Barriers to Economic Growth in Africa

August 13, 2014

In a report for the Cato Institute, researchers Marian L. Tupy and Dalibor Rohac discuss what African nations need to do to develop and grow. African economies have grown in recent years, undoubtedly a positive development:

- From 2000 and 2008, gross domestic product rose at a rate of 4.9 percent annually, twice the growth rate that Africa experienced in the 1990s.
- Between 1990 and 2010, the African population doubled. At the same time, the percent of Africans living on $1.25 per day dropped from 56 percent to 48 percent. The poverty rate is on track to fall to 24 percent by 2030.
- Access to clean drinking water rose from 48 percent to 64 percent between 1990 and 2012.

According to a 2010 report from McKinsey, recent growth in Africa is the result of inflation reduction (dropping from 22 percent in the 1990s to 8 percent in the 2000s), a two-thirds decrease in budget deficits and general institution quality improvements.

Even so, the continent trails the rest of the globe. Africa is the least economically free region in the world, and it imposes high tariffs, which block trade.

To sustain and increase economic growth, Tupy and Rohac stress that Africa needs to undertake a number of domestic institutional reforms as well as removing trade and investment barriers. Many African countries are plagued with regulatory hurdles. For example:

- A study by the Rwandan Ministry of Trade and Industry found that a truck driver traveling the 1,000-mile distance from Kigali to Mobasa, Kenya, must stop at 26 road blocks and pay bribes (an average of $846) along the way. The study also found that it took 121 hours for drivers to make the trip.
- According to a World Bank economist, southern African truck drivers for supermarkets that cross a border can be required to carry a staggering 1,600 documents with them in order to comply with permitting requirements.

Increasing foreign aid, they write, is not the answer to improving growth:

- Foreign aid to Africa far outstrips that flowing to other nations, with per capita aid at $32 annually from 1979 to 2012. Aid to India, on the other hand, was just $1.93 per capita.

- Yet, growth in Africa averaged just 0.27 percent over that period, compared to 4.4 percent growth in India.

Tupy and Rohac do think that Western nations can contribute to African growth, however. They encourage African nations to push Western countries to put an end to domestic agricultural protectionist policies, which hurt developing countries like those in Africa.