

IS THE AFRICAN RENAISSANCE FOR REAL?

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MODERATOR:
URI DADUSH

DIRECTOR, INTERNATIONAL ECONOMICS PROGRAM
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

SPEAKERS:

HARRY BROADMAN

VICE PRESIDENT, ALBRIGHT STONEBRIDGE GROUP
CHIEF ECONOMIST, ALBRIGHT CAPITAL MANAGEMENT LLC.

SHANTA DEVARAJAN

CHIEF ECONOMIST, AFRICA REGION
WORLD BANK

MWANGI KIMENYI

DIRECTOR, AFRICA GROWTH INITIATIVE
BROOKINGS INSTITUTION

VINCENT PALMADE

LEAD ECONOMIST, PRIVATE AND FINANCIAL SECTOR GROUP OF AFRICA
REGION
WORLD BANK

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URI DADUSH: Good morning, and thank you very much for joining us today at this session entitled “Is the African Renaissance for Real?” to discuss the African continent, sub-Saharan Africa and the remarkable improvement in performance in that region over the last 10 years or so, and whether that improvement in performance is in fact sustainable, whether the renaissance is for real.

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And to address this, we have four panelists selected in the traditional manner of the Carnegie International Economics Program; in other words, these are people who really know the subject in-depth. And the – I’m not going to read very impressive CVs because you have them.

Let me just welcome then in alphabetical order Harry Broadman, who is vice president, Albright Stonebridge Group and chief economist of Albright Capital Management, and Shanta Devarajan, chief economist for the Africa Region of the World Bank, and Mwangi Kimenyi, director for the African Growth Initiative at the Brookings Institution, and Vincent Palmade, lead economist, private and financial sector group, Africa Region of the World Bank.

And three of these gentlemen are friends, old friends and colleagues of mine, the three on the right. This gentleman right here is from the competition right next door – (laughter) – and he’s here so that I can understand their strengths and weaknesses better – (laughter) – in the course of the next hour-and-a-half.

[00:02:16]

I’m going to deal with – I mean, I’m going to basically ask a series of questions, structured questions, which I can’t find.

MR. : I have a copy –

MR. DADUSH: You have them there?

MR. : I think this was the – (inaudible, cross talk).

MR. DADUSH: Yeah, yeah. Right, right. Okay. (Chuckles.) Thank you. And basically going to structure the conversation along three chapters – the first is the big picture, what’s been happening overall. The second part of the conversation will be on sectors of the African economy. And the third will be – the third part of the conversation will be about the global community and how it affects Africa.

And I’m going to ask questions directed at one or two speakers and then towards – in about an hour or so, we will open up for questions from the audience. So let me start with the big picture, and I’d like to direct the first question to Shanta. The first question is in two parts, really. The first part is, why did per capita incomes in sub-Saharan Africa decline for an extended period in the ’80s and the ’90s? And what changed around 2000 to explain the acceleration that we have seen?

SHANTA DEVARAJAN: Okay, thank you, and it’s a pleasure to be here. In fact, I think the answers to the two questions boil down to the same answer, which is governance. The reason why per capita income declined in the ’80s and ’90s was that there was an amazing and quite widespread breakdown in

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economic governance in African countries. You had a series of military dictatorships that were mainly interested in serving one particular part of the population rather than the population as a whole.

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Let me just give you the example of Ghana. I mean, Ghana was under a military dictatorship. Well, if you're a military dictator, you mainly want to keep food prices low so your urban elite, and the soldiers in particular, can get cheap food, which meant that Ghana ran an overvalued exchange rate and food prices were very low. So farmers got nothing, and the whole agricultural sector basically collapsed, particularly the cocoa sector. And the economy collapsed. As we know, Ghana suffered a major crisis in the 1980s.

That same mechanism worked in reverse when you saw democracy come in. You had a democratically elected government. Jerry Rawlings started running for president as an elected leader. It suddenly became very clear that he needed the rural vote in order to get elected. And that's flipped the decision-making. All of a sudden, you needed high food prices so that farmers could actually get a return on their earnings, because that's what made the difference for him.

And so we started seeing Ghana no longer running overvalued exchange rates. They were actually running an undervalued exchange rate. Growth was averaging about 6.6 percent, and it sustained itself to this day. And Ghana, I should add, is one of four or five African countries that are on track to reach the Millennium Development Goal of a 50 percent reduction in poverty by 2015.

MR. DADUSH: Mwangi, do you agree with that or do you point to some other factors? In particular, are some factors more permanent, other factors more temporary?

[00:06:19]

MWANGI KIMENYI: Thank you very much for inviting me here. We refer to our friends here as "competitive colleagues," so I am happy to be here and to discuss about this very important issue on Africa. I do agree a lot with what Shanta has said.

I think we – the topic – the real topic is about the African renaissance and whether it's for real, and one of the things that I was wondering is whether that term is actually, itself, correct. If you look at the meaning of that term, it means a break with the past – you know, for example, the shift from medieval world to the modern world. And I would say that I would not use that term, because what we have seen is economic growth but is not necessarily a major break from the past in terms of, everything has changed, we are doing things in a different way.

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So I would be very cautious using that – actually, we had a clear break from the way we have been doing business. What we have seen is clear change in the way we deal with economic policies, as Shanta said, but rooted in clear reforms in terms of institutions. I think institutions have been the – (inaudible) – in this world. I agree with that.

But I think we also need to think about – to what extent can we account for economic growth on – just to the process of democracy? And one would like to refer to the North African case and say, I mean,

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then what has been going to the North African case, where you had all these changes with very – but limited, in terms of institutional changes.

So it's partly true, but it's bigger than that. And in terms of other factors, particularly, we have changed the business environment. We have more in terms of investments, we have better macroeconomic management and all that.

[00:08:28]

MR. DADUSH: Good. Let me ask Vincent and Harry whether they – which factors in the acceleration of Africa's goals in the last 10 years you would consider to be permanent, yeah – or, sort of semi-permanent; nothing is permanent – and which would you consider temporary?

HARRY BROADMAN: I want to also thank you very much for inviting me and reuniting me with my brethren from the World Bank, including yourself. And I also think it's important – I thought a lot about not only the title of this session but the essay that was written that engendered the session, and not only, frankly, take issue with the notion of the term renaissance, but I think the notion of the term Africa.

Africa is not a country. It's not even terribly useful, economically meaningful term. And I think one should disaggregate quite quickly, at the beginning of this discussion, that there are many countries in Africa. We can use very different taxonomies. And so although we're using Africa here as a shorthand, it really is a shorthand for a great, heterogeneous continent.

[00:09:50]

I think with respect to your question and playing off of the previous two comments, I think – one of the issues I think that has not been touched upon and which I think is permanent is the integration into international markets and the joining – the vast majority of African countries are now members of the WTO. That has had – that is both a result of greater governance, better macroeconomic and microeconomic management, but it has a self-reinforcing effect on competition, on greater efficiency, on African firms, on engendering foreign direct investment.

There is also the great effect of remittances coming back into the continent from African workers abroad. It has also engendered, I think, an increasing amount, though still limited, of diversification of some of the African countries from sole reliance on certain commodities.

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I think what may not be so permanent, to be frank, are the changes in governance and changes in the political realm. And what we're witnessing now in Northern Africa, north of the Sahara, I think there's an open question, at least in my mind and from people who I work with in the field now, about what's going to happen, perhaps, in Uganda, not just because of Museveni and his stronghold on the economy but what the development of oil is going to mean and the way that that has been handled.

I think the election results, frankly, in Gabon are coming to light about how those were conducted. We don't even have to talk about Zimbabwe, but I think that their – the Cote d'Ivoire situation. So I'm not sure that we've come – we've made some progress, but I think, as in all cases, this is not yet a permanent trend. And there will be backslides. So I don't think that's a transitory set of issues.

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VINCENT PALMADE: I think there are a lot of structural good news which should make one confident that the positive trend is going to continue. But let me start with the one which could be seen as not necessarily permanent. If you look at the growth in exports – and exports from Africa has grown three to four times in the last 10 years – 73 percent of that growth was actually related to mining resources. And if you look into that, it's mostly prices and a little bit of volume increase. So if one believes that commodity prices are bound to be – to go through cycles, one could question whether this is going to last.

That's the not-so good news. The good news – and let me take this opportunity to actually challenge a little bit what Shanta said, because if you take a country like Senegal, which has been a democracy for a very long time, GDP per capita in Senegal did not grow, nevertheless. So there is something else going on.

And I think – but the good news is that there's something else going on, and I think we went from bad economic policies to much better economic policies, including in Senegal – policies which were essentially import-substitution driven, as well as policies which depended too much on large, not-sustainable budget deficits.

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So most countries in Africa, including democracies, had to go through a painful period of adjustment, structural adjustments, both in terms of reducing the budget deficit as well as opening up the economy so that the future growth becomes sustainable. And I think the hard job has been done, for the most part, which – and that's the good news. Now, as Harry said, whatever is going to grow or is growing now in Africa should be expected to be sustained, because now it's really on the level playing field with the rest of the world.

And so beyond mining, the next sectors you should expect to see is agriculture and eventually light manufacturing. These are the two big opportunities coming up and also big challenges. But beyond mining, there's a bright future.

MR. DADUSH: I want to come back to the sectors in a moment. Let me ask first, just, again, to complete the broad picture – Africa certainly has accelerated in the last 10 years. But if you compare African countries with some others, and particularly the countries we are most concerned with in Africa, the low-income countries of Africa, and you compare them with some of the countries in Asia that are also low-income or were low-income, whether you are thinking Vietnam, Laos or Myanmar, for example, you still see quite a large gap in terms of relative growth rates. Is that correct, Shanta? If it is correct, why are they growing so much faster?

[00:15:11]

MR. DEVARAJAN: Well, I think you're making the same mistake that Harry was warning us against, of thinking – comparing Africa, which is a continent of 47 countries, with Laos and Myanmar, which are individual countries. There are countries in Africa that are growing as fast, if not faster, than Laos and Vietnam and Myanmar.

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But there are lots of others that are growing much more slowly, and some of them are not growing at all. And so you have that whole variation. And then if you look at what – why are these countries growing faster – so much faster – the fast-growing ones, a lot of it is not that different from the reasons why Laos and Vietnam are growing.

These are the countries that have undertaken structural policy reforms of the type that Vincent was describing. They are countries with a reasonable amount of political stability – maybe not as high as we would like. And also, some of them are able to now manage their natural resources better. And so they are attracting foreign investment with – and actually being able to use those resources in a productive way.

So I think it's comparable. But I think I want to come back to Harry's point, which is extremely important, is that there is still a large number. And you know, the number that I think about are the 20 fragile states in Africa that are not growing. And they're growing much more – and they haven't been growing for a long time. And indeed, I think that's where we should be putting our emphasis these days, is to see how we can help those countries move out of this conflict and fragility trap.

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MR. DADUSH: Mwangi, do you want to add on that?

MR. KIMENYI: Yeah, just briefly. I think in terms of – again, it's very important to disaggregate these companies. Remove the oil countries because their drivers are different; you know, coastal are sometimes different from the land – (inaudible) – in North Africa, and so on.

And – but if you look at the countries that are doing well and they are not natural-resource-rich countries, they have tried to diversify their economies. And they have become competitive in particular sectors, particular services, also. And for some countries, like – let's say, like Kenya – what we have seen in recent years has been ICT, a big contribution by mobile banking and the such. Those have been quite important.

But going back to the issue of how is this – what is temporary and what is permanent, well, again, I really think that we have to be careful. You have to look at the fundamentals, and growth is driven by people. And you have to ask yourself, what has changed with the people? Well, look at the education levels. Look at the quality of education. I mean, those have not changed at all.

MR. DADUSH: They have not changed.

MR. KIMENYI: They haven't changed. I mean, the quality of education is still very low. I mean, people who transferred to secondary schools are still very few. So if you are going to be competitive, you have to think about all those factors. So we may be – we see this boom, but in the long run, there are a lot of underlying issues that could reverse the process.

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Let me add also one more point. I think the growth we have seen is so much also dependent on outside countries, like developed countries, as we have been talking about trading, opening our markets. But we haven't opened our markets to our neighbors. It's still very difficult to trade with our neighbors. And if we don't do that, there's no way you can sustain growth for a long time. So we have –

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MR. DADUSH: Our neighbors being the other African –

MR. KIMENYI: – oh, the other African countries. So I am thinking about, you know, trading within our own countries, yeah. (Chuckles.)

MR. DADUSH: Right. Vincent, do you agree that there are very big differences across African counties when you look, particularly in terms of export performance that you have been examining?

[00:19:08]

MR. PALMADE: Yes, absolutely, and the gentleman just mentioned Kenya with ICT. Kenya is also –historically has done very well with agriculture. I think countries like Ghana, which was mentioned also, is becoming an agriculture, also, powerhouse. So – and they are – and then there are new countries like Lesotho, who is becoming competitive in light manufacturing, which is very good news because we know how important light manufacturing has been to other developing countries in their growth paths.

So Lesotho and Mauritius is showing the way. And then you have countries like Cape Verde, who did very well with tourism, and Botswana, with mining. So these white spots are terribly important because they show the way in many different sectors. It's not only different countries, it's also different sectors. So collectively, they show what can be done.

[00:20:00]

MR. DADUSH: Even though collectively, as you said, the export performance has been heavily, heavily based on mining and particularly on prices. Okay, let me – bearing in mind Harry's caution about the importance of disaggregating Africa, I'd like to ask anybody on the panel who wants to volunteer, what do they see as the – let's say, the three major impediments for sub-Saharan African growth in the future? You don't have to give three, but where you can give one, somebody else will give another.

MR. BROADMAN: Let me start, since I haven't – I guess I'm the next victim.

MR. DADUSH: Yeah.

MR. BROADMAN: I think in my mind, there are – to pick three, one I think is governance – political, economic governance. I think we can have all the other reforms that we want in the world, whether it's trade reform, whether it's education or the like, but unless we have a confluence between civil society and the political and economic leadership, we're not going to get very far in a sustainable way on the continent moving forward.

And you can do a disaggregation across the countries on sub-Saharan Africa and do a correlation of those countries where there – or, across country, across the world where there is improved governance, you see a sustained economic growth.

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The second is education, and particularly secondary education. There has been improvement in primary education in terms of percentage of Africans enrolled in school, that to be sure. The percentage

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increase in secondary education is woefully lacking. We know that, and that relates to the lack of a skilled workforce for tomorrow. And without that, again, African companies – again, taking into account the heterogeneity in the continent – are not going to be competitive, because that's a very important factor of production.

And finally, which was touched on just a moment ago, is the lack of scale, the lack of regional integration on the continent. And we have a couple of very large countries on the continent, but the continent is cursed by the fact that it's geographically fragmented, populated by a large number of small countries.

And I think – certainly in the next 10 years, perhaps, we're not going to get megacities. We're not going to get populations that are going to allow for world-class investors to drive down the average cost curve and get the kinds of economies of scale that one can attain in India, that one can attain in China or other countries, large African countries will want to compete with.

So the question is, how can Africa as a continent spearhead regional integration? And to date, it's not been doing a very good job for a whole host of regions which we may want to come back with. But for my money, those three things – governance, secondary education and regional integration – if we could solve those three things, we'd make a great deal of headway.

MR. DADUSH: Shanta, do you agree?

[00:23:45]

MR. DEVARAJAN: Yeah, I agree with his first, on governance, but let me suggest that – and the other two I'm going to suggest are complementary to what Harry said. But one of them is employment. What we're facing in Africa – in fact, in low-income Africa, unlike some of the middle-income countries in North Africa, it's not a problem of unemployment. In fact, most Africans are fully employed. The trouble is, they're employed in very low-productivity work. They can't afford not to be employed. There are no unemployment compensations in that field.

And so as a result, you see 70 to 80 percent of the labor force in the informal sector, mostly in single-family household enterprises, working on very low-productivity activities and also unable to take advantage of any economies of scale. Even of the type where you have a firm of 50 people, you might be able to buy a machine that can increase your productivity.

And I think this is the – a fundamental challenge, particularly for the young people. We have seven (million) to 10 million young Africans entering the labor force every year, adding to a total stock of about 200 million.

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The second, and again, it's similar to what Harry was saying, but is – I'm increasingly impressed at how many different types of external shocks to which poor Africans are subject. So you have a combination of food-price shocks, fuel-price shocks, macroeconomic shocks like the global economic crisis. And add to that natural disasters, which are actually increasing now with climate change. You add to that health shocks, idiosyncratic shocks like HIV, AIDS and malaria and you add to that the shock of political violence and conflict.

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And you think about, you know, a poor woman in Burundi, in rural Burundi – she’s faced with all four or five of these shocks at the same time. And you think about what that does to somebody who may be right in the – at the cusp of poverty. This could easily put you below.

Worse than that, since there are no insurance mechanisms against – to ensure against these shocks, these people have to undertake all sorts of adaptive behaviors that are sub-optimal, that leave them poor. They have to take the children out of school, they have to hold their – hold livestock as an asset and then they have to sell the livestock when times are bad. And I think shocks and the ability to be resilient to shocks can be some of the biggest game-changers in Africa.

MR. DADUSH: Very good. Mwangi, anything else? Then we’ll move to sectors. Yeah.

[00:26:22]

MR. KIMENYI: Well, I think the question is – I think governance is important. And one question is, I mean, do we see anyone of this as more important or are they interacting? You know, is it a question of interactions? And I just would like to say, I am in this – I’m on advisory panel of the Human Development Report. And last year, we evaluated the performance of various countries over the 40 years. And the result was what we called the “North African miracle,” which was –

MR. DADUSH: The North African what?

MR. KIMENYI: Miracle.

MR. DADUSH: Miracle.

MR. KIMENYI: Yeah. And that included Morocco and Tunisia – (laughter, offside conversation) – you know, and so on. So it was a very good story. (Laughter.) So now – so the Human Development – I mean, Malawi had I think higher life expectancy – or, schools, children in schools than Tunisia 40 years ago. And it was amazing for us to see that.

But, now, when you look at what’s happening now, the human development indicators in North Africa have been very good – health, education, the quality of life, generally. Now, some people are saying, but of course, there was what we called the democracy deficit. The question is, what would we say, comparing North Africa and South Africa – and sub-Saharan Africa?

And one argument is, if we invest heavily on human development, we probably could drive democracy, which is consistent with the Lipset hypothesis that as people get more advanced, they are going to demand rights, and you’ve got to get more self-sustaining democracies. So my – without being critical or being controversial, I would say in Africa what I would like to see a lot is investments in human development.

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MR. DADUSH: Very good. Please feel free to be controversial. You are most welcome to be controversial here. Okay, let me move then from the big picture to a little bit on sectors of the economy,

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and I'd like to ask anybody on the panel who wants to volunteer whether they want to distinguish between different sectors within Africa.

I realize, again, you have to think in terms of different countries and groupings. But can you try and generalize – are there some sectors that have really been leading the growth in Africa? Vincent has already mentioned mining. And are there sectors that are lagging behind, particularly important sectors that are lagging behind and that may represent an opportunity for the future?

MR. PALMADE: Sure. So let's distinguish between two types of sectors, sectors which are export-driven and sectors which are domestic. In terms of domestic sectors, we saw a lot of growth in construction and retail because of the overall growth but also because of microeconomic reforms. But as Shanta mentioned, the growth in these sectors has happened through, essentially, very low productivity in formal jobs. I mean, that's where people ended up in terms of urban cities.

So there's a real challenge as well as an opportunity to rethink the way cities are growing in Africa. And we can go back to that critical issue later. Essentially, the way land market works, the way decentralization has happened, I think we need to rethink what's going on, because if we don't do something there, we will have growth but low productivity – growth which would add up in terms of mega-slums, which is already happening. So there is a real challenge and opportunity on the domestic side, around retail and construction.

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On the export side, I mentioned mining. And the performance has been quite impressive. It could be even better if the volumes were to increase more. There have been a lot of restrictions in terms of licensing and back to governance issues in the mining sector, as well as challenges with infrastructure – getting the stuff out.

And there are some interesting solutions there by which the private investor can actually build infrastructure. It becomes a kind of public-private partnership, and that infrastructure can be useful to other sectors. So there is – even in mining, there is large untapped potential which could actually benefit many other sectors for the building of infrastructure, which is still badly needed.

Tourism did well. Africa's market shares increase in tourism, and that should continue with – especially as airline fares go down, now that you have regional carriers putting pressure on the traditional carriers, which were very expensive, so tourism looks good.

The two main challenges and opportunities going forward is agriculture and light manufacturing. These are the two big nuts which need to be cracked. The market share of Africa in these two sectors has declined in the last 20 years. Despite Africa having the largest land – arable land areas, Africa is a net importer of food, which is really surprising given how much land there is.

And in light manufacturing, the same. Africa import 10 times more light-manufacturing products than they export, despite that now it has the lowest wages in the world. So these are both the big challenges and opportunities going forward. We can discuss what should be done later in the discussion for these two.

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MR. DADUSH: Well, these two, agriculture and manufacturing – and particularly, within agriculture I think you also have in mind agro-processing, in particular –

MR. DADUSH: Yes, yes.

MR. DADUSH: – agro-processing and manufactures – that's pretty important. I mean, because these are the kind of sectors that have a high potential for sustaining growth over a long period of time, as we have seen in economies that have become developed or grown rapidly over the last 250 years.

The rest of the panel, do you want to comment on agriculture and on manufacturing? It's pretty big stuff.

MR. BROADMAN: Well, I would – I mean, I would certainly agree with Vincent about agriculture. I think the bottleneck there about agriculture is infrastructure to make agriculture happen – water systems, transport systems, access to markets. And these are two sides of the same coin, and this is where we now, in my job, in terms of getting private investment to come into Africa, you find that the big agriculture firms are interested, but gee, how can I partner with infrastructure firms to come in at the same time?

[00:33:02]

And this is the hard nut to crack. And this is what we're trying to do, to establish company-to-company agreements to come in together. And this is the nature of the game, I think, in getting investment into Africa.

The other sector that is going to take off and is taking off in Africa – and not just among South African firms, but you see this now in cross-border investment by Kenyan firms and others – is the retail sector. With the burgeoning middle class, retail is becoming a growth industry in certain parts of Africa, in the 15 countries or so that are the fast growers. This is important, also like agriculture, because it's labor-intensive. So I think agriculture, infrastructure and retailing, as well as finance – in my mind, those are the sort of four important sectors.

MR. DADUSH: Good. Yeah, Shanta.

MR. DEVARAJAN: I mean, there is one huge success story in Africa, and that is mobile phones. Mwangi mentioned this earlier, and this has potential not only as a sector by itself to grow – and it's already, you know, at – 60, 70 percent of Africans have access to mobile phones – but also as an input into all these other industries. There is a possibility that information technology can actually solve some of the problems, even some of the infrastructure problems that Harry was mentioning in agriculture.

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We have farmers in Mali who can then – who can use their cell phones to find out which place has the best prices for their product before they set out to sell. And this creates price convergence much more rapidly. They can also get weather information on their cell phones. And of course, the famous M-PESA, the mobile-money revolution that started in Kenya – it's a Kenyan invention – is now spreading to other parts of Africa.

MR. DADUSH: Mwangi, anything you want to say on sector?

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MR. KIMENYI: Yeah, I just would like to emphasize – this is actually very good. I would say that it's really – we can't – again, which is a point about this sustaining the growth. If you cannot feed the population, it's really difficult to think about moving ahead. So I like this idea of leading – focusing on agriculture. And the issue is agricultural productivity, and that is actually related to infrastructure. I think that's a big issue in agriculture.

And we have also seen very good success stories. I mean, we have the horticulture industry where you have good infrastructure. We have seen people – cut flowers going to Europe doing very well. We have some farms in East Africa that grow green beans and carrots and they are packaged and back-ordered in Africa, and the next morning they are in a shop in the United Kingdom and it does go straight to the market. So Africa can be actually competitive in these areas, but infrastructure is key.

MR. DADUSH: Okay, let's move to, then, to the third and last chapter of the structured conversation.

MR. PALMADE: (Off mic.)

[00:36:03]

MR. DADUSH: Yes, go ahead, please, yeah.

MR. PALMADE: Just on sector – just, I agree, infrastructure is key for agriculture, but I wish it was that simple. There are many other factors, and one has to look one country at a time, one crop, almost, at a time. For example, in rice, there are various importing high-yield seeds. And unless you can import high-yield seeds, you are not – it doesn't make sense to invest in fertilizers or even irrigation. So one, within specific value chain, it has to look at specific variables.

Another example: I was in Congo last week. There are millions of hectares in Congo of the best land farm which are in the shape of abandoned – thousands of abandoned farms in the Congo –

MR. DADUSH: Abandoned.

MR. PALMADE: – abandoned farms. And here, the issue is governance and access to land. So it's not only infrastructure. It's also fertilizer markets, seed markets and the way one can access the land. Land is not the problem; accessing it is the problem.

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MR. DADUSH: Can you give us a synopsis, any of you, as to why the famous Green Revolution hasn't taken hold in Africa? I mean, this is really the heart of the agriculture issue, right? What are the – what is the wisdom on why the Green Revolution has taken hold in India, for example, has taken hold in very, very poor countries in Asia but not in Africa?

MR. BROADMAN: Well, I think – I mean, I think Vincent was onto it. It's sort of – to use the economist lingo, it's sort of a general equilibrium problem that, you know, A, you have a land-cadaster problem, you have a lack of infrastructure problem, you have a – you probably have a trade-policy problem. You know, it's a systemic problem.

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And you need to have the government – it's frankly a public-good problem. You know, it's not just a private – it's a public-private partnership problem, and it needs to be a concerted effort. And I think in most – I'm not an agriculture economist, but I think in most success stories in emerging markets, this has been the secret of success. It's not been a wholly private venture.

MR. DADUSH: Okay, so not totally clear to me why infrastructure is so much better in, you know, large regions of sub-Saharan Africa than it was in India 20, 30 years ago. Even today, infrastructure in India is pretty disastrous.

MR. DEVARAJAN: Well, not necessarily in the areas where the Green Revolution took off. Remember, the Green Revolution started on the Indus Valley Basin, and there they actually had good irrigation and power because they had started that in the 1950s. And the Green Revolution in other parts of India, like Bihar, have yet to take off.

MR. PALMADE: My understanding of the Green Revolution, you need to get the seeds, the fertilizers, the irrigation and the farmer skills to work together and then access to markets. So it takes at least five things to work together. And in Africa, it has been difficult for government to get these five things right in a scale which makes a difference, frankly.

[00:39:02]

MR. DADUSH: All right. Okay, good. Let me then move on to the global community and the relations between Africa and the global community. And the first question I want to ask is aid. Does aid really help Africa today the way it is administered? I'm asking this question because you know, it just seems like every donor's got a different priority.

When you go into these countries, the donors are all over and they seem to be running the place. But when I say running the place, I mean running their own particular agenda. And that makes it very, very difficult if you have the money for people to actually run the country. So aid – does it really help? Mwangi?

MR. KIMENYI: Okay, so and Shanta will do this business – that's what he does, so – (laughter).

[00:39:58].

MR. DADUSH: Yeah, but I don't want to hear Shanta only. I want to hear from you. I know Shanta.

MR. KIMENYI: Okay, so I'm actually – we are at – one of our areas of focus is really aid effectiveness because we do resource this matter. But we also know that it depends on how you use these resources. One of the things that have always bothered me and I think many people have seen this is when you look at macro – at the macro-level and you look at the impact of aid, you don't find it. But you look at micro – so there's this micro-macro dichotomy about aid.

If you look at a project, look at maybe a HIV project, look at Seeds Project or something like that, you're going to see quite a bit of return. So but it is in this macro – you have to be very careful how you use that aid. I would like to give you an example, for example, which again, Shanta has done and I have also been involved in, which is on aid to education, where you –

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If you look at resources that flow to a primary school and you track it down through what the World Bank has been doing, which is the expenditure tracking service, some of the stuff is going to show you that a very small fraction, which is the – you know, the money's there. But it doesn't reach the schools where the money is supposed to go.

[00:41:21]

Now, that's not a problem with the resources, but the resources have ripped somewhere on the (page ?) or what, again, World Bank has called quiet corruption is that you go to a school that's funded by resources from outside, but the teachers are not in school. So it's a question of how we make these resources useful. And it's, again, a governance issue. But aid, yes, can play a very important role, but it has to be used effectively.

MR. DADUSH: Okay, I will come back to Shanta because Shanta is, you know, chief economist of the World Bank. So Harry, aid, does it really help Africa?

MR. BROADMAN: It certainly can and it certainly has in specific instances. I think the problem that you've identified is this vertical stove-piping and self-interest of particular programs and the lack of coordination and the tax that that places on the host governments. I think that's the most pernicious impact of aid.

[00:42:23]

But well thought out problems that are well-specified, where there's, you know, responsibility and ownership on the part of the borrower, I think it can be extremely helpful. To me, the relevant question is not whether aid is helpful or not. The relevant question is in the stream of things that can aid or assist or promote development, how effective is aid out of this entire toolkit?

Aid is – aid is one of those instruments, as is trade, as is foreign direct investment, as is you know, other kinds of things. It seems to me that aid should be part of that picture, but as a sole tool, never – I don't think it ever was envisioned that way and I think that becomes a strongman argument. How's that? Is that good?

MR. DADUSH: All right. Okay, yeah. Shanta. Yeah.

[00:43:21]

MR. DEVARAJAN: Just a couple of comments, really. I think everything has been said. First, let's keep in mind that during this period of economic growth in Africa, aid has increased. If you add on just the official level that's gone up plus the debt relief that started in the late 1990s, there's been almost a 50 percent increase in aid to sub-Saharan Africa. So there's at least some correlation and causality is a different issue.

The second is, you know, you're right about the aid fragmentation, that donors come in with individual agendas. But as Harry said, the burden is on the recipient. If the recipient can manage it, this – you can use all of this aid effectively. And I think the best example I have now is Rwanda. The Rwandese actually have produced a matrix.

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[00:44:09]

The columns are sectors; the rows are donors. And they say each donor has these cells and that's it. You can't go into anything else. And you know, some donors get very upset – (chuckles) – including the World Bank when they say this, but I think that's exactly the right way to do it, that they specify, we want you to be in there.

But finally – and I think your other country was what can – can the donor community do better? And I think the answer is yes. And let me just say one other thing, which is really quite disturbing because we find – you know, this aid-effectiveness literature, that not only is aid effective in countries with good policy environments, but aid is exceptionally effective in countries that have suffered a negative shock – in order to cushion coming out of a shock, as we saw in the global financial crisis.

[00:44:58]

The trouble is, if you look at the historical evidence, this is precisely the time when aid is pulled back. Aid is actually procyclical. So we're doing exactly the opposite thing than what we can do if we want to improve aid effectiveness.

MR. DADUSH: Good, thank you. Let me move – taking the cue from Harry said you have to look at the broader picture. Trade – does the trading system today, as currently – as configured – help Africa or does it hurt Africa?

Why do I ask that question? I ask that question partly because we know there are very important agricultural barriers to exports. Africa, on the other hand, gets preferences. Preferences are, themselves, somewhat controversial because preferences are unlikely to be doable. And they create a certain dependency, just as – just as aid does.

[00:45:59]

And I'm also asking the question because of what Mwangi said about the difficulties of Africans selling to each other and trading with each other. So today, if you were redesigning the world trading system, would you design a very different system for Africa? Or is the current system okay? Mwangi.

MR. KIMENYI: Well, first of all, in terms of market access, Africa has pretty good market access. I mean there are a lot of goods that are quota-free and duty-free that you know, for U.S., now, is over 5,000 items that can be sold to the U.S. even without the non-tariff barriers. So there are a lot of items.

But I think to me, in terms of trade – and the EU for example, has the preferences also, you know, which have been there for a long time. And Africa has actually exploited these preferences. But at the bottom, right, is that international trade is also equivalent to competitiveness. So if you're not going to be competitive, you are not going to sell a lot.

[00:47:13]

So a big issue is not so much market access as it is being competitive. However, there are, of course, barriers. The American – as I see it with Kenya and East Africa have been sending green beans to EU. To

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sell green beans in the United States, which have been sold to Europe for a long time, has taken seven years to get approval from the Food and Drug Administration.

Surely, the Europeans are quite conscious of health as the Americans, but of course, the American farmer is a smart one and invests in political, you know, politics. So there are a lot of barriers. So I think there are some barriers, but I don't want to blame our failure to access – to sell outside to barriers. It's more competitiveness.

MR. DADUSH: Anybody?

MR. BROADMAN: Sure.

MR. DADUSH: Yeah, Harry.

[00:48:12]

MR. BROADMAN: I would love – by the way, if the job is open to redesign the world trading system – (laughter) – I'd like that, if the salary is reasonable. (Laughter.)

You know, I think, you know, it's interesting. There's so much attention paid to protectionism on the part of the north vis-à-vis Africa and the market access question and you know, we've done a lot of work – I did a lot of work with some of my colleagues here in the audience on South-South protectionism with respect to Africa.

And when you look at the tariff data, particularly the escalating structure of tariffs with respect to African exports in countries like Brazil, China and India, you find that that's frankly where the more pernicious trade barriers are than in the North. So if there's a market-access problem, it's not in the North, it's in the South.

[00:49:15]

And so a lot of the discussion in the Doha Round, in some sense, is misplaced. And I think this point is really exemplified by one of the case studies that we explored in "Africa's Silk Road," it was the Zambian cashew-nut farmer who actually traces his heritage back – he's Indian, but he's selling cashew nuts, trying to export cashew nuts to India.

And he's – can sell these cashew nuts in raw form to India quite profitably, but he cannot sell these cashew nuts once they're processed profitably to India because the tariff rates on processed cashew nuts are extremely high. So what's he doing? He's selling these processed cashew nuts, packaged as organic cashew nuts, to London and making a killing. Okay? So there's a great example of South-South protectionism.

[00:50:20]

But I think the general point is also that even if market access problems were eliminated, whether in the South or the North, we still have this behind-the-border competitiveness problem in Africa engendered by, in part, all the problems we've been talking about in terms of skilled labor and in terms of lack of infrastructure and the like. But first and foremost, I would solve this market-access problem while at the same time dealing with this behind-the-border competitiveness problem.

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MR. DADUSH: What about the inter-African trade – trade within Africa? There is – there are a lot of issues there. Some of it is transport and it's there, but there are also trade barriers within Africa. Am I right? Does anybody want to pick that up?

[00:51:06]

MR. DEVARAJAN: I would say the biggest problem is what Harry was talking about, the – behind-the-border trade logistics that impedes within country – between – within Africa, trade much more. There are some border constraints, but I would say they are also honored (in the breach ?) and what you do observe is a lot of smuggling because these borders are quite porous.

But that also has its problems. You know, between Nigeria and Benin, you have a huge amount – huge amount of petroleum products being transferred because Nigeria uses subsidized gasoline. They just got rid of their subsidy and now, Benin is in trouble – (chuckles) – because they were actually making a killing on the trade with Nigeria.

[00:51:50]

MR. BROADMAN: This is a huge problem, this – this inability to trade on the continent as before I said about these economies of scale, that was on the investment side. But on the trade-flow side, you know, we have these regional trade agreements. We all know that there's this spaghetti bowl of overlap in agreements, no movement of any serious nature has been done to harmonize these RTAs.

And frankly, the market – the firms are way ahead of these institutional agreements and just don't pay attention to them. But they're in the way. They're trying to look at these complex overlapping rules of origin and this is a huge – it's a huge issue.

MR. DADUSH: Good, okay. Let me move on to the other element, which is foreign direct investment. Again, what could be bad about foreign direct investment? Why would I ask the question, is FDI good or bad for Africa today?

Well, one of the reasons is a lot of the foreign direct investment goes into mining sectors, et cetera. And there's always a question about are they paying the right price, are the right conditions being set, et cetera? Is this an economic endeavor – successful economic endeavor? To what extent is it an exploitative endeavor instead? Anybody want to pick that up? Yeah?

[00:53:14]

MR. PALMADE: FDI can be – actually, FDI should be greatly beneficial to – in most sectors for most countries, but it's not so. And you – mining is a great example. Even if you get mining right, it's not totally obvious to get spillovers beyond mining into the economy. Even Botswana, which arguably has been the best country in terms of mining FDI, there is still very high unemployment or there are big employment – I mean mining did not solve all of Botswana's problems by a long shot.

They did a little bit of processing of diamond, but it didn't go very far. I think the case of mining – and there have been some attempts at building linkages, suppliers into mining, but that doesn't go very far. I

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think the big upside for mining is getting the most revenues out of it and then spending that revenue, you know, smartly, including the infrastructure – the related infrastructure.

[00:54:10]

Agriculture, I think is – you have similar issues and it's very topical now. You have big deals happening in agriculture all over Africa. I mean you know, thousands and hundreds of thousands of hectares. But in many cases, we see some of the same mistakes as with the mining deals, where it's – these great assets are going – are not necessarily going to the right companies for the right reasons.

And so once these either – you know, investments which are silos, really – agricultural investments which are silos, which are just to export – exporting back to the country of the investor, now, that could create some social issues. And it's not clear that the land has been sold at the right price either, so we see similar issues and challenges on the agricultural side that we saw on the mining. That is probably, today, the biggest challenge as far as FDI is concerned in Africa. And yeah.

[00:55:01]

MR. DADUSH: Yes, Mwangi, go ahead.

(Cross talk.)

MR. KIMENYI: I think that's a – that's a very good point and I think when you look at the new investments, particularly by the BRICs, think about China, Brazil and so on and think – they are indeed focusing on natural resources and not so much – although I know that China and India are also investing in some manufacturing.

I think we need to evaluate FDI like we do aid. I think it's not just aid, the quantity, but the quality of aid. I think we need to have a measure of the quality of FDI also. And to me, if – eventually for Africa, it did it in terms of long-term economic growth, we didn't have to focus on transformation.

If you are just going to mine and you know, get the oil out, it doesn't change how people do their agriculture, then it's not going to have real salutary benefits on other sectors. So I think we need to see what investments – FDI – can naturally transform African economies.

[00:56:04]

MR. DADUSH: Shanta?

MR. DEVARAJAN: Only the underlying concern is the fact that the bargaining power between some African countries and the foreign investors is not symmetric. And as a result, some of the deals – some of the contracts that are signed are heavily biased towards the investor and not in terms of the country.

We have, you know, there was a Chinese deal in multi – \$7 billion deal in D.R. Congo to extract some minerals and then ship it out, where the price and the quantity of minerals – both of those were guaranteed by the Congolese, even though the minerals hadn't been extracted yet or even discovered yet because of the asymmetric bargaining power. So I think that's where we need to work on, I show we can

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strengthen the bargaining power off the African government so that they can be on an equal footing with the foreign investors.

[00:56:52]

MR. DADUSH: But let me ask, then, along these lines, China – China’s increasing role in Africa, which has come under a lot of scrutiny and criticism in the West. And my question is this: Is this just sour grapes? Is this you know, this used to our – used to be ours, you know? Africa used to be ours.

And now, the Chinese are coming in out of the blue and they’re going in and they’re investing and they’re building, et cetera, et cetera. And why are they doing that? Or is there a real genuine concern about China’s – I mean by that – an economic concern about China’s involvement in Africa? Harry, maybe you want to pick that up?

MR. BROADMAN: When you say “ours,” are you talking about the fact that you hold a French passport? (Laughter.) I just want to make sure –

[00:57:50]

MR. DADUSH: I’m talking about my French past – yeah – or British or you know –

MR. BROADMAN: I just want to make sure, for the record –

MR. DADUSH: Even German or Portuguese, yeah.

MR. BROADMAN: (Chuckles.) You know, it’s obviously a very complicated story. I think there are many sides to this coin. I mean there’s apprehension on the part of Africa – or Africans. And even there, depending on who you talk to within Africa, you get a variety of different points of view, whether it’s consumers, workers, university students and bosses and government officials. They’re all over the map.

[00:58:34]

You know, in my view, the – the Africans are recipients of foreign direct investment from the South, which is qualitatively different than foreign direct investment that historically had come in from the North. And the terms are innovative; they’re different. They still suffer, as they did, from the North with asymmetric information and asymmetric bargaining power as they did from the North.

But you know, part of me thinks, well you know, thank god someone’s at least investing in Africa and is doing so in sectors that were off-limits, that were perceived to be off-limits, that were perceived to be too risky. And what’s happening and what you’ve seen is that the European investors and U.S. investors are upset, in some sense, because they’re losing some first-mover advantages.

It’s one thing, having worked in – having worked in China since 1993, where we were at the Bank, elsewhere, promoting China to become, you know, growing out of the social market – the socialist economic market to become more like capitalists and to rove the world as profit-maximizing multinationals.

[00:59:58]

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So you know, they go to Africa. There are very few constraints in the market in terms of product standards, health and safety standards and they're profit-maximizing, subject to no constraints. And all of a sudden, they come to Africa and now, the World Bank and the West says, no, no, no, wait a second. We didn't really mean that. We don't really want you to be capitalists.

We want to put some constraints on you. And the concern is not so much to criticize the Chinese as much to say to the Africans, guys, this is your responsibility. It's the Africans' responsibility to put, at the border, health and safety standards, competition standards, and you'll find that the Chinese will respect those standards, just as they do in the U.S. when they try to import toys with paint that was you know, unhealthy.

[01:00:52]

And so for me, you know, to ask the Chinese to voluntarily behave in a somewhat different way, I think, is a bridge too far, in some sense, that where the responsibility really lies is on the Africans to say, you know what, these are our economies. We welcome foreign direct investment. We want you to come here, but here's how we want you to invest.

MR. DADUSH: Good.

MR. BROADMAN: And I think in South-South, I think there's a commonality there that can be mutually advantageous.

MR. DADUSH: Good, good. Anybody? Yes.

MR. PALMADE: Yeah, I think I totally agree with Harry. It's really up to Africa to take the most advantage of – not only China, but India for ICT, Brazil for agribusiness.

MR. BROADMAN: Brazil, absolutely.

[01:01:35]

MR. PALMADE: And that's the great news about South Africa. These people just came through the development stage, you know, 20 years ago. So what they've learned is totally relevant to Africa today, although it's a great opportunity. And also, if we can help facilitate that, so be it. And it's a great opportunity. And also, if we can help facilitate that, so be it.

So China could really put Africa on the light manufacturing map. I mean I was in China one month ago. Nobody in China knows that the wages in Africa, like in Ethiopia, are five to 10 times lower than in Africa. Nobody knows that. You know, Chinese –

MR. DADUSH: And in China, yeah.

MR. PALMADE: Instead of building cement plants in Africa, they would build, you know, export-driven light manufacturing if we could just set up the industrial zones in the right places, I think Chinese – the right kind of Chinese investors would come with greater impact. And same in agribusiness. If we can, you know, bring the land to the Brazilians in the right kind of way, major opportunities.

[01:02:24]

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MR. DADUSH: Good. Let me ask my last question and then I'm going to turn it over to the audience. Shanta began by stressing the issue of governance. And a week ago, we had an event here at Carnegie, where we discussed Tunisia and the implications for the Middle East and North Africa. And out of that event came the message that essentially the turmoil in the African countries is really about voice. It's about corruption. And it's facilitated by technology.

And so I want to ask the panel, in Africa, now, there's quite a bit of technology. People have mobile phones. Lots of people have access to the Internet, not as many as in North Africa, but there is access to the Internet. And there is, as I understand, no shortage of corrupt and autocratic regimes in Africa.

Is what's happening in North Africa – will it have some spillover effects in Africa? Are we seeing any signs at all of this? Mwangi.

[01:03:39]

MR. KIMENYI: I actually – I have a posting that probably is out now, the Brookings website on this issue.

MR. DADUSH: Don't go there. (Laughter.)

MR. KIMENYI: But not now. (Laughter.)

MR. DADUSH: Don't go there. Go to the Carnegie one. We have also our own. (Laughter.) Sorry, go ahead.

MR. KIMENYI: According to the Arab-democracy paradox and it reads to these human development issues and then the demand for democracy. And one of the statements there is that this movement is not going to cross the Sahara. And there is on this –

[01:04:11]

MR. DADUSH: Not going to cross?

MR. KIMENYI: It's not going to cross the Sahara. You – there will be some noise here and there, but I think there are a lot of factors. Look at the people who are doing this. They are well off – reasonably well-fed. They are harmonized. They are educated and they can communicate. Of course, they have cell phones.

And I don't think that – and then the education levels are much higher. So I think that it's unlikely and that's why I was saying that maybe investing more in human development, in education is probably one way that will push people like Museveni in the future in terms of being able to governize (ph).

[01:04:54]

There is another issue, that is actually, we should not ignore it about sub-Saharan Africa. In sub-Saharan Africa, we this serious problem of ethnic fractionalizations that we may try to ignore. And even if there is a new bad dictator there who is killing people, he has his supporters, who will come up and say, well,

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at least he is ours. So you are likely to get a broad movement in some of these countries. Even in Zimbabwe, you're unlikely to get everybody – again, it's Mugabe because one group will say, you know, he is our dictator.

MR. DADUSH: Very good. I think – Shanta, you want to intervene?

MR. DEVARAJAN: I've got to disagree – I've got to disagree with my good friend, Mwangi. For a couple of reasons: One is you see very much the same phenomenon of leaders who've been in power for over 20 years in Africa, sometimes over 40 years and have created – have eliminated almost any political space. It's just what we were observing in North Africa.

So I think you know, countries like Cameroon and so on, you really have to – there's a – there are – a good chance that that could face – and already, we're seeing some protests, and so on.

[01:06:06]

The other is that I'm not convinced about this idea that you need an educated, urban middle class to run a protest movement. Look at Yemen. I mean, Yemen – the education levels and everything else are pretty much the same as in low-income Africa. And they've got a full-fledged protest going. And I – you know, we've seen these kinds of protests in African countries, including in a certain East African country – (laughter) – that can rise up for various reasons.

And I would almost turn it around the other way, that the ethnic fractionalization, which is definitely there, actually could precipitate something like this. Because what we also observe is that in these ethnically heterogeneous societies, the dictator is able to stay in power by doling out just a small bit of largesse to all of the groups. That's what Houphouët-Boigny did in Côte d'Ivoire; that's frankly what Paul Biya is doing in Cameroon.

Now, if there looks like that, that dictator's days are numbered, then all of a sudden these ethnic groups begin to get very worried, and they take up arms. And that's what – how Côte d'Ivoire blew up. And we could see that happening for – so it's a very – it's a slightly different phenomenon than what we observed in North Africa. But it's still a change in power.

[01:07:27]

MR. DADUSH: Very good. Over to you. Yes, sir – I think that's Professor Wonnacott, I believe.

Q: Thank you. Yes –

MR. DADUSH: Please use the mic, and identify yourself, please.

Q: I am Paul Wonnacott from the University of Maryland. There seems to be a certain tendency to promote the Carnegie Endowment at Brookings' expense. I'd just like to – (laughter) – thank you for what you've done at the Carnegie Endowment. And if you really want to promote it, I'd point out that there is a long history. Jacob Viner's famous work on customs unions way back in about 1950 was done under the auspices of the Carnegie Endowment.

[01:08:06]

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MR. DADUSH: Oh, is that right?

Q: Yes.

MR. DADUSH: I didn't know that.

Q: Yes.

MR. DADUSH: Oh, well, fantastic.

Q: So there's another arrow for your – (laughter).

Perhaps I can make an observation about China. I agree with much of what's been said, but it seems to me there's an additional complication which shows up, say, in the rare-earth exports issue, and that is their apparent willingness to use economics for political purposes. Now, that's – I mean, that's not historically new; the United States stopped exports to oil in 1938 or '39 to Japan – or '40, I guess it was – to Japan. It's been done, but it seems to me that the Chinese are being somewhat more aggressive on this matter than is considered appropriate, particularly at present.

[01:08:55]

The question I want to ask is about South Africa. And it seems to have been almost conspicuously absent. If you go back 20 years, South Africa was looked at as the engine for the African development. I guess my question – it's sort of a broad one – is, what's happened there? And what are the import restrictions which South Africa has? Are they – have they been a barrier to movements along this line?

MR. DADUSH: Good. We'll take a couple more questions, and then come back. And that's a question about South Africa. It's obviously very important.

Yes, sir – the gentleman just behind Professor Wonnacott.

[01:09:41]

Q: I'm Abel Ajani (ph) from University of the District of Columbia. Professor Wonnacott used to be my professor at Maryland in 1969.

(Laughter; off-side conversation.)

Q: (Chuckles.) Anyway, two weeks ago the International Monetary Fund advised the Central – governor of the Central Bank of Nigeria to devalue the Nigerian currency. And everywhere I go in terms of policy advice, they seem to single out currency overvaluation as a major cause of retarded economic growth. What I would like Dr. Devarajan to explain in a layman's language, how do you know when currencies – what is currency overvaluation? (Laughter.) Have you done any empirical study to establish any connection one way or the other between currency overvaluation and per capita income?

[01:10:38]

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And finally, the issue of governance, politico-economic – in 1978, if I'm correct, the last major conference Robert McNamara had, the former governor of World Bank, challenged them to – international agency to have a mutual agreement with three or five African countries, adopt them as a demonstration project so that they can run that country for 10 years to see whether there will be significant improvement in economic performance in that country. And I raise the same challenge again today.

MR. DADUSH: OK. So Shanta, you're being asked to show that you can run Africa. That's one.

MR. DEVARAJAN: And then?

MR. DADUSH: And the other, that you can answer questions in layman's language, which is much more difficult for you.

(Off-side conversation.)

[01:11:29]

MR. DADUSH: Yes, the gentleman just here. Yes.

Q: Hi, my name is Teddy Roux (ph). I'm a second-year M.A. candidate at SAIS-Johns Hopkins across the road. I have a question for Mr. Palmade, very quickly – you discussed the light manufacturing. And I actually came across an article you posted, I think, on the World Bank website discussing the clusters of flow manufacturing in China – SME. And I was wondering what prospect you see for that happening in – because you ended that article saying, “food for thought.” And I was actually a little bit more curious – (laughter) – in knowing what you think about the prospect for that happening in sub-Saharan Africa, the challenges, and what the Bank – the World Bank is doing to push that.

Very quickly also, just a second point, if I may, to Mr. Broadman – I totally agree on the bargaining power and pushback of responsibilities to African states in dealing with Chinese companies. I worked for the Sierra Leonian government over the summer. And what leverage you think that a government like the government of Sierra Leone can possibly have in dealing with Chinese SOEs, especially when they're very – we have, like, very little interest for other private investors to invest in this country. I mean, I agree on the principle. But this is challenging. So I guess, how could this country be helped in dealing with China and China's SOEs? Thank you.

[01:12:52]

MR. DADUSH: Good. We'll go back to the panel, and then come back for another round.

(Off-side conversation.)

MR. DADUSH: So Harry, you're on South Africa. And Mwangi, then – yeah.

[01:13:05]

MR. BROADMAN: First of all – so Paul Wonnacott has so many connections here. He was on the Council of Economic Advisors when I was the chief of staff there. So it's – you're omnipresent here, Paul.

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On the – in your first point about China as a mercantilist power on its outward strategy, you're quite right. I was – you know, there's no question. I was addressing sort of relatively their conduct on the – on the African continent, on the share of blame to go around.

[01:13:34]

On South Africa, South Africa is a very complicated – I would say probably the most economically complicated country on the continent, and what once was the engine of growth on the continent and no longer is. And it was once the port of entry for most foreign investors on the continent, and is increasingly not the case anymore.

And you can see increasingly that there are growth poles developing on the continent: As you go up the coastline, you can see that Namibia is a port of entry – Angola. You can see that Kenya is developing a corridor from Lamu up into southern Sudan and up into Uganda.

South Africa will continue to be a powerful presence. But five years from now, it will no longer be the engine, the primary engine of growth in Africa, and largely because of its trade policy, largely because of its industrial policy, largely because of the legacy of the outcome of the apartheid administration. And I'm seeing more and more investors who want nothing to do with South Africa, and want to go elsewhere on the continent.

MR. DADUSH: Good. Mwangi?

[01:14:53]

MR. KIMENYI: Yeah. And I fully agree. I think South Africa – I mean, maybe 10 years ago, South Africa was doing very well also in terms of reinvestment in other countries, or sort of leading investments in other sub-Saharan African countries. But that has slowed. And I think there are real domestic issues. And I should have – actually, I mentioned these – in terms of sustaining growth in Africa, I think, one of the things I see: the issue of inequality is going to be a real problem. And to me, it is what will trigger a lot of changes. But it's a real problem. In South Africa, it's particularly problematic.

And particularly, the issue of jobs – I think Shanta has been talking about these jobs. And unless the labor issues, the climate and a lot of legal – the legal structures are changed there, South Africa is not doing well. So I – you know, it's not as a few years back.

[01:15:48]

MR. DADUSH: Yeah. Vincent? Anything you want to add on South Africa?

MR. PALMADE: Not really. I'm waiting for the –

MR. DADUSH: All right. OK. So Shanta, you have a third question.

MR. DEVARJAN: Yes. Although it – can I just add one sentence on South Africa? I think in addition to what both Mwangi and Harry said, South Africa also hasn't distinguished itself on the foreign policy stage, particularly in terms of Zimbabwe. And that has undermined its ability to play this role as a – as a leader.

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[01:16:16]

Now, on the – on the question from the gentleman from UDC, can I explain overvaluation in layman's terms? (Laughter.) Well, I think – you know, I'll try. (Chuckles.) By the way, one of my former students, Alison Johnson (ph) is here. So you can – you can ask her. (Laughter.) But it's – I mean, if you believe – as there is quite a lot of evidence that exports are extremely important for economic growth, then what an overvalued exchange rate does, is it discriminates against exports. It makes it much costlier to export. And so people invest less in exporting. And then, that means that the country doesn't have a big export base, and it then doesn't grow.

So the overvaluation is simply the other side of the coin – or it's the price side of an export-led strategy. And now in fact, there's some literature that shows running an undervalued exchange rate might be actually beneficial, although that's somewhat controversial.

[01:17:13]

The link with per capita income – let me give you one example, which actually I happen to be – I happen to have done. But it – and it's a particularly graphic one, which is the countries in the CFA zone, the 13 CFA countries in West and Central Africa where they were hugely overvalued – and we actually did a calculation in the, sort of, early 1990s to show that they were about 50-percent overvalued. And in fact, they devalued 50 percent on January 14th, 1994. And growth actually went from -1 percent to about averaging 5 percent a year for the next 10 years. So you actually got – I mean, now that was a maxi-devaluation. It was not a small devaluation.

Finally, on demonstration – (chuckles) – I didn't know about this, that you had offered McNamara, to the World Bank, to run a few countries as a demonstration project. And I'm not – I'm not willing to take that bait – (chuckles). But I do think that there's a – there's a mini version of that, which are some of these special enterprise zones that people are introducing now in Africa – building on the experience in China and other places – which is, if you like, a little enclave within a country as a demonstration project where the rules within that special enterprise zone are different from the rules outside the country (ph).

[01:18:34]

And in fact, in some countries people are even pledging to be – for these to be special governance zones so that the mayor or the head of that SEZ will also pledge to have, you know, zero tolerance for corruption and have independent observers come in and examine it as a way of showing that you can actually pull it off – not in a whole country, but maybe in small enclaves of that country.

MR. DADUSH: Good. We'll take a –

MR. PALMADE: Uri? Can I answer – I want to take advantage to answer the question.

MR. DADUSH: Absolutely. Sorry, apologies. Yes.

[01:19:04]

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Because let me just give one example of what could, should happen. It's in Ethiopia – we just completed a very detailed analysis of light-manufacturing sector in Ethiopia. And as I mentioned, in Ethiopia the wages now are five to 10 times lower for low-skilled workers than in China. And the good-practice firms in Ethiopia achieve 70 percent of the productivity level of the best Chinese firms. So if you do the math, you'll see that this in principle is a gigantic opportunity.

Now, the only issue right now in Ethiopia is trade logistics. There are 700 kilometers between Djibouti and Addis. If Ethiopia could build something like Shenzhen next to Djibouti, I think there is the potential to create Shenzhen in Africa right next to Djibouti, with these kind of numbers. And Ethiopia is more than 70 million people, so there's a – there's a lot of employment. So that's just to illustrate what could be done if you just – and in this case, all you need to fix is trade logistics. Everything else is almost there. There is a state of the art port in Djibouti built by Dubai Ports since 2009 – best in the world. It's waiting to happen.

[01:20:18]

And just –

MR. DADUSH: Good. I'm going to –

MR. BROADMAN: And now, I have to answer his – he also asked a question about the asymmetric bargaining on the small government. You know, governments in Africa are increasingly, like the Chinese, asking for outside help. I was in Ethiopia when I was still with the Bank at a time when the Chinese were trying to buy the telecom company. They had – they had Goldman Sachs in the room, the Chinese did. And the Ethiopians had nobody. This is – this is being resolved all the time. So just because you're a small country doesn't mean that you can't have good negotiators.

Sorry.

MR. DADUSH: That's very helpful. No, no, no. Sorry, on the contrary. Yes, so we'll take another round. We have time for, I think, three questions. And let's go to a lady. We haven't done ladies so far. Yes – (laughter) – please?

[01:21:12]

Q: Well, I'll use my gender to take advantage of that, then. (Laughter.) Thank you. I'm excited to now – I'm Julie Mancuso. I'm from the Center for International Private Enterprise. We work with the local business community in Africa.

It's great to hear the conversation of education come up, and the youth bulge. However, whose responsibility is it to address it? And do you see an increasing role for the private sector to step in where governments have not? Or do you see them as investors pulling out, saying, you know, it's too complicated, it's too risky especially in terms of destabilization for long-term growth? And you see sort of, I guess, fragmented – like many efforts in Africa are very fragmented attempts to address it. But it's typically addressed from a human-development angle, and I see it very much as an economic angle where the private sector is starting to – more and more start pay attention. So could you maybe just discuss your view of the private-sector role in education in Africa?

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[01:22:08]

MR. DADUSH: Yes. Then the lady – you had a question, too? No? OK. (Laughter.) The gentleman there at the back. And then – and then yourself – (inaudible, cross talk).

Q: Thank you. I'm Mark Copino (ph) from the Embassy of Finland. I spent nearly five years in Africa myself, and then later worked in Finland very closely with AU-related issues. We haven't mentioned AU at all – African Union. What would be the role with African Union in terms of within the region, enhancing the competitiveness and so forth, and in terms of defending Africa in international fora? Thank you.

MR. DADUSH: Thank you. Yes.

Q: Yes. I'm Bob Tortora from Gallup. And one, I – one, I wonder with addressing this issue of inter-country trade: What does something like the East African Community – does that have any potential impact on reducing barriers in the next few years?

And I just have a general comment: In our surveying in Africa, we ask kind of a behavioral-economics question about the people's household income and how they're getting along. And we ask four categories: Are you living comfortably – getting by, finding it difficult or finding it very difficult? And then – and what we're seeing is that the – that the percent of people that are finding it very difficult is growing dramatically. Over the last four years, it's gone from like 16 percent to over 30 percent. And the people that are kind of in that second group, second-highest group, they're shrinking down. So to me, that's an indicator that there is some problems with sustainable growth in sub-Saharan Africa if the general – if the general population is finding it very difficult to get by.

[01:24:02]

MR. DADUSH: Good. Mwangi –

MR. KIMENYI: OK. So I – you know, talking about the East African Community, in a way, it's – you know, we feel quite frustrating (ph) because East African Community was ahead of the European Union – just some crazy people just, you know, led it to its collapse. There was East African Airways, East African Harbors, you know, a post and telecommunications – we had a huge market. And all that collapsed because of politics.

[01:24:30]

Now, I think now the East African Community is on a fast track – already agreed on customs union. They are already debating the possibility of currency issues. And what we have seen is quite a big boost in terms of trade between these countries. Again, there are still problems. But it's much better than other countries.

I think the issue of regional integration, of course, has to be complemented with the issues of infrastructure linking these countries. And it's happening. There are already some regional projects. I don't know how they progress, but there seems to be quite a bit of progress in particular roads within the country. So I see that as a very important channel to deal with some of these problems.

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Maybe just one comment on the African Union: I would say, the African Union is – you have all these country – our leader – the leader of African Union was Gadhafi – (laughter, chuckles) – so –

MR. : Equatorial – (inaudible).

MR. KIMENYI: Yeah. So now –

MR. DADUSH: It was also, by the way – Libya, where I was born, by the way, was also the head of the Human Rights Commission, yeah, yeah. (Laughter.)

MR. KIMENYI: Yes. I think they've just been kicked out. So the AU as a concept I think is a very good one and is actually doing well. It has some economic – there are some good economic forums now they are coordinating. So I would say that – and it's also good in terms of conflict resolution. I would prefer AU to be the first one in Somalia, then AU together with the UN, than getting an outsider. It's much better. It's better dealing with Sudan and so on.

[01:26:16]

So I see it as an important role, but we have to deal, again, with those people who are – this rotating president – head ship (ph) – chairmanship. So you will get a Gadhafi now and then. (Laughter.)

MR. DADUSH: Shanta, did you want to pick up on any of that?

MR. DEVARAJAN: Yeah, let me pick up on – I like this question about the education sector and the role of the private sector in education. First of all, if you just look at the facts, it's – mostly as a result of the failed public system in education that Mangi was referring to – the teacher absenteeism, the leakage of public funds, you're seeing the domestic private sector create schools.

So in countries like Cameroon, about 50 percent of the primary-school students are in private schools. And these are not, sort of, elite private schools; these are the community-run schools, NGO-run schools. So there's a booming private sector.

Now, on the – in terms of foreign investment, what we're finding is at the tertiary level – but that depends a lot on whether the – what kind of policy and regulations the countries have to allow private-aid universities. But once the policy framework is set in, you find a huge rush – in Senegal, we have about a dozen private universities. And some of them are very, very good.

So I think there's a huge opportunity for the private sector in education. And I think along with economic growth, Africans are now demanding more education. And so there will be a market for it.

[01:27:49]

I just want to pick up on this last point about the people – number of people who are finding it very difficult is growing. I think this is very, very important, because I think – and we should not be complacent. This growth – the growth that Africa has been experiencing for the last 15 years is pretty much a result of the first generation policy reforms kicking in. And so we're getting this big rush of growth.

But what we know, what we've observed, say, in China and in India and other places is, once you've got that growing, you begin to see inequality growing. And so in the next 10 to 15 years, my biggest concern

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is exactly this – and I think you’re sort of a – not you, but your surveys are a bellwether of what we might be experiencing. And it might be useful for us to at least not get complacent, but rather actually try to address the problem now rather than wait 15 years and say, oh no, we know we let this blow up.

MR. PALMADE: If I can complement this with – I mean, it’s striking when you compare China and Africa, for example. In Africa, because of the way cities are growing, through slums, essentially, this informal sector, but the time the worker has paid for transportation, food and shelter, there is really nothing left. In China, workers, because they are provided free housing, they live next to the plant and even the food is subsidized, they get to save 80 percent of what they make. So that’s kind of the difference.

[01:29:16]

MR. BROADMAN: Just two very quick comments on the East African community. It’s really the only economic community that is going to succeed, in my view. On the private sector, in education, from the foreign investor’s point of view, more and more foreign investors that I work with want to provide education as part of the package of coming into Africa.

And they’re really keen to do that precisely because they don’t – they can’t find the human skills at the ready. And so they’re offering to train workers, and that is extremely welcomed by the government. And that is becoming very much part of their program every – in almost every country I’ve been working in.

[01:30:00]

MR. DADUSH: You didn’t want to ask a question. Oh, you do, you do. Go ahead, yes. This is the last question, I’m afraid, yeah.

Q: Thank you so much. My name is Alison Johnson (sp) and as my former professor, Shanta, mentioned, I’ve been really studying these issues since studying with him. And I’m really struck, as we’re rounding out the discussion – to counter Mwangi’s point about sub-Saharan Africa not being affected by the spillover from North Africa, as Shanta mentioned, could possibly spill over because of this issue of inequality that we’re ending on.

And so I’d like to pose the panel questions around looking out for the next 10 to 15 years, these issues of inequality, bad distribution of income, because one of the things I’ve been struck by, because I’ve sort of migrated down to D.C. for many decades now, is that this Massachusetts Avenue area really did not see the challenges in MENA the way they took place the last two months. I mean, there really was just no vision that the uprisings would happen the way they’ve happened. And that’s why we’re just in a shock, I think, as a planet in terms of what to do with Libya, et cetera.

What do we see for sub-Saharan Africa, in that sense, if we challenge Mwangi’s point that no, they’re not going to uprising? Although, we all have friends that come through Facebook and tweet and tell us, people are standing up all across these countries, they’re organizing. Even if you don’t have money, even if you’re not rich or you’re not super educated, people will organize. People will rise up if they want democracy, freedom, liberty. So could the panel project for the next years if there might be, you know? Because elections are – what, now 20 countries across Africa are going to have elections this year? (Chuckles.)

MR. : Seventeen.

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Q: Seventeen? That's a fair amount to question.

MR. DADUSH: I will ask the panel to project as the last exercise we do today, but I have to issue a word of caution that two months ago, we organized a discussion on the Middle East/North Africa, and I concluded the discussion by saying that the main message that emerges: business as usual for many years to come. (Laughter.) There is no change on the horizon. (Applause, laughter.) So – and it's on the record, so – (laughter).

Q: So there goes his projection!

MR. DADUSH: Yeah, that's why we don't get paid a lot in think tanks. (Laughter.) All right, let me think –

MR. : Same thing.

[01:32:47]

MR. DADUSH: Yeah. So let me go to the panel, then, anybody who wants to pick it up on whether this is going to spread south of the Sahara or not.

MR. KIMENYI: Can I clarify?

MR. DADUSH: Yeah, please.

MR. KIMENYI: I didn't say that we cannot get riots in sub-Saharan Africa. We had them. I've been involved in some of them, myself. (Laughter.) But I am saying that this mass movement, all of our country is unlikely to – we are unlikely to get it, at least movement in the midst of the countries, just because you have dictatorships, because some of the worst dictatorships, it'll be very difficult if you think about, it's the DRC and so on. So it's not going to happen.

[01:33:26]

But I think inequality is one of the subjects that we most need to be concerned about. I am – I deal with that myself, and I know that inequality – and also, of course, we also now know it's not the Kuznets curve anymore. If you want growth, you have to – you really need to get more equal societies.

MR. DADUSH: Okay, Shanta.

[01:33:51]

MR. DEVARAJAN: Yeah, I'm not going to predict the next 10 to 15 years, but let me just say – add to what – Alison's question. And I'm not sure – I guess I can reveal this, but I've – in the last three weeks I've received maybe four or five requests from ministers of finance in sub-Saharan Africa. They say things like, you know, Shanta, you've been talking about unemployment for a long time. Can you write us something about what we should do about youth employment? (Chuckles, laughter.) So it's – at least they've gotten the message. Whether that's going to lead to anything is another question. But I think it's hopeful. (Chuckles.)

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MR. BROADMAN: Yeah, I mean, I too, from a different perspective, know that certain countries, sub-Saharan, are very worried about what's going on. I named a couple of the countries earlier – Cameroon, Gabon, Uganda, for instance. There are some others, I think, you know, that have some chance of having some kind of upheaval. Zimbabwe is in a special camp because he's going to live forever. (Laughter.)

[01:35:02]

MR. PALMADE: Right, well, last week, Shanta, I was in Congo Democratic – Republic Democratic of Congo (ph) last week, and we had two hours with the whole Cabinet and the prime minister on the topic of jobs. And that never happened before. So.

MR. DADUSH: Well, I'm not even going to try and summarize – (laughter) – this discussion. But I do want to recognize the exceptional expertise and sincerity of our panelists and the great, great job that they did today. Let me thank you. (Applause.)

(END)