INSTITUTE FOR SECURITY STUDIES

POLICY BRIEF

Africa First!
Igniting a growth revolution

Jakkie Cilliers

Africa has extraordinary potential for economic growth and development. But its many plans and noble aims rarely translate into reality. This policy brief summarises Jakkie Cilliers' new book *Africa First!* which examines the continent's current development pathway and how it can deliver on its potential. Cilliers presents an ambitious but realistic scenario to 2040 that sees improvements in economic growth, average income and poverty reduction.

Key findings

- The continent is experiencing a broad improvement in human well-being, reflected in health indicators such as infant mortality and life expectancy.
- On most other indicators, such as average income, the gap between Africa and the rest of the world is increasing, and the impact of COVID-19 will increase this disparity.
- With projected average economic growth of 4.3% from 2020 to 2040, Africa is falling further behind, despite the continent's economy being projected to increase by more than 130%.
- Demographics remain at the core of Africa's underperformance and is among the most underappreciated factors in the continent's development prospects.
- The continent's slow pace of development is explained by the unproductive structure of African economies.
- The poor performance of agriculture and manufacturing also help to explain Africa's slow growth.
- Africa can, by 2040, markedly improve its prospects for economic growth and average income, and reduce poverty and inequality.

Recommendations

- The need for investment in better healthcare and basic infrastructure is particularly evident during the COVID-19 pandemic.
- Africa must seize the opportunity offered by renewable energy and the promise of the fourth industrial revolution to rapidly improve productivity, growth and create many more jobs.
- African governments need to understand and define the role of the private sector, the importance of trade, foreign direct investment and the contribution of development partners.
- Balancing the simultaneous challenges of democratisation and development requires consummate political leaders who represent Africa's youthful, technologically and socially aware population.
- Manufacturing remains very important for Africa, as it facilitates and incentivises a more productive agricultural sector and the development of higher-end services such as finance, that drive growth.
- Africa needs to reduce fertility rates and effect more rapid but planned urbanisation. Productive urbanisation requires investments in basic infrastructure such as paved roads, running water, water-borne sewerage and electricity at the early stages of urban growth.
- African countries need accountable, honest leaders who step down after constitutional term limits, and who look to the future not the past.

> **‘A roadmap that could turn Africa’s potential into prosperity’**
>
> South African President Cyril Ramaphosa, 2020 chair of the African Union

Introduction

The African continent is complex and its reality a far cry from the stereotype in Western media. The good-news story is one of vibrant development, particularly in expanding cities. Gleaming new airports, bustling streets, traffic jams and youthful vigour can be found from Addis Ababa and Lusaka to Nairobi and Lagos. The continent is experiencing a broad improvement in human well-being, reflected in health indicators such as infant mortality and life expectancy. Africa is catching up with global averages.

This is largely because basic improvements are easier to achieve at lower levels of development. On most other indicators, such as average income, the gap between Africa and the rest of the world is increasing. On measures like average years of education, the gap remains as wide today as it was 50 years ago. The impact of COVID-19 will increase this disparity.

Africa has many plans and noble aims that rarely translate into reality. Among them are the New Partnership for Africa’s Development (NEPAD) and Agenda 2063, the African Union’s long-term development vision.

Africa First! uses forecasts of the International Futures (IFs) modelling platform developed by the Frederick S Pardee Center for International Futures at the Josef Korbel School of International Studies at the University of Denver. It analyses the continent’s current development pathway and what needs to be done for it to deliver on its potential. It responds to three questions:

- Where does Africa find itself today and what explains this state of affairs?
- Where do we think Africa will be in 2040?
- What can be done to improve this trajectory?

The book looks at Africa’s recent history and today’s situation. It examines the potential impact of climate change, conflict, a changing world order, trade integration and opportunities presented by technology.

Cilliers then uses a current path forecast to 2040 as a backdrop against which he models 11 interventions required for rapid improvements in African wellbeing – demographics, health and basic infrastructure, education, agriculture, impact of social grants, manufacturing, technology leapfrogging, trade, security, governance and external support. Many of the interventions are interdependent and have different impacts at different stages of a country’s development.

Africa First! concludes with an ambitious but realistic scenario to 2040 of Africa’s prospects for economic

Figure 1: Eleven interventions modelled in the *Africa First!* analysis

growth, improvements in average income, and reductions in poverty and inequality.

Dealing with Africa's diversity

No forecasting system can do justice to the rich diversity of Africa, its 55 countries, thousands of languages and many different cultures. *Africa First!* therefore explores trends using World Bank classifications of income groups, which are useful to compare the structure of economies, levels of income, education and access to infrastructure between countries at the same level of economic development.

Of 31 low-income countries around the world, 24 are in Africa. The continent has 21 of the 47 low-middle-income countries globally and only eight out of 60 upper-middle-income countries. Of 80 high-income countries, only one is in Africa, the island state of Seychelles (Figure 2).

The growing gap

The growing gap between Africa and the rest of the world, and measures to overcome that gap, is a consistent narrative in *Africa First!*

In 1960 GDP per capita in Africa was about half the global average, and this remained relatively constant until the late 1970s. By 1993 however, GDP per capita in Africa had plummeted to less than one-third of the global average, and is projected to be less than one quarter by 2040, a stark picture of increasing divergence (Figure 3).

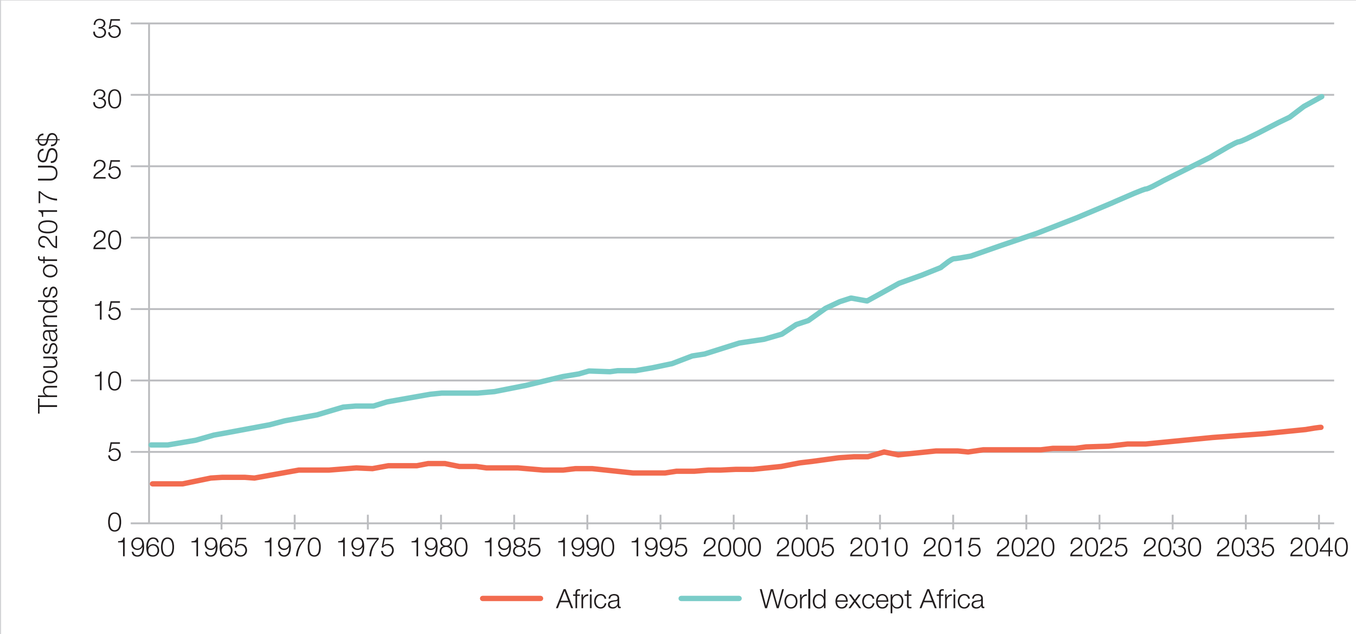
With projected average economic growth of 4.3% from 2020 to 2040, Africa is falling further behind, despite the continent's economy being projected to increase by more than 130%.

Because Africa's population will have increased by 82%, average income will only rise by 30%, compared with

Figure 2: Income groups in Africa

Source: World Bank Country and Lending Groups https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

Figure 3: GDP per capita projections to 2040 for Africa and the rest of the world



an almost 150% increase in the rest of the world. The growing divergence between average incomes correlates with many other indices, such as education and health.

Something drastic is needed, and doing more of the same won't lead to tangible progress. The momentum of a burgeoning population, the growth of China and India, and the swift pace of technological change present opportunities for Africa in electricity generation, expansion of communication networks, and better access to financial services. But Africa could be left further behind if these opportunities remain untapped.

Understanding Africa's development backlog

Many studies have sought to explain why Africa remained much poorer than other regions. At its root is the impact of external interventions, through slavery and colonialism, and after independence the constraints of the Cold War. The process of externally-imposed statehood, instead of organic state formation, continues to haunt the continent, even as its impact has declined over time.

Having little agency over its own destiny, and blighted by poor leadership, it's no surprise the continent is set to miss the headline goal of the United Nations 2030 Agenda for Sustainable Development – the elimination of extreme poverty. Instead of decreasing, the number of extremely poor Africans will have increased by 2030.

And this is despite Africa's rich endowment of fertile land, resources and potential.

The growing divergence between Africa and the rest of the world is reflected in its marginal role in the global economy. In 1960 Africa accounted for just below 3% of the global economy. Sixty years later that share is largely unchanged despite its share of the global population almost doubling from 9% to 17% (Figure 4).

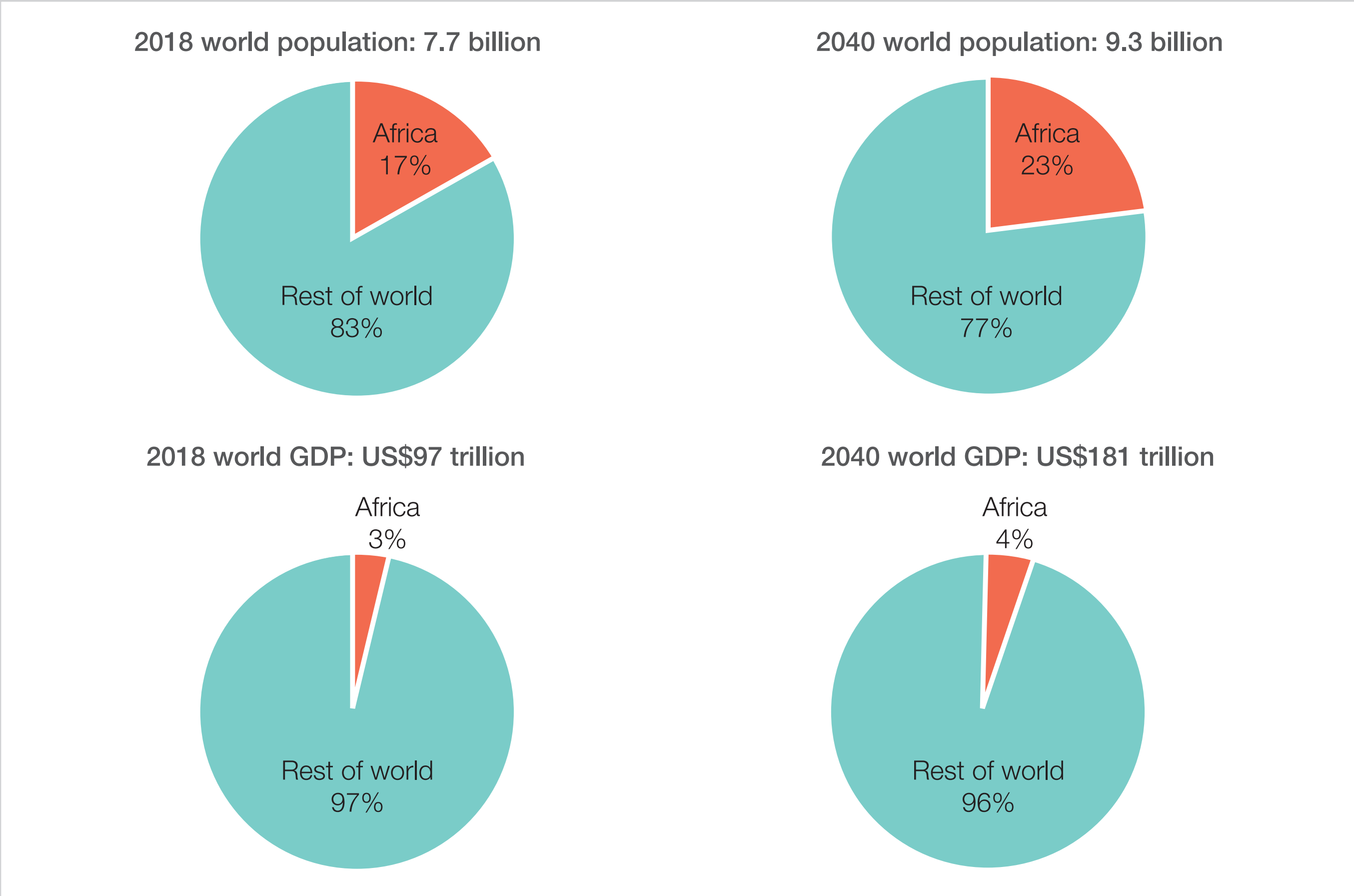
Compare this to East Asia, where productive economies increased the region's share of global economic output from about 11% in 1960 to more than 30% today, even as its share of the global population shrunk. Africa received a cumulative total of US$2.3 trillion in aid during this time, but it had limited apparent impact. Africans are not developing Africa and it is time they did so.

> Africa's average income will rise by 30% to 2040, compared to 150% for the rest of the world

Today's world is characterised by unprecedented shifts in global economic heft. By 2040 Asia, knitted together by China's Belt and Road infrastructure superhighway, will have an economy around 12 times larger than Africa's.

By 2040 Africa's population will have crossed the two billion mark and will be significantly larger than the

Figure 4: Africa and global population and GDP, 2018 and 2040



population of India or China. Nigeria alone will have 330 million people, making it the fourth most populous country after India, China and the United States (US). But because of poor growth prospects, Nigeria will account for less than 1% of the global economy and is unlikely to emerge even as a global middle power.

Commodity dependence and economic structure

The continent's slow pace of development is explained by the unproductive structure of African economies.

Africa's services sector, including banking, recreation, tourism, transport and food, constitutes the largest economic sector by value and is significantly larger than agriculture and manufacturing.

In developed countries, the services sector improves economic productivity, but the opposite is true in Africa, where low-end services dominate, much of them in the informal economy. As a result, rapid expansion of Africa's low-end services sector, accompanied by deindustrialisation from already modest levels, has constrained improvements in the productive structure of African economies.

Manufacturing is six times more productive than agriculture. But growth of African manufacturing is constrained by imports from Southeast Asia, and Africa is becoming more dependent on the export of commodities.

In developed countries, the services sector improves economic productivity, but the opposite is true in Africa

With very low levels of basic infrastructure, such as availability of safe drinking water and sanitation, Africa has a high disease burden and a population more vulnerable to the impact of climate change than people in other regions. The need for investment in better healthcare and basic infrastructure is particularly evident during the COVID-19 pandemic.

Importance of demographics

Demographics remain at the core of Africa's underperformance and is among the most underappreciated factors in the continent's development prospects. The uncomfortable truth is that Africa's development is restricted by its slow demographic transition to a more productive population structure with a larger working age population in relation to the number of dependents. Its large youthful population should be an engine of growth, but is instead increasing so rapidly it is a constraint on productivity.

> Only once fertility rates drop below 2.8 children per woman does the ratio of working-age persons to dependants increase

Economies grow as a result of increases in the contribution of labour, capital, productivity and technology. At low levels of development, the contribution of labour is most important, often calculated in terms of the relative size of the working age population. Once countries achieve middle-income status, the contribution of capital gains in importance. In high-income economies, technology generally drives improvements in productivity.

The rapid increase in the labour force in relation to dependants was key to accelerating economic growth in the Asian Tigers, Japan and China. But in Africa, only since around 1987 has the ratio of working-age persons to dependants started to improve, albeit very slowly and from a low base.

Only once fertility rates drop below 2.8 children per woman does the ratio of working-age persons to dependants increase. Growth generally accelerates as these ratios change because of the contribution that more working-age persons make to economic growth. The problem is that Africa will only achieve this favourable ratio beyond 2050.

Agriculture and manufacturing

The poor performance of agriculture and manufacturing also help to explain Africa's slow growth. Agriculture is a mainstay of Africa's economy, but yields per hectare are the lowest globally and improving much more slowly than in the rest of the world.

Most African countries are today net food importers, despite the continent having millions of hectares of arable land with huge untapped potential. Africa's current net agricultural trade deficit bill is close to US$100 billion annually and expected to quadruple by 2030. Food exports are dwarfed by the value of imports, and the continent loses significantly more food to post-production waste than any other region.

> 2 billion people

IN 2040 AFRICA'S POPULATION WILL BE MUCH LARGER THAN INDIA OR CHINA

In spite of much discussion about the importance of agriculture, the reality is that most African governments pay little attention to improving small and medium scale farming, the bedrock of an agricultural revolution.

Food security has been the basis of economic transitions in each of today's successful high-income countries like the US, France and Australia. The same is true for developing countries such as China, India and Brazil.

The future impact of climate change on Africa's agricultural yields is a big uncertainty, but we must account for changes in temperature and rainfall, and extreme events such as floods, tornados and droughts. There is significant potential for technology to increase agricultural production. Farming in some areas could even replicate the Netherlands, which despite its small land area is the world's second most important agricultural exporter. This will require dramatic changes to current practices, including land ownership and security of tenure, as well as the use of cultivars better suited to local conditions.

> Few African governments pay attention to improving farming, the bedrock of an agricultural revolution

A vibrant manufacturing sector boosts productivity throughout an economy, thanks to linkages that fuel growth in other sectors. But Africa not only has a smaller manufacturing sector than other regions, it is also declining as a portion of the total economy, and peaked around 1988 at below 15% of GDP. This explains why it has not been a driver of productivity, jobs and innovation.

Africa needs to seize the opportunity offered by renewable energy and the promise of the fourth industrial revolution to rapidly improve productivity growth and create many more jobs. Instead it appears to be on a low-productivity services and commodity growth pathway where things improve, but slowly. Africa's trajectory does go upwards, but prospects for improved livelihoods are modest without a more rapid transition to higher productivity.

Africa's development has been further muted by four recent shocks:

- North African countries and the Sahel region have been in turmoil following the Arab Spring of 2010-12.
- Oil exporters have been affected by a sharp decline in oil prices that followed widespread fracking for oil and gas in the US.
- The continuous impact of the global financial crisis of 2007/08, even though Africa's low levels of integration into the global economy provided a degree of protection. Africa's average growth from 2010 to 2017 was only 3.2%.
- The COVID-19 pandemic, which will see the continent effectively lose several years' worth of development. Rates of growth are set to plummet in 2020 with long term implications for incomes and poverty.

How to ignite a growth revolution in Africa?

African governments need to intervene in many areas, and must seek the best return on investment of scarce resources in education, healthcare and infrastructure.

They need to understand and define the role of the private sector, the importance of trade, foreign direct investment and the contribution of development partners. The role of leadership and government is crucial. Africa needs strong and developmentally-minded governments that consistently invest in knowledge creation, and that pursue economic policies that promote strategic collaboration between governments and the private sector. That has not been the norm. The quality of governance is improving, but much more rapid progress is required. Africa has the youngest population globally but is saddled with the oldest leadership.

Unlike Asia, where industrialisation and democratisation generally occurred sequentially, Africa has to balance the simultaneous challenges of democratisation and development. This requires consummate political leadership from men and women that represent its technologically and socially aware population.

The transitions modelled in *Africa First!* show the impact reversing Africa's growing commodities dependency and succeeding with economic diversification. This is achieved by exploiting its demographic dividend, using technology to leapfrog, and benefiting from trade integration through the rapid implementation of the African Continental Free Trade Area.

The fourth industrial revolution is speeding up the pace at which services are becoming a dominant source of employment and growth. But manufacturing remains very important as it facilitates and incentivises a more productive agricultural sector, and the development of higher-end services, such as finance, that drive growth.

The general theme in *Africa First!* is the need to work from the bottom up and fix the basics. Africa needs to invest in infrastructure such as electricity, sanitation, water and roads, and in literacy and primary education, before investing too heavily in large industrial projects. Getting the balance right is important.

> Africa needs strong, developmentally-minded governments that promote collaboration with the private sector

Africa can benefit significantly from new technologies to do things more rapidly and cheaply, such as provision of power through renewables and decentralised mini-grids. Access to electricity and the Internet can drive rapid digitisation, which could make a particular contribution to government capacity and economic growth. The digital transformation of Africa will however, require huge investment to make the Internet accessible. There is potential from the likes of SpaceX or OneWeb, which promise global satellite internet coverage within a few years.

Efficiencies enabled by technology will enable the documentation of life events such as births, giving people a legal identity which enables access to public services, finance, education, pensions, welfare and health. In this manner new technologies will help to formalise the informal sector. This is positive because workers in the formal sector in African countries are four to five times more productive than those in the informal sector.

Underlying much of this is the need for Africa to reduce fertility rates and effect more rapid but planned urbanisation. There is a need for urban land rights and a formal market that enables the secure transfer of property, so land can serve as a tradeable asset and stimulate private investment.

Productive urbanisation calls for investments in basic infrastructure such as paved roads, running water, water-borne sewerage systems and electricity connections at the early stages of urban growth. This is an opportunity to build in climate resilience in a continent that will be severely affected by climate change.

Cities develop if they formalise business practices, increase the tax base, and improve efficiencies and productivity. Cities that are unplanned and congested have higher costs of production and are generally unable to produce goods to trade on international markets. Once an informal settlement has reached

AFRICA MUST WORK FROM THE BOTTOM UP AND FIX THE BASICS the size of Khayelitsha in Cape Town, or Kibera in Nairobi, it is very difficult to install plumbing or build proper roads.

And in the absence of clean water and adequate sanitation, it remains to be seen to what extent modern medicine can offset the threat of disease. It did not with COVID-19, and the absence of basics such as potable water is now serving as a severe constraint on mitigation.

> The absence of basic infrastructure like potable water is now constraining the mitigation of COVID-19

Africa will still benefit from its commodities. The rise of India could again see a global resource boom from around 2028, so revenue from resource extraction could support investment in infrastructure and economic diversification. This is only possible if Africa industrialises, trades much more with other African countries, and embarks on a manufacturing-led growth path while unlocking opportunities in services.

Africa needs to invest in education, enable knowledge transfer by encouraging inward movement of skilled persons, and stimulate domestic knowledge creation through research, innovation and entrepreneurship.

African countries also need modern, accountable and honest leadership who can connect with the aspirations of its youthful population. It needs leaders who step down after constitutional term limits, and who look to the future not the past. This is where Nelson Mandela's call becomes meaningful – to not place blame for our condition elsewhere or to look to others to take responsibility for our development, but to become the masters of our own fate.

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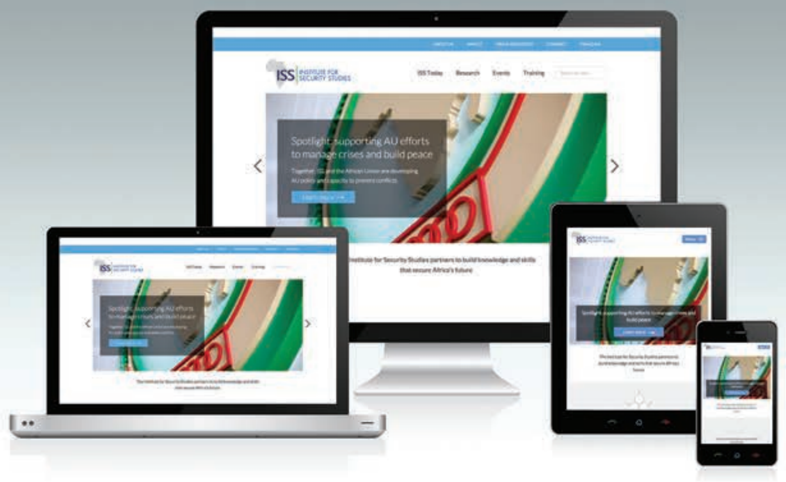

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About the author

Dr Jakkie Cilliers is the founder and former executive director of the Institute for Security Studies (ISS). He now serves as chair of the ISS board of trustees and heads the Africa Futures & Innovation (AFI) programme. *Africa First!* draws on a decade of AFI work on Africa's prospects.

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Policy Briefs provide concise analysis to inform current debates and decision making. Key findings or recommendations are listed on the inside cover page, and infographics allow busy readers to quickly grasp the main points.

This policy brief is a summary of some of the key aspects from *Africa First!* published in South Africa in 2020 by Jonathan Ball Publishers A division of Media24 (Pty) Ltd. The book is available at leading book shops in South Africa and internationally on Amazon.

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