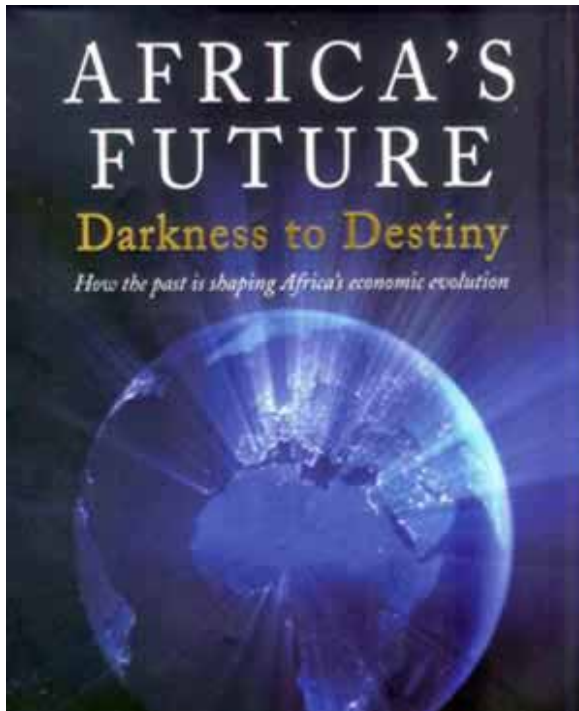


Brenthurst Analysis: Newsletter Item [122233]

Africa's economic growth saga

Duncan Clarke, author of the new book *Africa's Future: Darkness to Destiny*, gets behind the current hoopla over Africa's economic growth story to reveal a more cautious picture, based on a detailed analysis of long-cycle growth trends.



AFRICA'S ECONOMIC GROWTH SAGA

The key metric for economic welfare in Africa and its economies is the long run growth rate in GDP. Yet many development 'targets' elected by Governments (employment, local content, diversity, and other) may compromise this imperative.

Even so, bullish optimism surrounding Africa's growth story - projected by cheerleaders, futurologists and multilateral institutions, at 5% real GDP expansion or more, on linear growth to 2050 - needs to be read with appreciation of Africa's economic evolution and structure, a clear eye on continental growth cycles, with recognition of contemporary realities and historic constraints.

Africa's past shows that long-cycle growth and sustained capital accumulation were essential to the capitalist evolution that has been at the core of modern progress to date. Many pathways, some dead ends, weaved Africa's economic story - one of episodic foreign investment, imperfectly unlocked natural

capital, complex adaptive process and competitive struggle for survival, with only modest net accumulation. This has left today's mix of medieval-with-modern economic modes in which underperformance is the leitmotif of many contemporary state-dominated economies.

Nonetheless, Africa has grown, illustrating the power of multiple economic entities over the state regimes that impede them. It is this relationship that is the root cause for optimism about future growth.

At 1-CE Africa's annual/capita income was \$472; by 1000 it had fallen to \$425. In 1500 it was even lower, at \$414, as most of Africa went backwards for 1500 years - a salutary lesson in ultra-long cycle stagnation and decline.

From 1500-1820 Africa's economies flat-lined: in 1820 GDP per capita was \$420. From 1820 to 1870 Africa achieved real capita growth at average annual rates of 0.58%, as opposed to 0.05% over 1500-1870. Africa's long-run growth cycle, then marginally positive, was still chronically abysmal.

Africa's engagement with the world saw real income per head reach \$637 by 1913. GDP grew 0.61% annually over 1870-1900, as population reached 110 million. Major capital investment followed and by 1950, with 228 million inhabitants, income/capita was \$889, growing 0.91% annually. This became Africa's first era of solid long-run growth.

Important institutions and technical advances brought to Africa transformed its destiny - in capital markets, companies, factories, literacy, electricity, railways, infrastructure and organisational capacities. By 1960 GDP per capita was \$1 055 (population 285 million).

Decolonisation brought abrupt changes. This watershed resulted in major disruption and decay in many state institutions and economies. Still, the early years of independence, coincident with a global economic boom, witnessed growth. GDP per head reached \$1 181 in 1965, \$1 335 in 1970 and \$1 515 in 1980, this modest outcome dampened by demographic expansion. Employment growth now rarely matched the numbers entering Africa's labour markets. Structural unemployment reared its head. After colonial inter-regnum of but 70 years, there emerged the struggle for survival: of the fittest, fastest, favoured and fattest.

The turbulent 1980-90s took a heavy toll. Africa went downwards: by 1990, GDP per capita slipped to \$1 425 (population at 633 million). It took a decade for recovery to break this level, at \$1 447 in 2000. Africa experienced two lost decades. Annual growth per capita for 1980-2000 was only 0.16% (and 1980-2010 at 0.7%).

Only during 2000-10 did Africa show much mettle, witnessing its most productive period, allied to the world commodity boom. By 2010 real income/capita was \$1 870, with GDP around \$1.9-trillion and population at 1.05 billion. The annual income per head growth rate was 2.36% - positive, but no miracle, leaving average income/capita at only \$5.12 a day.

Africa recorded the following annual cycles of real constant price GDP growth rates: 1500-1870 at 0.15%, then 1820-70 at 0.7%, moving upwards to 1.3% for 1870-1913, and 2.8% for 1913-60. For 1960-80, growth continued at a faster clip, around 4.5% the most promising to date but in the next decade it was 2.3%, below net natural demographic expansion. For 1990-2000 Africa's GDP notched annual rates just below 2.8%, barely offsetting population growth. The golden decade of 2000-10 saw GDP expansion at 4.8% on average.

In annual growth of income/capita, the rate for 1500-1870 was 0.05%, for 1820-70 at 0.58%, for 1870-1913 at 0.57%, for 1913-50 at 0.91% and for 1960-80 at 1.8%. Thereafter sharp decline set in, with -6% recorded in 1980-90, leaving the 30-year cycle to 2010 at only 0.7%. The best result was 2000-10 at 2.36%. On the 50-year cycle (1960-2010), only 1.1% was achieved. For the last two thousand years, capita growth has been barely 0.07%, and in the last 110 years 1.0%.

With income/capita in 2010 at \$900, growth rates at (a) 4%, (b) 2% and (c) 1.1%, yield respectively income/capita for 2050 at: (a) \$4 321, (b) \$1 987 and (c) \$1 394 - levels way behind the \$6 500 mooted for "heroic" growth trajectories based on compound growth of 5.1% GDP growth uninterrupted for 40 years, illustrating the power of demographics and the sensitivity of outcomes to small downsides in long-term cyclical rates achieved.

Africa's population will be 1.5 billion by 2030 and two billion before 2050. To retain the same real per capita income as in 2010, GDP will need to be \$2.86-trillion and \$3.74-trillion for 2030 and 2050 respectively, so mortgaging real annual GDP growth of 2.0% and 1.7% for the next 20-40 years. These long-cycle growth rates portray minima required to retain average income standards accommodating inevitable population growth. Over the last two decades, the best long-cycle in Africa's growth history, including recovery in the 1990s, average GDP growth rate was only 3.8% annually in real terms.

High and sustained secular growth cycles have been hard to secure. Small growth variances, especially in early years, impose devastating "loss" impacts on GDP and income/capita down the line. Any tough decade does serious harm. Ups and downs have been a consistent element in Africa's track record, with no guarantee against recidivism. Annual real GDP growth rates of 5% (let alone 7%) for 30-40 years have never been achieved.

Extrapolations from "golden periods" readily mislead and could court fantasy. If GDP (\$1.8-trillion at 2010 constant prices) progressed at only 4% annually, in 2050 GDP would be not \$13-trillion but \$8.6-trillion - a huge deviation. At 3%, GDP would be only \$5.7 trillion. If Africa's GDP expanded at the last 50-year cycle rate (1.1% annually) it would be just \$2.8 trillion.

Today's widespread optimism and bullish storylines, with capitalist Africa portrayed in an almost revolutionary mode, have gained traction worldwide. Yet from 1960 to date, Africa's growth rate has topped 6%, on five-year moving averages, only twice.

Some futurists posit Africa's GDP at \$13-trillion in 2050, similar to the United States and European

Union circa 2010 (projecting 5.1% compound annual growth for 2010-50). The models prognosticate income/capita in constant prices at \$6 500 in 2050, way up from \$900 today. But is this realistic, on the basis of known past long-cycle growth trends?

Significant constraints lie in Africa's future: its antiquated economic paradigm, restrained net capital accumulation, and investment deficits in industries, power and infrastructure, which are central to long-term growth, especially for unlocking natural capital in mineral-energy complexes, as well as in capitalist and pre-modern agrarian development. These limitations may constrain "maximal growth rate" potential, placing a ceiling on feasible expansion.

Real annual GDP growth at 5% for 40 years uninterrupted or averaged will be a tough task. The idea that the recent economic upsurge is "guaranteed" for the next 30-40 years is based on heroic assumptions and trajectories akin to futurology rather than measured economics.

Dr Duncan Clarke is the author of *Africa's Future: Darkness to Destiny* (Profile Books, 2012), and *Africa: Crude Continent: The Struggle for Africa's Oil Prize* (Profile Books, 2010). Based in Johannesburg, he is the Chairman & CEO of Global Pacific & Partners, a private advisory firm. For information on the 6th Africa Economic Forum in Cape Town (5-7 March) organised by Global Pacific & Partners and to register, see www.petro21.com/events/?id=728