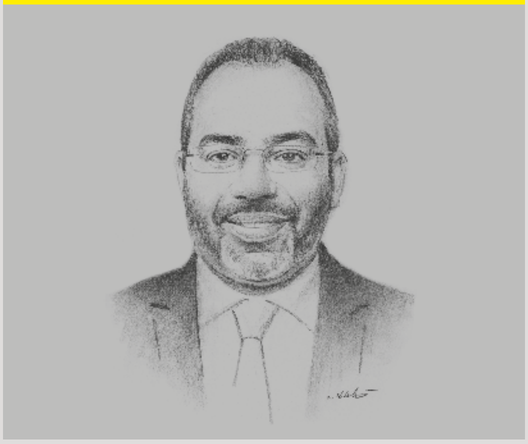

Carlos Lopes

Identifying challenges

Carlos Lopes, Professor, University of Cape Town; and Visiting Fellow, Oxford Martin School, on obstacles and opportunities facing sub-Saharan economies

What major factors are contributing to the drop in sub-Saharan GDP growth rates?

LOPES: We currently know very little on the structure of African economies. Only 12 countries in the continent have up-to-date national accounts, resulting in an underestimation of GDP and a lack of knowledge of the evolution and structure of several sub-Saharan economies. This situation is important because Africa has been moving very rapidly towards the services sector, with manufacturing and services already having surpassed agriculture in its contribution to GDP, driven primarily by internal consumption.

These trends should result in commodity exports occupying a lesser role in these economies, yet this is not the case. African nations' macro-economic indicators remain skewed towards exports, meaning that they remain dependent on single exports of commodities, thus keeping them vulnerable to exogenous shocks.

Moreover, fiscal reforms have yet to be implemented, resulting in the current apparatus remaining incapable of effectively capturing most of the economic activity of a given country. Given the low level of fiscal pressure and high instances of non-payment of taxes – especially from the rich – the value of exports still hold significant importance in the calculation of a nation's GDP. Consequently, the governments take the role of rent seekers instead of governors and managers of the economy.

What are the biggest obstacles to regional trade?

LOPES: The history of regional trade in Africa has been marked by simplicity and lack of commitment. Very little work has been done in terms of convergence of policies and adherence to treaties or resolutions meant to govern such integration efforts.

In this regard, the regional integration index was instituted to contextualise each country's contribution to 30 key integration indicators. The current structure of economic partnership agreements is also having a negative impact on integration efforts in Africa, as they fragment the continent into various areas of negotiations with the EU. Despite being a big supporter of trade agreements, I believe that negotiations being tabled today are not based on win-win solutions and remain disadvantageous – and often dishonest – to the African nations involved.

How can African economies increase value?

LOPES: It is very clear that African nations require a more aggressive industrial policy, not only in manufacturing and processing, but also in increasing productivity. For instance, Africa's productivity growth in the agriculture sector remains lacklustre at around 2-3% year-after-year, resulting in the lowest yields per hectare in the world. It is factual that industrialisation significantly increases productivity by allowing for the optimisation of the value chain.

In my opinion, the priority should be to focus on the agriculture and agro-industrial sectors and seek to export processed foods to the African market, which will grow to 2bn people by 2050. The second entry point is commodity-based industrialisation, which includes sub-commodities but primarily hard commodities. Increasing the level of value addition by 10% in this segment will generate 5m-7m jobs per year, which is quite significant. Third, as the Chinese and South-east Asian economies mature, labour intensive industries will increasingly delocalise to lower-cost labour environments, opening doors to new opportunities for the African continent.

However, challenges remain. One of the most frightening ones concerns the complexity of the value chain, that today calls for a very sophisticated – or niche – approach. Africa is also very late when it comes to intellectual property regimes, which have become paramount in order to benefit from these niche markets. Yes, Africa does have a noticeable infrastructure deficit, but I do not see this as the primary concern as long as the former two challenges are effectively addressed.