Recent African Growth: What Changed, What's Matter?

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2011 African Economic Conference, 25-28 October 2011, Addis Ababa

Outline

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The Problem Studied

- Recent economic growth in sub-Sahran Africa (henceforth, Africa) was significant. For instance, the average growth rate was 2.24% during the period 1995-2005 compared to 0.05% during the period 1974-1994.
- It is important to understand factors behind the recent growth recovery in Africa, as good economic performance was not common on the continent.

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Objectives of the Paper

This paper pursues two main objectives

1. Analysing factors that are associated with the recent African growth recovery. This would help in identifying factors to strengthen in order to ensure the sustainability of growth recovery in Africa.
2. Analysing dynamics of growth correlates between the period of growth recovery (i.e., 1995-2005) and that of growth stagnation (i.e., 1974-1994) in Africa, as compared with East Asia (i.e., Indonesia, Korea, Malaysia, Singapore and Thailand). This would shed light on factors that have changed between the two periods in Africa, and how Africa performed compared to East Asia (a possible benchmark for Africa).

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Main Results

- Statistical analysis shows that between 1995-2005 and 1975-1994 only primary education, export and urbanisation rate have significantly increased in Africa.
- However, the results of growth regressions over the period 1995-2005 show that investment, access of the private sector to credit, government effectiveness, exports, and share of agriculture value added in GDP are significantly linked with economic growth rate.

Main Results (Cont)

- Thus, compared to the statistical analysis, growth regressions suggest that most of the variables which significantly contributed to the recent growth recovery are not those variables which positively evolved in Africa.
- During the period 1995-2005, Africa caught up with East Asia in terms of economic growth and investment. However, East Asia has improved its advantage on Africa in terms of GDP per capita, and growth fundamentals.

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Methodology of Analysis

This paper uses statistical and econometric analyses to examine features of African gorwth recovery. More specifically,

- I compared mean values of economic growth rate and its correlates between 1995-2005 and 1974-1994 in Africa, as compared with East Asia.
- I run growth regression with cross-sectional data over the period 1995-2005, and a sample of 46 sub-Saharan African countries.
- I compared the result of growth regression with that of staistical analysis to find out whether or not the "right" growth fundamentals have significantly and positively evolved in Africa.

Summary of the Results of Statistical Analysis

Dynamics of Economic Variables between 1974-1994 and 1995-2005 in Africa, as compared with East Asia

Variables	Within Africa	Africa versus East Asia
GDP per capita	Significant increase	Widening gap
GDP per capita growth rate	Significant increase	Reducing gap
Investment as % of GDP	Insignificant increase	Reducing gap
Population growth rate	Insignificant decrease	Higher decrease in East Asia
Primary school achievement	Significant increase	Widening gap
Credit to private sector	Insignificant decrease	Widening gap
Government effectiveness	Insignificant decrease	Widening gap
Agriculture value added	Insignificant decrease	Higher decrease in East Asia
Export as % of GDP	Significant increase	Widening gap
Inflation rate	Insignificant decrease	Higher decrease in East Asia
Urbanisation rate	Significant increase	Widening gap

Econometric Analysis

I estimated a classical growth model represented through the following equation:

$$g_i = c + \beta \log(gdpc_{i0}) + \theta X_{i0} + \delta oil_i + \varepsilon_i$$

The explained variable is GDP per capita growth rate. X is a vector of explanatory variables. It includes: investment (% of GDP), population growth rate, primary education, credit to private sector, government effectiveness, agriculture value added (% GDP), export (% GDP),urbanisation, and inflation rate. Oil is a dummy for oil exporter countries. The analysis covers the period 1995-2005 and includes 46 sub-Saharan countries. To reduce endogeneity bias, I consider the initial values of the explanatory variables, i.e. their values in 1995.

Econometric Results

	OLS Growth Rate
Initial GDP per capita	-2.801
	(2.563)
Investment rate	0.196**
	(0.079)
Population growth rate	-0.719
	(1.060)
Primary education	0.109
	(0.137)
Credit to private sector	0.032**
	(0.012)
Government effectiveness	2.867**
	(1.197)
Share of agriculture value added	0.174**
	(0.067)
Export rate	0.076*
	(0.044)
Urbanisation rate	-0.003
	(0.034)
GDP deflator	-0.669
	(0.900)
Oil exporter dummy	4.148***
	(1.361)
Constant	0.263
	(9.140)
Observations	41
R-squared	0.72

Summary

This paper analysed features of the recent African economic growth.

- The data reveal that economic growth rate was 2.2 percent points higher during the period 1995-2005 compared to the period 1975-94. However, between the two periods, only primary education, export and urbanisation rate have significantly increased in Africa. The other determinants of growth have been either slightly deteriorated or stagnant.
- The results of growth regressions over the period 1995-2005 show that investment, access of the private sector to credit, government effectiveness, exports, and share of agriculture value added in GDP are significantly related to economic growth rate.

Policy Implications

The policy implication of this paper is that African countries need to transform their economies such that they could sustain the growth recovery that the continent witnessed recently. Based on the findings in this paper, three policy stances for transforming African economies can be suggested.

1. Improve the business environment so that investment can increase in Africa. This could be done by increasing private sector access to credit, and by improving the effectiveness of government in defining and implementing policies.
2. Diversify African economies and improve their competitiveness so that Africa can increase its exports.
3. Improve the productivity of agriculture in Africa.

THANK YOU. YOUR COMMENTS ARE WELCOME!