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African economic reform

By: Michael Tanner
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As representatives from 50 African countries gather in Washington this week for the U.S.-Africa Leaders Summit, there is no doubt that the continent is facing many serious challenges, including the threat of Islamic extremism from Nigeria to Somalia, ongoing civil wars in the Democratic Republic of the Congo and the Central African Republic, and the one most noticed in the West, the Ebola outbreak. As crucial as these issues are, however, an even more important one may lurk below the headlines: economic reform.

Many African countries have made progress on reforming and liberalizing their economies. Few any longer embrace the Soviet model that once dominated the continent. Over the last decade and a half, many African countries have taken steps to reduce or stabilize their annual budget deficits and their long-term debt. Foreign debt has dropped by a quarter on average, and budget deficits have fallen by two-thirds. Inflation is still too high, but it has moderated, falling from an average of 22 percent in the 1990s to just 8 percent. Property rights have become more secure, and the size of government has declined, although not nearly enough.

Increased economic freedom contributed to reasonably strong GDP growth over the last decade, growth that continued even after the recession. Real GDP grew at an average annual rate of 4.9 percent between 2000 and 2008 - twice as fast as in the 1990s. Extreme poverty has diminished, as has child mortality.

But there remains much to do. As a recent report by my Cato colleagues Marian Tupy and Dalibor Rohac pointed out, "While Africa has seen tangible progress in recent years, it still is a far cry from the growth miracle that has been unfolding in China and India, or from the ones that brought the countries of Southeast Asia to their current levels of economic development."

Only six African countries (Botswana, Gambia, Mauritius, Rwanda, Uganda, and Zambia) finished in the top half of countries in the Fraser Institute's latest Economic Freedom of the World report. On the other hand African countries made up 17 of the bottom 25 (Algeria, Angola, Burkina Faso, Burundi, Cameroon, the Central African Republic, Chad, the Democratic Republic of the Congo, the Republic of the Congo, Côte d'Ivoire, Ethiopia, Gabon, Guinea-Bissau, Mozambique, Niger, Togo, and Zimbabwe).

Too many African countries responded to the worldwide recession by falling into the Keynesian trap of countercyclical spending and debt. As a result, deficits and long-term debt have risen rapidly, especially in countries like Ghana and Zimbabwe.The number of countries with increasing debt-to-GDP ratios rose from 25 in 2010 to 31 in 2013. Moreover, several countries used the recession as an excuse to shift their spending priorities from investment to consumption. As a result, the IMF recently concluded that "many countries continue to exhibit large fiscal deficits even though growth and revenue are back to (or near) pre-crisis levels.... In some countries this is a result of a recomposition of public expenditure away from investment that has resulted in further increases in public debt."

African countries also remain remarkably corrupt. In the most recent Corruption Perception Index published by Transparency International, twelve African countries finished among the world's 25 most corrupt. These included Angola, Burundi, Chad, the Democratic Republic of the Congo, the Republic of the Congo, Equatorial Guinea, Eritrea, Guinea-Bissau, Somalia, South Sudan, Sudan, and Zimbabwe. Only Botswana, Cape Verde, Lesotho, Mauritius, Rwanda, and Seychelles finished in the top third of least corrupt nations.

Many African countries still fall back on centralized economic planning, often diverting resources to large-scale enterprises and big business at the expense of small and household enterprises. Business regulation generally remains oppressive. Only one African nation (Mauritius) ranks in the top 50 in terms of global business competitiveness.

And too many African countries maintain high tariffs and other barriers to trade, especially trade with other African countries. The average applied tariff for African countries is 11 percent, compared to an OECD average of just 2.8 percent. While this represents an enormous improvement from the 22.8 percent that African countries averaged during the 1980s, it still discourages regional trade. As a result, trade among African countries accounted for only 11 percent of the region's total trade in 2010.

It is true that such troublesome economic policies do not always show up in short-term measurements of economic growth. But this is because many African countries have started at such a low level of development that even a modest improvement can appear large. For example, the Democratic Republic of the Congo has many pervasive problems and limited economic freedom, but it still had real GDP growth above 5 percent in 2013. Meanwhile, Mauritius, which has progressed much further in terms of liberalizing its economy, saw growth of only 2.6 percent. But that is only to say again that less developed countries, like the DRC, generally have higher growth rates than developed ones. As an illustration, many countries in Africa routinely have higher rates of economic growth than the U.S. and Canada, but no one would argue that their citizens are more prosperous.

Over the long term, if African countries hope to achieve the type of sustainable growth that will lead to peace and prosperity, they will need to build on the progress that they have made. Only by limiting government, embracing free markets and individual rights, and fighting cronyism and corruption can African countries hope to take their place among the world's most prosperous and peaceful nations.

One hopes that this is a message the African leaders will hear this week.

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