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Modelling for Growth and Jobs in Africa

A Tswalu Dialogue Report

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Strengthening Africa's economic performance

Contents

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Executive Summary

Understanding of the development challenges facing Africa has changed dramatically in recent years. Rhetoric overwhelmingly concerned with the legacies of colonialism, and with the continent's subordinate position within the global economic order, have been transformed by the levels, not only of growth, but of transformation achieved in other parts of what was formerly known as the 'developing world', notably in South and East Asia and in South and Central America. Their insertion into the global economy under conditions of imperialist domination and exploitation apparently replicated the African experience, yet they have been able to break away from the stranglehold that this experience continues to exert on Africa. Africa's growth rates have improved markedly in recent years but they continue to lag behind those of the more successful countries elsewhere. Moreover, growth itself, derived heavily from commodity exports, has not brought commensurate increases in jobs in Africa; and the urgent need to diversify away from natural resources and create widespread employment remains hard to achieve, given low skills levels, the costs of doing business in the continent, and continued unhelpful policy choices.

Linking economic growth and job creation was the main focus of a three-day Tswalu Dialogue held between 30 September and 2 October 2011 at the Tswalu Kalahari Reserve. Comprising senior policy makers, business persons and academics, the Dialogue was hosted by the Brenthurst Foundation in partnership with the *Mail & Guardian*, Johns Hopkins University School of Advanced International Studies (US), Rajaratnam School of International Studies (Singapore) and the Konrad Adenauer Stiftung (Germany). The three days of intensive discussion drew especially on expertise from Central America and from South and Southeast Asia, as well as every region of sub-Saharan Africa. But while wide-ranging, it was also tightly focused on the requirements for economic growth, for job creation, and in the process for Africa's closer and more effective incorporation into the global economy. In the process, three broad 'logics' emerged: the logic of harvesting commodities; the logic of comparative advantage; and the logic of governance. The Dialogue found that these logics – essentially complementary, although at some points potentially conflicting – need to be combined in order to create the necessary conditions for African development.

Growth must lead to the betterment of the living conditions of very large numbers of Africans

Understanding of the development challenges facing Africa has changed dramatically in recent years. Rhetoric overwhelmingly concerned with the legacies of colonialism, and with the continent's subordinate position within the global economic order, have been transformed by the levels not only of growth but of transformation achieved in other parts of what was formerly known as the 'developing world', notably in South and East Asia and in South and Central America, whose insertion into the global economy under conditions of imperialist domination and exploitation apparently replicated the African experience, but which have nonetheless been able to break away from the stranglehold that this experience continues to exert on Africa. Rather than looking beyond the continent for the explanation of an economic performance that continues to lag very heavily behind that of its fellows, it has become clear that Africans need to look within, while drawing on the examples provided by states elsewhere in the world which, 50 or 60 years ago, had levels of per capita income equal or even inferior to those found in Africa, and apparently equally dismal prospects, but which have since massively outstripped them.

While straightforward economic growth remains the *sine qua non* without which little else can be achieved, it is equally clear that growth in itself is not enough. It must lead to the betterment of the living conditions of very large numbers of Africans, in a way that can only be attained by productive employment. Nowhere is this clearer than among the rapidly increasing percentage of the population living in towns. A century ago, a mere five per cent of Africans lived in cities; this proportion – at a time when the continent's total population was also expanding rapidly – had increased by 1945 to 15 per cent, and currently stands at about 40 per cent; by 2025, it is projected that most Africans will be urban dwellers. The great paradox of this dramatic transformation is that Africa's economies continue to be driven, in both the export and subsistence sectors, by production *outside* towns. Across the continent as a whole, Africa's exports depend to a large and increasing extent on minerals, in both the petroleum and non-petroleum sectors, with which the continent is exceptionally richly endowed; but these have to be mined or extracted wherever they are found, and although in some areas – such as Zambia's Copperbelt – towns grow up around the mines, mining as a whole is highly capital intensive, and generates correspondingly low levels of employment. Zones of petroleum extraction, most notoriously Nigeria's Niger Delta, are associated not with burgeoning job creation, but with pollution on a massive scale, and the destruction of local livelihoods. Some African countries continue to depend for their export earnings on cash crop production, and in many countries a large

Not only is Africa as a whole an exceptionally youthful continent, but urban populations tend to be significantly younger than rural ones

portion of the population is comprised of self-provisioning peasants. These activities for the most part generate significantly higher levels of employment and wider livelihoods than mineral extraction, but are necessarily concentrated in rural areas. The first priority of this dialogue was correspondingly to map out the requirements for increasing employment in towns.

This priority is in turn closely associated with the opportunities available to African youth. Not only is Africa as a whole an exceptionally youthful continent, but urban populations – especially among those of working age – tend to be significantly younger than rural ones. These very large numbers of unemployed young city-dwellers pose a significant threat to public order, and equally important, their exclusion from the productive economy negates any possibility of broadly-based economic development. Put the other way round, the incorporation of Africa's young people into a productive workforce would represent a massive force for beneficial change, instantly converting youth from a problem into an opportunity, and enable Africa to benefit from the fact that it possesses an exceptionally high proportion of the world's young and therefore potentially productive people. By 2030, it is estimated that people under the age of 25 will constitute two-thirds of Africa's total population, and in turn provide a quarter of the world's youth. Though we must always be wary about projecting current trends indefinitely into the future, on any plausible scenario the relationship between Africa's youth and Africa's economy is – for better or worse – critically important not only for the continent but for the world.

Where We Start From

There has been much progress across the African continent during the 2000s. Economic growth has averaged about six per cent a year, driven especially by demand for African commodities from the rapidly developing Asian economies. Investment within the region – especially from South Africa – has also increased. Macroeconomic policy has improved, and multilateral debt reduction has removed a crucial resource constraint on African economies. At the same time, African countries have largely moved towards freer political systems, albeit to a varying extent. Multi-party democracy has largely won the intellectual argument, and has been accepted by overwhelming numbers of Africans, even though the practice varies markedly from country to country. This had gone in tandem with a marked decline in conflict within the continent. Among other factors for change, most dramatic has been the rise in digital communications, which has created opportunities

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for entrepreneurs – from the farm gate to the global market – reduced the social distance between city and countryside, and opened up social space beyond the reach of governments.

As a result, policy arguments have also changed. No longer is there a Manichean debate about the roles of state and market. It is broadly accepted that both an efficient state and open markets are needed for development, even though some governments are uncertain about (or incapable of creating) the first, and lukewarm about the second. Though rates of HIV/AIDS infection and their consequences continue to exercise a major impact, this is no longer a defining issue, and doomsday predictions about the consequences of the disease have not been realised. Nor, finally, do debates about the role of external actors, and notably about aid, attract the attention that they continued to do until very recently. The African debt issue has been virtually taken off the table as a result of global initiatives, and debate now centres very heavily on the domestic conditions for development.

At the same time, significant challenges have still to be faced. Despite their sharp improvement in recent years, continental growth rates continue to lag behind those of the more successful countries elsewhere. Growth itself, derived heavily from commodity exports, has not brought commensurate increases in jobs, and the urgent need to diversify away from natural resources and create widespread employment remains hard to achieve, given low skills levels, the costs of doing business in the continent, and continued unhelpful policy choices. Despite improvements in growth and governance, Africa's ability to attract foreign investment and to generate domestic private investment, especially outside the natural resources sector, lags behind other developing regions.

Challenges of Adaptation

For all its recent relative successes, therefore, Africa remains on the lower rungs of a very long ladder, and progress up that ladder will be correspondingly steep. Its achievement will depend on the ability to open up to the outside world, while at the same time retaining the capacity to recognise and adapt the distinctive legacies of the continent itself.

First of all, the critical requirement for African development is *openness*. There is absolutely no prospect of the continent achieving its goals through the discredited model of autochthonous development, closing itself to the outside world and seeking to build on its own resources. It does not have the capital, the expertise, the organisations, the markets or other essential requirements. Indeed, the major problem facing the continent is not that it has been incorporated into the global economy, but that it has not been incorporated *enough*. It is still locked, to far too great a degree, into trading patterns and other linkages inherited from colonial rule, and needs to open up to useful connections wherever it can find them.

The critical requirement for African development is *openness*

A key element in Africa's debilitating closure has been intellectual. Its elites have been overly subservient to patterns of thought taken over from Europe, not least in the form of 'socialism' in its various guises, and would do better to look for useful ideas among their colleagues in the developing world. Equally debilitating has been the tendency of outsiders to impose policy prescriptions – all too often appropriated by insiders – that show little appreciation of the character of the continent itself. While being a 'latecomer' on the development scene offers Africa the chance to benefit from an appreciation of what has worked – and not worked – elsewhere, it also carries the danger of appropriating models from other contexts, without understanding what made them work in their original setting, and whether they will work equally well in Africa. It is little use for Uganda, for example, to have a set of anti-corruption laws and institutions that closely approximate the global ideal, when the social attitudes and political setting needed to implement them are seriously deficient. Much the same goes for development models that set up some particular indicator – be it the Millennium Development Goals, the Doing Business Index, electricity generation, or the level of foreign direct investment – and take this as a surrogate for 'development'. These may each be valuable in themselves, but each imposes priorities – and blinkers visions – in ways that may ultimately be harmful to the development process itself. African states need to start from where they are, and look for improvements that can be incorporated into their current social and economic circumstances at comparatively low cost. Simply to replicate mechanisms copied from elsewhere – in the form, for example, of specialised government bureaucracies – may cost more in the form of scarce expertise and public revenues than the country can afford, while failing to deliver the benefits that such mechanisms were supposed to provide.

Nowhere is this need to meld the benefits of openness with the recognition of local circumstances more important than in devising policies for the urban economy. For a start, it is essential to set aside that instinctive hostility to Africans in towns with which state administrations from the colonial era onwards have characteristically approached the issues of urban government. For one thing, people will continue to flock to the urban areas, regardless of futile official attempts to prevent them. Even the apartheid government in South Africa – by far the most repressive government, and the most hostile to urban settlement by indigenous Africans, that

We should not suppose that city-dwellers constitute an undifferentiated mass of unemployed, unqualified and restive humanity

the continent has experienced – was quite unable to do so. For another, people would not move into towns in such numbers were they not themselves convinced that this would improve their overall circumstances – a conviction that they are better qualified to reach for themselves than any number of outsiders seeking betterment on their behalf.

Nor should we suppose that city-dwellers constitute an undifferentiated mass of unemployed, unqualified and restive humanity. There are certainly occasions on which urban discontent coalesces into mass protest. But an enormous amount of research testifies to the complexity, the differentiation, and not least the skills of urban Africans. These are people constantly aware of the quest for survival, who develop, of necessity, a shifting range of mechanisms in order to achieve it. They need to be adept at inserting themselves into the social structures of urban Africa, enterprising in seeking out profitable opportunities, and capable of acquiring the skills needed to operate not only in their local environment but in the global economy. Much of this activity stands, for sure, at or beyond the frontiers of legality, as Nigerian '419' schemes and their equivalents elsewhere testify. Much of it also – like the conversion of stolen cellphones – calls for high levels of technical expertise. But it also incorporates productive skills at or beyond the level of those employed in the formal economy: roadside mechanics in Kwazulu-Natal were found to be capable of carrying out a wider range of car repairs than their technically trained equivalents in the nearby Daimler-Benz workshops, with additional skills in financial management and customer relations that the formal sector workers lacked. Although many of the roadside mechanics would willingly have taken jobs with Daimler-Benz (from which they were debarred by their lack of qualifications), others earned more at the roadside than they would have done in the workshop, or preferred to work informally so as to choose their own hours or evade managerial control.

In short, the informal sector should not be regarded as a 'problem', but rather as a source of opportunity and expertise. In India indeed, often regarded as a highly successful new entrant into the competitive global economy, fewer than 30 million workers out of a labour force of 500 million are employed in the organised sector – largely as a result of restrictive labour legislation that obliges people to work elsewhere. The challenge is not to destroy the informal economy and replace it by a formalised model derived from the most developed capitalist states – a course of action that could only lead to untold misery and disruption – but rather to build on it, in ways that enable urban workers to use and enhance their existing skills in order to create better livelihoods for themselves.

Logics of Development

Natural resources constitute a basic resource in the modern global economy

The three days of intensive discussion drew especially on expertise from Central America and from South and Southeast Asia, as well as every region of sub-Saharan Africa. But while wide-ranging, it was also tightly focused on the requirements for ecomomic growth, for job creation, and in the process for Africa's closer and more effective incorporation into the global economy. In the process, three broad 'logics' emerged, essentially complementary although at some points potentially conflicting, which need to be combined in order to create the necessary conditions for African development. This report proceeds thematically, taking each of these 'logics' in turn and exploring the issues that it raises, rather than through a chronological description of the presentations and discussions.

The Logic of Harvesting Commodities

Africa's greatly increased rate of growth over the last two decades or so has rested heavily on improved prices and performance in the sector – the export of primary commodities, whether mineral or agricultural – that has formed the bedrock of its incorporation into the global economy in the modern era. While no one would dispute the need to go beyond this sector, it does provide the obvious base from which to start, in which visible results are likely to become more immediately available than in sectors in which Africa has less experience and expertise. Nor should primary commodities be regarded as in some way 'inferior' to growth through industry or services. On the contrary, they constitute a basic resource in the modern global economy, and quite a number of the recently most rapidly developing states in other parts of the world, such as Malaysia and Vietnam with cash crops, or Australia with minerals, have derived their recent growth very largely from deliberate decisions to increase production of commodities in which their natural resource endowment gave them a significant global advantage. African states should not be afraid to do likewise.

The key to expanded commodity production, it was generally agreed, lies in creating the macroeconomic conditions and regulatory regime required to attract investment in this sector. In this respect, a number of key requirements can be identified:

1. **Macroeconomic stability**: the achievement of macroeconomic stability has been one of the major successes for most African states over the last two decades, and the foundation for much of the continent's greatly improved rates of growth; the failure of those states in which such stability has not been achieved,

It is essential to avoid 'kidnapping' investors, by inducing them to make large fixed commitments

such as Zimbabwe, makes its importance starkly obvious. Critical in this respect have been the curbing of fiscal deficits, the reduction in rates of inflation, and the establishment of stable and market-linked exchange rates. These all derive from, and in turn help to foster, Africa's integration into global markets. however, macroeconomic stability, though necessary for sustained growth, is not sufficient for investment and diversification.

2. **Regulatory regimes**: attracting foreign direct investment requires policy predictability, notably relating to the regulatory regimes under which companies have to operate. Governments must furnish credible commitments to investors and producers, a political as well as legal challenge. These include the establishment of clear and trustworthy property rights, taxation systems, and requirements relating to local ownership, employment, and sourcing. The consensus in this last respect was that, rather than insisting from the start on high levels of local participation, states would do better to leave formal requirements relatively relaxed, while fostering the conditions under which companies will voluntarily hire and buy locally, since this was the most economic option. It is essential to avoid 'kidnapping' investors, by inducing them to make large fixed commitments, and then progressively squeezing them for additional amounts; not only does this deter any future potential investors, but a high proportion of new investment characteristically derives from companies already established in the country. The key to maintaining a predictable regulatory regime, however, is the existence within the country of a policy consensus, such that changes in government will not reverse previously established procedures; this in turn calls for the 'logic of governance' discussed later.
3. **Removing obstacles**: maintaining an environment that will encourage productive investment requires states to be constantly on the lookout for potential obstructions, and to identify and remove these as they become clear. Once one obstruction has been sorted out – such as customs regulations, or undue transport delays at national frontiers – then others will come to the fore that can be dealt with in turn. In this respect, the Doing Business indicators can be a helpful guide, not only in demonstrating receptivity as the country moves up the league table, but also in alerting governments to areas that need attention.
4. **Improving infrastructure**: this takes several forms, including physical infrastructure (such as transport and electricity), technical infrastructure (such as telecoms), and human infrastructure or skills. For the first of these, states should consider public-private partnerships, through which minerals companies in particular may be encouraged to pay up-front for infrastructure that they need

for their own operations, and can be induced to provide in collaboration with the state. For the last, attention should be paid to the specific range of skills that the country's development strategy calls for.

Commodity investment is also liable to induce problems of uneven development

At the same time, harvesting commodities goes only a certain distance towards achieving the development goals of African states, and brings some problems of its own. As already noted, it is likely to create only a limited number of jobs directly, which in the case especially of agricultural commodities will be concentrated in rural areas rather than towns. Its value lies firstly in improving the overall economic attraction of the state concerned, both in reputational terms and through the improvement of infrastructure and demand for local goods and services; and secondly in providing revenues for government. In this last respect, there is a critical trade-off between the requirements for attracting investment in the first place (which may call for generous tax regimes and other concessions), and for increased government revenues in the second. This means that hard bargains may need to be hammered out, which in turn must be respected. Commodity investment is also liable to induce problems of uneven development, in which the region in which extraction takes place may be regarded as specially favoured (by contrast with other regions seen as stagnant or undeveloped), or disadvantaged (by environmental damage or the perception that the region is providing a disproportionate share of the revenues from which others benefit). Hence, particular attention must be paid to the domestic political compact that growth requires. Finally, no one familiar with the economic history of Africa over the past 60 years can be unaware of the dangers posed by commodity price instability. Time and again, when prices were high as they are at present, governments have assumed that these prices would be sustained indefinitely, and have adapted their behaviour accordingly. Time and again, they have been caught out when prices fell. However much one may hope that commodity prices have stabilised at their current level, this is an assumption on which any government would be extremely foolish to stake its country's future.

The Logic of Comparative Advantage

The basic policy requirements for successfully harvesting commodities hold good as countries seek to move beyond the primary produce sector, into areas in which they are competing for investment in a much broader global market. At the same time, the demands are likely to become increasingly stringent, since potential investors have a much wider range of choice at their disposal. African states have at once benefitted and suffered from the fact that their major investors – in the form notably of mineral extraction companies and aid agencies – have been exceptionally tolerant, Among the benefits that openness brings with it is the need to look for areas of comparative advantage

either because the minerals that they seek are in fixed locations, or because they are under pressure to spend their money in the poorest states. This has encouraged a level of complacency reflected in the notably poor performance of most African states in more competitive settings. Improving this performance is however absolutely central to generating the kind of production that can make a real difference to employment, especially in the urban areas. It is equally important that policies adopted under the pressure of economic crisis should not be diluted as conditions ease, as has to some degree been the case in India.

The two watchwords that constantly emerged from the discussion were *openness* and *flexibility*. Even India, a country so vast and diverse that it can stand as a test case for the possibility of development within one country, was able to emerge from the 'Hindu rate of growth', and the negligible long-term increase in *per capita* income that this brought with it, only once the government made a conscious decision to engage with the global economy. For African states, the argument is even stronger. Among the benefits that openness brings with it is the need to look for areas of comparative advantage, in which the country concerned is at least relatively more likely to be able to compete than in others. No country – least of all a small African one – can operate effectively in more than a very limited number of fields. Panama, for example, identified logistics and financial services as key areas in which to specialise – a decision obviously encouraged by the critical location provided by the Panama Canal, but at the same time enabling it to create skills that now permit it to export its expertise to other states in Latin America. Export agriculture was likewise restricted to just four crops. This search for *competitive advantage* – distinct from a presumed narrow course of comparative advantage – is more than a mechanism for identifying possible exports, and more importantly involves a process of self-discovery: it is only by setting yourself against the rest of the world in the way that it requires that you can discover what is special about your own country, and what you need to keep as well as to change, in order to reap the maximum benefit for your people.

The need for flexibility reflects the difficulty of finding niches in a constantly changing global economy. Governments, characteristically, are extremely poor at 'picking winners' to drive their countries' search for development and notably industrialisation: better by far to leave this task to the market, guided by a constant search for needs – both at home and abroad – which you are in a position to meet. Here again, African performance is often poor. A 'route diagnostic', conducted by sitting in the cab of a Rwandan truck, travelling from Kigali through Uganda and Kenya to the coast at Mombasa with a load of coffee, and returning with imported goods, involved no fewer than 72 demands for bribes. An alternative approach, treating the transport corridor as a business opportunity rather than a chance to extract rents by obstruction, could transform the economies not only of Africa's landlocked states, but of the maritime ones as well. Opportunities bubble up in unexpected places – who, for example, could have predicted that Costa Rica would emerge as a leading exporter of medical equipment such as petri dishes? – and need to be seized as they arise, in a way that governments are very rarely in a position to do.

Government approaches to industrialisation in Africa have often been driven by a search for 'beneficiation' – or adding value to locally produced commodities by further processing prior to export – and there may indeed be occasions when comparative advantage can be exploited in this way, for example through lower transport costs. Such processing, however, involves different economic resources and calculations from the initial commodity production, and needs to be considered as a separate enterprise in its own right. Refining of mineral ores, for example, may call for very large quantities of cheap electricity, which the state concerned may or may not be in a position to generate, as well as specialised technical skills. Processing primary commodities on the spot for direct export to foreign markets requires an understanding of those markets themselves, which may well be better suited to entrepreneurs in the country of ultimate sale than in the country of initial production. Most important of all, *idées fixes* of this kind, especially when backed by government subsidies not available to other products, may distract businesses from more worthwhile opportunities.

As in the commodity sector, the search for foreign direct investment, and the identification of weaknesses revealed by the Doing Business index, serves as a shorthand for creating a supportive environment for domestic entrepreneurs. Indeed, the common and politically convenient distinction between local businesses (regarded as 'good'), and foreigners (regarded as 'exploitative') is chimerical. Not only is what is good for one good for the other, but foreign investment provides opportunities for local businessmen. A high proportion of independent entrepreneurs in Costa Rica, for example, started their careers as employees of multinationals, in which they acquired the attitudes and expertise that enabled them to set up on their own. Many Africans in the diaspora have also developed the skills and contacts needed to set up businesses back home, once the conditions have been established that encourage them to do so: the Indian IT industry has been massively boosted by the return of highly qualified Indians from 'Silicon Valley', and new enterprises and attitudes in Africa can often be traced to locals coming home, often with a strong

> Just as in Italy, marriage rates rose when divorce became legally possible, so employers are readier to hire staff when they are also in a position to fire them

commitment to improving the condition of their own communities. Retaining them depends on just the same requirements as those for retaining foreign investors.

The demands of global competitiveness may equally draw unwelcome attention to cherished features of the domestic economy that impede effective participation in international trade. It comes as a surprise that in some of the poorest African states, wage rates are at a level that precludes competitive production for export markets: the hidden side of this paradox is then that remunerative employment for a relatively small number of characteristically unionised workers is maintained at the cost of denying other potential workers any chance of formal employment, pushing them instead into survival by any possible means in the informal sector. The same goes for labour market regulations that, by assuring job security for a relatively small number of established workers, greatly reduce job prospects for the much larger army of the unemployed: just as in Italy, marriage rates rose when divorce became legally possible, so employers are readier to hire staff when they are also in a position to fire them. Another area of weakness, albeit being improved by financial sector reforms and greatly improved telecommunications in some parts of Africa, is access to microcredit of a kind pioneered by the Grammeen Bank in Bangladesh.

The Logic of Governance

Securing economic transformation is a deeply political task, and demands deep and lasting commitment, not only from governments but from a coalition of all the major actors in the country concerned. The first and essential lesson is that basic political order and stability is the *sine qua non* without which nothing else can be achieved. Time and again, promising economic progress in Africa has been negated and reversed by avoidable breakdowns in public order, with the neighbouring states of Liberia and Côte d'Ivoire – each of which had at one time led the table of Africa's richest states in *per capita* terms – providing the most harrowing examples. The record shows that the recovery from political breakdown is characteristically long and uncertain, and can easily be reversed. Though precise mechanisms for achieving stability are likely to vary between states, in every case inclusive approaches to governance have been of prime importance.

Whatever claims have been made in other parts of the world, moreover, there is no case at all for 'developmental despotism' as the basis for Africa's economic transformation. Dictatorship in Africa has been, quite simply, catastrophic, not only in the misery that it has inflicted on individual human beings, but in terms likewise of the conflict that it has generated, the exceptionally high levels of corruption and

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misgovernment that it has promoted, and economic failure. There is a strong case that successful development in Africa calls above all for democracy, transparency and the rule of law, and it should be no surprise that the region's striking turnaround over the last two decades has coincided with a sharp – though still only very partial – improvement in the quality of the continent's governance over the same period. Among the 20 states of Latin America, the same three (Chile, Costa Rica and Uruguay) lead the tables in terms alike of equality, democracy and economic growth, and the same broad relationship holds good for Africa, even though apparently deviant results may be obtained by states such as Equatorial Guinea, which combine a small population with a valuable resource.

African states have all too often failed to achieve the key requirements for growth, not simply from ignorance or inadvertence, but because these run counter to other important priorities on the part of political elites, including notably their concern to remain in power, and indeed to seek opportunities for personal enrichment. Achieving high levels of economic growth, creating jobs, and improving the living standards of the mass of the population are essentially *political* decisions, which in the short term involve the sacrifice of other priorities that leaders may desire. It is likewise the case that the maintenance of social harmony, as the vital precondition without which nothing else can be achieved, may at times call for measures that are sub-optimal in purely economic terms. Economic development requires, without reverting to the false promise of single-party rule, the articulation of a broad national consensus over the goals to be achieved, which will be honoured even when one governing party is democratically displaced by another. Political leadership, in this context, is critically concerned not only with defining national goals, but with educating the population as to the reasons, and the need, for them: when the ratification of a free trade agreement with the United States in Costa Rica, and the major decision to enlarge the Panama Canal in Panama, were subject to countrywide discussion and debate, and albeit narrowly approved, this provided a critical mass of support that encompassed even those who had initially opposed the measures concerned.

Such consensus is best achieved within genuinely multi-party states with open electoral competition, of which within Africa Ghana probably provides the best example. Zambia, after the recent peaceful transfer of power following contested elections, may in time come to earn a similar status. The same effect is not to be expected following contested elections in states such as Kenya or Zimbabwe, where some kind of coalition follows from the refusal of the governing party to accept defeat, or in 'corporatist' states such as South Africa where a single party – whatever

Economic development requires the articulation of a broad national consensus over the goals to be achieved

its 'liberation' status – effectively monopolises power. There, it is all too likely that big government will combine with big business and big trade unions to carve up the national economy in their own interests, to the detriment of both small businesses and especially the unemployed who are excluded from power. Government, business and organised labour each have their own blind spots: government tends to overlook the claims of the politically marginal, business those of equality, and unions those of global competitiveness – and each must be confronted in building a growth coalition.

A particularly important challenge is presented by the problems of uneven development, which is an almost inevitable consequence of rapid growth. It is in practice virtually impossible to ensure that the benefits of growth will be distributed equally across different social groups and areas of the country, at the same time that every possible development opportunity is being sought out and exploited. Some groups and regions will be in a position to take advantage of openings that are simply not available to others, and the growth in total national wealth will then be offset by the resentments of those who have gained least from it, against those who have gained most. The temptation on the part of governments is then to resort to measures of fiscal populism, designed to spread the benefits more widely, which can easily entrench the divisions that they are intended to overcome, and place further burdens on the already difficult quest for growth. Such measures are especially evident in very large and diverse states, within or outside Africa, such as Nigeria and India. Wherever possible, emphasis should be placed on doing whatever is needed to make opportunities initially open only to some available to all, rather than by obstructing opportunity in the name of equity. Uneven development likewise imposes special obligations on governing elites to moderate their own lifestyles in the interests of social harmony: an effective anti-corruption coalition must be at the heart of the achievement of national consensus.

Similar problems of uneven development apply at the regional level. Some African states are far better placed than others to profit from the global economy; some, conversely, remain in so parlous a condition that survival – let alone growth – without significant external support is barely conceivable. Here too, the emphasis must be on encouraging those that can develop to do so, while looking to compensatory mechanisms to help those that can't.

In this context, an emphasis on the challenges posed by the predicament presented by urban youth may well provide a focus around which a consensus can be developed. On the one hand, this is a constituency which – as demonstrated by the recent uprisings in North Africa – presents an evident threat to established interests, providing an uncomfortable reminder to the more privileged sectors of society that their own survival may depend on an awareness of the much greater needs of others. On the other, this is a section of the population that has an enormous amount to offer, if only it can be incorporated into the productive life of the society. In the process – and this is something that this dialogue did *not* provide – it will be essential to listen to the authentic voices of urban youths themselves.

Uneven development likewise imposes special obligations on governing elites to moderate their own lifestyles

Conclusions

Had this discussion been conducted ten, 15 or even 20 years ago, very different issues would certainly have been on the agenda, and their omission is, on the whole, a measure of the progress that Africa has achieved in that time. The subject of foreign aid, and indeed the whole question of what responsibility the outside world bears for Africa's predicament, was barely alluded to. Countries outside Africa figured prominently, but these were almost entirely from within the developing world, and were called into play as examples from which Africa could learn, not as scapegoats on whom the continent's problems could be blamed. Even within Africa, issues relating to conflict were largely set aside: there are certainly areas within the continent, notably in Central Africa, whose future remains deeply uncertain, and many other regions in which wise political guidance will long be needed in order to prevent conflicts which are at least for the moment quiescent from breaking out again. Discussion largely avoided 'basket cases', of which some undoubtedly remain, in order to concentrate on those parts of Africa that offer the greatest hope for a rapid improvement in human welfare. These 'holes in the map' should not be ignored, and considerable effort, both inside and outside Africa, will need to be devoted to dealing with the problems that they represent. But it is a tribute to the great strides that have been made over recent years that we can now look not to Africa's problems but to its possibilities, and to the very real prospects for sustained growth that have now been opened up.

It is worth considering, too, what topics might be open for discussion in a similar dialogue in ten or 15 years' time. The global economy is currently at a critical stage, and it is by no means certain that the astonishing levels of economic development in Asia – on which Africa's current growth largely depends – will be sustained, or that commodity prices will remain at their present historically high levels. One lesson of boom and slump in Latin America has been that while all states benefit during the good times, those in which the most effective market reforms have been undertaken stand out during the bad ones; and that in undertaking the kind of restructuring that this dialogue has sought to advance, African states will not only profit to the greatest degree from the present advantageous circumstances, but will equally armour themselves against the impact of harder times.

Acknowledgements

The rules for the Tswalu Dialogue preclude the identification of particular individuals as responsible for any specific expression of opinion, and this report consequently draws on the anonymous views of a large number of participants, which are very gratefully acknowledged. At the same time, even though a remarkably high level of consensus was achieved during the discussions, it cannot be assumed that every participant will agree with everything incorporated in this report, and some indeed may disagree with much of it. To these, we can only offer our apologies.

List of Participants: Tswalu Dialogue – Modelling for Growth and Jobs in Africa

Tswalu Kalahari Reserve, 30 September–2 October 2011

Hosted by the Brenthurst Foundation, *Mail & Guardian* Newspaper, Johns Hopkins University School of Advanced International Studies, Rajaratnam School of International Studies, & the Konrad Adenauer Stiftung

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Urban youth can save Africa – or sink it

Sunday Times 09 Oct 2011 | Greg Mills

The population of sub-Saharan Africa is expected to nearly double to 1.5 billion by 2030. By then, most Africans will live in the continent's cities. And two-thirds of Africans will be younger than 24 – accounting for an astonishing one in four of young people worldwide.

What are they going to do? How are we going to provide jobs for burgeoning numbers of young people in our cities?

This is nothing to be scared of – it is estimated, for one, that as much as 40% of East Asia's growth 'miracle' was the result of just such a demographic dividend. But it requires the right policies and choices to be made.

Not much can be done without rapid growth, somewhere around 10%, up from sub-Saharan Africa's current 6%. Growth at these levels involves realising both of the continent's comparative and competitive advantages: digging things out of the ground (usually) and making them.

The former especially demands regulatory clarity and predictability, the avoidance of over-bureaucratisation, lowering of infrastructure costs and reducing policy uncertainty. If you threaten to nationalise, forget it.

The latter, improving competitiveness, requires all of these things and more, success hinging on a complex range of policy actions. Running through all of these is a key question: how can a government improve the chances of its businesses to compete globally?

Here there is an overall need to differentiate between policy options and political choices.

Politicians are rather bad at this.

Yet, there are a set of basic imperatives for those countries seeking to add value (and jobs) through manufacturing and services: tax incentives, productivity related to costs, skills and wages, ease of work permits, efficiency of infrastructure, etc.

While a lot of effort is spent on addressing tariff barriers, the greater rewards, at least in the short term, will likely come from logistics. For one, 24/7 customs regimes should be a norm.

Wages and skills are two sides of the productivity coin. Educational establishments are not the only way to create the necessary skills. Getting people into jobs is another. Restrictive labour practices are an impediment to this. Such laws are politically understandable, if commercially problematic. Yet, it is necessary to make it easier to employ folk, particularly in first-time employment.

Like Italy, where the number of marriages went up when divorce was allowed, this requires making it easier to fire workers before they are employed.

Fortunately, most African countries are at such a low economic base that even a few improvements – such as in infrastructure and bureaucracy – can bring huge rewards.

Unless policy adjusts quickly to this reality, however, the undoubted energy of African youth, matched with globally fed expectations, could quickly turn an unsurpassed opportunity into a destabilising nightmare.

Source: *Sunday Times*
Web Address: http://www.timeslive.co.za/opinion/commentary/2011/10/09/urban-youth-can-save-africa---or-sink-it

Being pro-growth matters

Mail and Guardian 07 Oct 2011 | Kevin Davie

For the past 10 years, an invited group of academics, economists, policymakers and business people have met annually in the Kalahari to contemplate the shape and future of Africa.

Hosted by the Oppenheimer family on their 110 000 hectare wildlife reserve at Tswalu, north of Kuruman in the Northern Cape, the weekend is for debate as bright minds bring their expertise and experience to the which and why of economic models that work.

Among the guests this year were a prime minister, a former chief economist of a major Asian economy, economists and policymakers from Central America, development academics from leading universities, an ambassador to South Africa, and senior South African government officials. There were also entrepreneurs from Southern Africa, one journalist and experts from a host of other African countries, including Zambia, Malawi, Rwanda, Nigeria, Kenya, Ghana, Tanzania, the Democratic Republic of the Congo, Mozambique and Swaziland.

Chatham House rules applied, meaning the discussion was for reporting but, in the interest of the free flow of ideas, not for attribution.

You might expect that, with so many interests represented, there might have been the odd sharp exchange but for the most part – perhaps because of the rolling dunes of the Kalahari – there was little that had an edge to it.

I positioned myself so that I could see the water hole in front of the lodge to view the sable and roan antelope, kudu, wildebeest and nyala while absorbing the discussion indoors.

The Tswalu Dialogues, as the event is known, is the work of Greg Mills, director of the Oppenheimer-funded Brenthurst Foundation.

Mills set the overall topic for discussion as 'What are the vast numbers of young people in our cities going to do?' Put another way, does the bulging youth demographic across Africa represent a potential urban dividend or a nightmare?

Africa is a better place now than 10 years ago when these dialogues started. The conversation then was about HIV and donors; now it is about growth and jobs. There was a bit of toing and froing on this point: What is the exact relationship between the two sets of issues, and what impact do skills have on them?

Growth

As democracy has spread, conditions for growth have been created, but growth should be seen as a necessary – not a sufficient – condition for development. A mythical country, Zangola, where oil revenue finds its way into the pockets of leaders, was cited as an example of an undesirable outcome.

I hoped to hear more about Ghana, which is the world's fastest-growing economy at 13.4%, but there are concerns over equity and uneven growth.

It was argued that unequal societies growing more slowly than equal ones. South Africa has the greatest levels of inequality, as measured by the Gini coefficient of 130 countries that report this data to the World Bank.

'Brazil has had less growth, but an improving Gini,' said one participant.

One speaker set out five basic pro-growth truths. These are that macroeconomic stability is a given; quality (read inclusive) growth matters; integration with both the rest of the continent and the world matters; infrastructural development is crucial; and institutions matter.

'Good institutions matter even more,' this speaker said, likening poor institutions to badly made spaghetti bolognaise.

For this speaker, the state has to play the role of being a countervailing force that stands behind the poor against 'big business and labour [that] cut a deal and exclude the poor'.

A number of speakers pointed out the rigidities in the South African labour market, such as the industrial council system that sets wages for both parties and non-parties and destroys through insufficient flexibility.

A related view is that jobs will only be created when it is easy to fire employees. When it is difficult to fire someone, employers are reluctant to hire.

A counterview was that these bargaining councils cover only 30% of workers, and employers had managed to shed one million workers since the start of the financial crisis in 2008, apparently without too much trouble.

What can we learn from India? The giant was in slumber mode for decades after independence, only recently moving into its high-growth mode. The Indian economy remains highly informal, with only 6% of its labour force in formal employment. But unemployment, also at 6%, is low.

One participant told me that she was surprised about the lack of conflict in the debates. The only exchange I witnessed in which voices raised a decibel or two was about South Africa's yet to be born youth wage subsidy.

Perhaps the Kalahari, with its infinite sense of space, is not the place for sharp exchanges.

Someone spoke of parallel universes. The universe outside the window seemed an infinity away from the discussion inside.

Africa is undoubtedly in better shape now than 10 years ago, but we hardly began to address the question of how the continent would meet the needs of its burgeoning population.

The youth may have their own reality but, as we have seen recently in North Africa, parallel realities can collide with spectacular effect.

Source: *Mail & Guardian* Online
Web Address: http://mg.co.za/article/2011-10-07-being-progrowth-matters