

# Africa: Geography and Growth

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The Federal Reserve Bank of Kansas City recently hosted its annual economic policy symposium in Jackson Hole, Wyo. with the theme “The New Economic Geography: Effects and Policy Implications.” This presentation by Paul Collier, professor of economics at Oxford University, was one of several during the event. To read Collier’s paper, as well as others presented, visit [www.KansasCityFed.org/TEN](http://www.KansasCityFed.org/TEN). To learn more about the annual symposium, see the Fall 2005 edition of TEN, also available online.

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**F**or the last three decades, Africa as a whole has stagnated. Because per capita income is effectively constant, there is accelerating divergence with other developing countries. Herein is Africa’s economic problem: divergence, not poverty itself.

For the last several years, African economic performance has improved. The largest single driving factor is the commodity booms. The last time Africa had a similar phase was the late 1970s. After those commodity booms, Africa crashed—the current challenge for Africa’s leaders is not to repeat that history.

Peace settlements generally prompt a

rebound effect after times of conflict. In Africa, post-conflict recoveries are now spurring rapid growth. Additionally there are delayed—but significant—economic reforms, which may be persistent. The best indicator of those economic reforms is macro performance. With the notable exception of Zimbabwe, Africa’s macro performance is now remarkably better than one or two decades ago.

Africa is often dismissed, as if it was special, odd or sad. Contrarily, Africa is intelligible and understandable in terms of global patterns. Africa is unique, both in its physical and human geography. Given those distinctive features, its behavior conforms to global patterns. This is the crux of the argument.

There are two pieces of Africa's physical geography that are characteristically important. It is land-abundant and dirt-poor, and therefore natural resources are crucial. They loom large relative to other income. But the natural resources are unevenly distributed, so parts of Africa are resource-rich while others are resource-scarce.

The second distinguishing feature of Africa is the enormity of the continent relative to its population. When a large area is split into many countries, some of them will be landlocked.

These two features allow analysis. If an area is resource-rich, it doesn't matter whether it is landlocked or coastal, therefore the continent can be examined in three categories. The most distinctive: landlocked and resource scarce.

One-third of Africa's population lives in landlocked resource-scarce countries. In developing areas elsewhere, such areas have seldom become sovereign countries for good reason.

There is no plan to elevate these countries to middle income, let alone develop them. This would depend upon doing things like Switzerland, Austria and Luxembourg—piggy-backing on your neighbors' growth. For such countries, neighbors are not in the way of the market—they are the market.

To be successful, two things must happen. The first is integration. Globally, that has happened for landlocked areas. The average country, landlocked or not, grows an additional 0.4 percent if its neighbors grow 1 percent. For landlocked countries excluding those in Africa, that spillover is 0.7 percent, while in Africa it's 0.2 percent.

In other words, African landlocked countries have not integrated into their sub-region. To date it hasn't mattered: there hasn't been any growth to spill over.

Step 1 is "fix the more fortunate countries." The critical path to development in Africa's landlocked resource-scarce countries to develop is, first, growth in more fortunate countries.

Let's take the resource-rich, which make up another one-third of Africa's population,

compared with the 11 percent elsewhere. If you are resource-rich, you are inevitably going to have a big government, because resources are going to be taxed by the government. It then has to be spent.

At one point the International Monetary Fund was keen on future generations' funds—the Norway model. That is crazy for Africa in two senses. First, Africa is capital-scarce, unlike Norway. So at some stage, Africa needs to absorb that money in domestic capital formation, not in financial assets in New York.

Second, and more important, Africa does not have the political institutions to defend a future generations' fund. In practice, a future generations' fund is a transfer from a rare, prudent finance minister to a less rare, not-very-prudent finance minister a few years down the line. Future generations' funds in Africa are for the birds.

Also, they are the wrong issue. Savings is a second-order issue. The first-order issue is how public money is spent. That is a matter of government accountability. Globally, resource-rich countries do this rather poorly. The main mechanism for better accountability should be democracy.

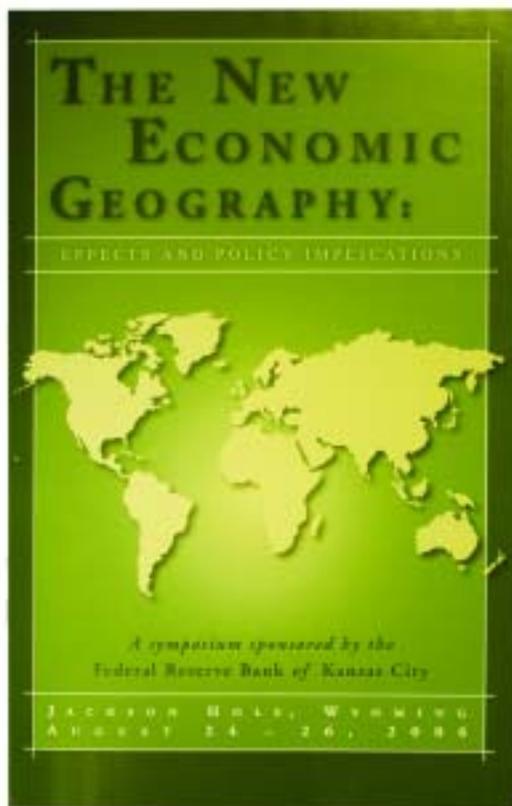
I've looked at this statistically around the globe; resource-rich countries are distinctive. Outside of these countries, democracy actually accelerates growth. Within them, democracy reduces growth. But, if you separate democracy into two different components—electoral competition, and checks and balances—electoral competition is distinctively bad in the resource-rich countries and checks and balances are distinctively good. So the resource-rich countries need a distinctive form of democracy. They need a lot of checks and balances, but usually get the opposite.

In Africa, the contrast is between Botswana and Nigeria. Botswana, although a democracy, can't reasonably be described as intense electoral competition. The government has never gone so far as to lose, but it does have a lot of checks and balances, especially on how money is spent.

Nigeria is the opposite. It has had intense electoral competition. In the last election, 80 percent of senators lost their seats and there

have been no checks and balances at all. So democracy is undermined by resource riches, partly because in these environments, resource rents turn into patronage politics.

Turning to the coastal, resource-scarce areas, globally they are countries that have been most successful. They are the countries that have had fast growth. That is the game plan we really know about—the game plan T.N. Srinivasan was talking about. Nowhere in Africa has that happened, except Mauritius. Something went wrong in the 1980s. There was a window of opportunity, but for various reasons, all of Africa's coastal resource-scarce economies were fouled up with poor policies or conflict. Tony Venables says they missed the boat because Asia has now built up these agglomeration economies. Asia still has cheap



labor, so Africa can't out-compete Asia on wages, but Asia can out-compete Africa on agglomeration economies. That is the physical geography.

Let me turn to the human geography before pulling the two together. There are two distinctive features of African human geography. First, political geography: The region has a smaller population than south Asia, but it is divided into 44 countries.

Small countries imply three things. Again, I rely on global statistic relationships. If you start with poor policy, reform is much harder if your population is small. Africa started with poor policy. So did India. And so did China. Africa started no worse, but the process of reform requires a critical mass of educated people, and a scale economy in having things like a financial press, an informed media, and an informed society. Africa just doesn't have these things.

Although its strategy was disastrous, China had a critical mass of educated people. The Central African Republic doesn't. There is nobody there with education. So the process of reform has been long delayed. That is one feature of a small population.

Second, there is a much greater level of insecurity. If you divided India into 44 countries, no one country would have the scale to provide adequate internal security. The overall regional incidence of violent conflict would go up, which is what happened in Africa.

The third feature of a small population is obvious: being more prone to shocks. The other feature of African human geography is, despite being small, the typical country is radically more ethnically diverse than other societies.

What do we know about ethnic diversity globally? Two things. First, collective action is much harder and therefore the provision of public goods is much less effective. A diverse society should have a small state, shifting more things into private activity.

Second, diverse societies need democracy. Globally, autocracy seems to be fine for growth. Look at China. But it does not have ethnic diversity.

If you have autocracy and ethnic diversity, you hit disaster, like Africa. There is a simple economic reason for that. Splitting a society into ethnic groups and giving autocratic

power, that power goes to one group. If the group is fairly small, it has an overwhelming incentive to benefit itself by redistribution rather than by the public good of growth.

Until recently, Africa did not have democracy. It had predatory, minority autocracies. That is the human geography of Africa. Putting together physical and human geography points at two critical problems for Africa's future growth.

The first is the resource-rich countries. The big story at the moment in Africa is resource riches. Commodity prices are going up. Discoveries are spreading. That is the opportunity for Africa. But, its resource riches are in ethnically diverse societies.

Big public sectors don't work in ethnically diverse societies because of the collective action problem, and the need for democracy. Democracy and resource-rich countries don't work, turning patronage into politics. That is the dilemma. You have to run a big state, because inevitably the state has a lot of money. But collective action for spending public money is going to fail. If you need to make democracies work, impose accountability on the government, but with resource wealth democracy corrupts so easily into patronage politics. Then the challenge in that case is building accountable democracies.

To his credit, Nigerian President Obasanjo has tried to do that during his second term. It's what he started to do, putting in place checks and balances, and it's precisely the right agenda. Obviously, a hugely important check and balance is the central bank. In societies where you don't have an informed press, the central bank is potentially the only domestic respected authority that can deliver a message of accountable government.

Also, outsiders play an important role. The British government, to its credit, launched something called the Extractive Industries Transparency Initiative, trying to get on a voluntary basis some basic standards of governance into managing resource rents. That is a hugely important thing to take forward. EITI was a modest step. We need to scale it up. But that is the right thing for the international

community to do to make sure that Africa's new wave of resource rents is more successful than its old one. This is a growth challenge.

The other growth challenge is that Africa's coastal resource-scarce economies have missed the globalization boat. We somehow have to bring that boat back. How do we do it? If we don't bring it back artificially, it will come back naturally once Asia's wages are as high, relative to Africa's wages, as Europe's wages were relative to Asia when Asia broke in. That will take a long time.

To its credit, America actually has developed such a way—the Africa Growth and Opportunity Act (AGOA). There are many respects in which this is a flawed mechanism, but it gets the basics right. It has a temporary preference for Africa versus Asia in American markets. It's worked, raising African exports to America by more than 50 percent.

Europe has a supposedly similar scheme, Everything But Arms, which is totally hopeless. The devil with all trade agreements is in the detail. Everything But Arms fails on all the details. The challenge is to somewhat improve the AGOA scheme, and in particular give it a slightly longer horizon than it has now.

At the moment, the critical feature of the scheme has to be renewed annually in Congress. A one-year horizon is too short for investment. What I would like to see is an AGOA-plus that is scaled up across the Organisation for Economic Co-operation and Development.

Those are the two challenges: Breaking the growth bottleneck in the coastal resource-scarce economies, and trying to ensure that Africa manages the present resource boom better than it did in the past. Africa is not a mysterious, *sui generis*-type of place. It has distinctive features, which generate two distinctive problems, both of which the international community has a role in resolving.

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**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).