

Women Need to Be at the Centre of African Economic Revival

Interview with Augusto Lopez-Claros, Chief Economist and Director, Global Competitiveness Network, World Economic Forum, at Forum on Africa in Cape Town, South Africa, 31 May 2006.

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What has changed in African economic competitiveness since 2004, when the last Africa Competitiveness Report was released?

In the past couple of years, Africa has benefited from a strong global recovery, higher commodity prices and higher oil production and prices all of which has generally stimulated growth and improved conditions for competitiveness. Other positive factors in the region during this period were better macroeconomic management and improved agricultural performance across the continent, a brighter political situation in many countries and continued donor support through aid and debt relief. In general, the region has more or less successfully pursued prudent monetary and fiscal policies. Inflation has eased, helped by good harvests in many parts of the continent, while fiscal deficits have fallen. In many African countries, higher commodity prices, including those for oil, greatly improved external balances and more countries recorded current account surpluses than in 2003, especially oil producers. High commodity prices have attracted new foreign direct investment, mainly concentrated in diamond, gold, oil and platinum. Investor perception has been further enhanced in recent years by regulatory reforms in many African countries that further boosted foreign investments to the region.

However, Africa's recently improved competitiveness environment is due in part to nonrenewable natural resource exploitation and a buoyant global commodities market. Due to their high capital intensity and, hence limited ability to contribute to broad-based employment creation, these sectors' direct contribution to sustained improvements in competitiveness is probably quite limited. In addition, uncertainty about the future direction of oil and commodity prices poses a risk to the regional outlook. Still, some of the positive trends we have seen in governance are promising. And the gradual liberalization of service industries such as telecommunications, electricity and retail that we have seen in recent years are an important step in the right direction.

What are the distinct competitive advantages of African economies?

Africa is a diverse and heterogeneous continent. Some countries have a competitive advantage in exploiting their vast natural resource wealth, but these countries also risk falling prey to the so-called "natural resource curse." This means that they must focus their efforts on using their windfall wealth to achieve sustainable improvements in their competitiveness, for example by investing in education, health and

infrastructure. Another key labour-intensive and growth-promoting sector in Africa is the clothing and textiles sectors. Efforts by the region to overcome the challenge faced by China's accession to the World Trade Organization and the phasing-out of the Multi-Fibre Agreement will prove vital to this sector. To compete in more liberal clothing markets, African producers must work to improve management practices and productivity, as well as develop niche markets. A third area of competitive advantage is tourism. Tourism is a main source of foreign exchange earnings for many African countries. This industry still suffers from political and social instability, a poor tourism infrastructure and high health risks. There is a lot of room to target these and to improve marketing.

In 2005 sub-Saharan Africa grew by 5%, the highest growth rate in eight years. What are the sources of this and future growth?

Indeed, in 2005 Africa experienced the highest average growth rate in 30 years. Many African countries are rich in natural resources and benefited from the rise in global demand for commodities observed over the past 2-3 years, fuelled, among other factors, by China's strong growth performance. In response to this rise in demand, extraction of oil and commodities in Africa increased as new capacities came on stream. The value of exports has increased significantly: for example, between 2003 and 2004, the value of African exports of fuels and mining products rose by 44%, against 23% in exports of manufactures and 21% of growth in global trade. Countries rich in petroleum, such as Nigeria, Angola or Chad particularly benefited from the rise in prices, as reflected in their GDP growth rates, an average of 7% in 2005 in contrast to 4 ½ % for the non-oil exporters. At the same time, many African countries improved macroeconomic management, which also contributed to boost economic growth rates. As noted earlier, fiscal deficits were reduced on average and inflation fell from double digit figures in 2003 to 8.5% in 2005.

Future growth will depend on how far the countries will be able to use the currently benevolent environment to continue macroeconomic and institutional reforms. Increased budgetary revenues from commodities exports provide the government with additional financial means, which, if used well, can pave the way for sustainable growth and poverty reduction. In addition to poverty reduction, our research points to health and particularly the fight against HIV/AIDS, education and training of the population as well as upgrading transport, communication and energy infrastructure as the most urgent priorities to unleash higher growth. Institutional reforms, in particular those aiming at strengthening government transparency and accountability would contribute to a more efficient use of government resources and also improve the business climate.

With China fuelling a significant part of Africa's recent growth, what are the opportunities and the risks for Africa and its investors?

Economic growth mainly based on commodities exports is not a sustainable development strategy since commodity prices tend to be very volatile. Sustainable future growth will therefore depend on the ability of African governments to diversify the economies away from primary products. The current favorable environment, with increasing trade liberalization under the Doha round and other initiatives can provide many new market opportunities. However, in order to fully benefit from this, the supply capacity of African countries needs to be strengthened and this calls for a strengthening of institutions and macroeconomic policies. This is particularly urgent

since the sharply increasing value of exports can lead to an appreciation of the exchange rate, which then in turn would reduce the competitiveness of the remaining sectors. This could slow down the much needed diversification into higher value added products.

The current level of commodity prices will depend on the favourable global economic climate and in particular on the sustainability of China's current economic growth, which is often being questioned for a number of reasons. In last year's Global Competitiveness Index, China ranked only at 48th out of 117 countries covered by the index. The results of our research show that although China has a fairly stable macroeconomic environment, public institutions remain weak and the country lags behind in terms of technological progress. In addition to this, the banking sector remains vulnerable and environmental degradation as well as increasing social inequality keep fuelling social discontent with the development process. These factors, if unaddressed, could lead to an economic slowdown in China and, given China's current role as a key global trading power, precipitate a fall in the demand for commodities, which would adversely affect many African countries.

African countries are largely absent from the Gender Gap index, although women have recently assumed important positions in the public and private sectors of many African countries. Is there a connection between Africa's economic growth and the unleashing of female talent?

It was not possible to include more than a couple of African countries in the Gender Gap index due to severe data limitations, although we are currently exploring whether we will be able to include more African countries in this year's Gender Gap study.

Despite limited concrete evidence for Africa, however, it is indeed very likely that there is a strong and positive correlation between Africa's economic growth and the unleashing of female talent. For example, there is a sizeable literature that analyses the impact of gender inequality in education across many countries. This literature suggests that, largely due to the impact of female education on fertility and the creation of human capital of the next generation, a lower gender gap will spur economic development. These are likely to be interrelated effects in the sense that high growth draws women into the labour force but increasing female participation can also lead to increasing economic growth. This strongly suggests that, to achieve economic growth countries must invest more in enabling women's access to education, but also to health, the labour market and to positions of power and leadership.

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Although Africa has made tremendous progress in terms of improved access by women to political life and to decision making organs - for example, the African Union's adoption of the principle of gender equality in 2003, and the recent election of a woman to head the Pan-African Parliament – the situation of women in Africa is still worse than in many other parts of the world. And political commitments to gender equality are still far from translating into effective implementation. The aggravation of poverty and the fact that women still represent the highest proportion

of the poor are glaring examples of this failure. Poverty eradication efforts are undermined by the non-acknowledgement of the economic value of unpaid work provided by women and by inadequate support networks for women to establish micro-businesses. Also, in the social environment, certain beliefs and traditions continue to pose an impediment to gender equality. Growing religious fundamentalism in Africa is a real threat to the fundamental rights of women. Violence against women, one of the worst manifestations of discrimination against women, remains pervasive. This can prevent women from engaging in productive employment, and girls from attending school. It makes women more vulnerable to forced and unprotected sex, which plays a key role in the spread of HIV/AIDS, which has been increasing at an alarming rate, particularly among women and girls.

