of the world: manufactured goods, transport equipment and machinery, chemicals.

Source: Ye (2010).
China may also be a threat for SSA labour-intensive industrial sectors: typically textiles.

Kaplinsky and Morris (2008): China may undermine export-oriented industrialisation, though export-oriented manufacturing constitute a developmental path, as for Asian ‘developmental states’ and China.

While they are first step in export-oriented manufacturing growth, SSA clothing and textile industries are threatened by the competition of China’s products: risk for SSA industries of being excluded from global markets and threatened in their domestic markets.

Kaplinsky (2006): China as an exporter of manufactures undermines the prices of many manufactures=lesser possibilities for SSA industrial sectors of upgrading and shift from resource-based industries to non-resource and skill-based ones.

Kaplinsky et al. (2007): the end of the Multifiber Arrangement (MFA) and its quotas in 2005 =>for SSA exporters, a fall in their share of the US market, and the share of China grew significantly.
Export structures based on commodities reduce economic performance through many channels: the long-term decline in world commodity prices, price volatility, crowding out of manufacturing and Dutch Disease effects.

This long-term decline:

The long-term decline of commodity prices since 1845

Source: The Economist, 15 April 1999. *: adjusted by US GDP deflator
An example: copper supercycles

Copper supercycles, 1885-2004

Source: USGS; Platts; US Department of Labor (Cited from Heap, 2005)

End of decline? However, supercycles, and volatility

Long-term copper prices


Volatility now intensified by the financialisation of commodities and commodities now treated as a financial asset class (Tang and Xiong, 2010a, b).

IMF (2009a): during the 2008-09 crisis, volatility rose to unprecedented levels for many major commodities, especially oil.

There is a negative impact of commodity price volatility on growth: Dutch disease, but also price volatility expose commodity-based countries to shocks, in particular fiscal shocks. There is a relationship between exposure to shocks and low growth.

Similarly, volatility has a negative impact on investment, and therefore impedes growth.

There is a negative relationship between macroeconomic volatility and growth over the long-run.

Loayza et al. (2007): macroeconomic volatility is both a source and a reflection of underdevelopment.

Volatility also affects aid flows. Similar problems: Dutch disease, problems of absorption and spending (Harrigan, 2007; Bulir and Hammann, 2008; Berg and Hussain, 2008).
The lower annual growth in GDP per capita of volatile countries

Source: Van der Ploeg and Poelhekke (2009).
Vulnerability stemming from commodity-based export structure: growth depend on external factors that are unstable, beyond the scope of SSA domestic policies: the high levels of commodity prices since the 2000s depend on global business and industrial cycles, global demand, in particular China’s growth and demand, and the movements of international commodity prices and their multiple determinants => this growth is intrinsically fragile.

WTO, 12 April 2012, press release: trade growth to slow in 2012 after strong deceleration in 2011: World trade expanded in 2011 by 5.0%, a sharp deceleration from the 2010 rebound of 13.8%, and growth will slow further still to 3.7% in 2012: due to the global economy losing momentum due to a number of shocks (e.g., European sovereign debt crisis).

**Volume of world merchandise exports, 1990-2013**

Source: WTO press release, 12 April 2012, based on WTO Secretariat; a: Figures for 2012 and 2013 are projections.
Fragility of the bounce back of world exports after the 2008-10 crisis (World Bank, 2011b).

And fragility of forecasts…

Sub-Saharan Africa: growth prospects to 2012

Growth in the short-term: but in the long-term?

Growth performances significantly vary across countries: oil exporters and oil importers, food importers and the others, landlocked and coastal countries.....

But commonalities: **a low income per capita and volatile growth rates.**

**GDP per capita and GDP per capita growth rate in SSA**

Indeed, the performance of SSA countries over the long-term suggests a profile of stagnation, and possibly a trap, relatively speaking. SSA countries income levels seem to diverge vis-à-vis other regions.

For some (e.g., Easterly, 2005), growth rates in SSA are positive, SSA countries are not caught in trapping processes.

But the combination of commodity dependence, poor infrastructure, weak institutions generate cumulative process: low equilibria traps (Sindzingre, 2009).

**GDP per capita, SSA vs. the world, 1960–2010 (constant 2000 US$)**

Divergence, big time?

GDP per capita (in 1990 Geary Khamis dollars)

Source: Pritchett and de Weijer (2010), from Angus Maddison data.
6. Outcomes result from a combination of causes

What would be the factors for the global changes either to stabilise SSA economies in locking-in equilibria or making them bifurcate towards structural transformation?

SSA economies are obviously diverse: exports of manufactured products; or a few commodities=> the impacts of high commodity prices and China’s trade and investment on SSA economies are channelled by countries specific market structures.

The bifurcations towards structural change or ‘low equilibria’ depend on export specificities, but in fine on domestic political and economic institutions and public policies: the latter in fine shape the impacts of foreign inflows - trade, investment and aid.

Market structures combining with political economy => the formation of traps: in fine, ‘institutions matter’, or ‘rule’....

Indeed, East Asian states showed the importance for growth of political institutions and public policies, growth being instrumental in building political legitimacy.

i) IFI (and others) arguments: high prices create fiscal space, opportunities for investment

Indeed there is no ‘resource curse’: numerous countries have based their growth on commodities: Canada, Australia, etc. Many commodity-dependent states have diversified via public institutions, autonomous, credible, oriented towards long-term welfare.
Ex: Scandinavian countries: relevant policies transform commodities windfalls into sustained growth (e.g., sovereign funds): exports structures obviously are not the sole and systematic causal factors of weak growth performance:

But many SSA political economies characterised by a political economy not favourable to long-term growth and aggravating the consequences of export structures: patronage, corruption, authoritarian regimes that suffer problems of credibility, which lower the efficiency of all their policies: hence SSA governments may be unable to implement the ‘appropriate macroeconomic policies’.

ii) The modification of one factor, e.g. high prices, does no modify the existing political economy.

Depending on existing political economy and political structures, windfall gains feed corruption, capital flight (ex of oil states); less likelihood of consolidating democracies, and growth more likely to strengthen the power of the incumbent.

Domestic political economy and institutions ‘filter’ the opportunities created by high international commodity prices and increased demand for SSA exports:

= in fine, SSA domestic political economies determine the directions of the bifurcations towards either growth or ‘low equilibria’.
Political instability, commitment and credibility problems are crucial endogenous processes leading to poverty traps.

Olson (1993): the combination of political instability and dictatorships foster predators. This political economy is reinforced by commodity-based export structures, which strengthen patronage, while the latter is consolidated by natural resources that can be distributed (Sindzingre and Milelli, 2010): the combination of export structures and such political economies impedes growth and locks SSA economies in low equilibria and traps: political and economic institutions in fine command the composition of exports and the use of commodities.

Trapping processes are typically self-reinforcing: poor institutions, poor infrastructure, foster stagnation, while the latter foster political regimes that do not implement efficient taxation systems and invest in public goods.

=> commodity dependence is only an element: rather than elements taken in isolation, ‘combinations matter’, of historical, political, social and economic circumstances.


Ex post, depending on the combination, countries may bifurcate towards either low equilibria and ‘traps’, or growth paths and structural transformation.
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