INTERNATIONAL Poverty Centre

One pager

November, 2008 Number 70

Are the Cheetahs Tracking the Tigers?

Probing High Growth Rates in Africa

by Degol Hailu, International Poverty Centre

African economies are growing. Between 2000 and 2007, GDP growth for the whole region averaged 4.4 per cent. Five countries managed to grow by more than 7 per cent. This magical number is often used as a benchmark for achievement of the Millennium Development Goals (MDGs). In another 14 countries, growth rates were at 5–6 per cent, even despite negative per capita growth for 12 of the 47 sub-Saharan countries. For instance, growth shrank by 5.6 per cent in Zimbabwe, by 2.2 in Cote d'Ivoire, by 3.3 per cent in Eritrea, and by 1.4 per cent in the Central African Republic.

These are fascinating figures by any standard. Some commentators have gone so far as to herald the advent of the African Cheetahs, following in the footsteps of the Asian Tigers.

Unfortunately, growth statistics alone tell us little about economic development. The right approach is to examine how growth is supported by tangible development outcomes. One of these is the extent to which high-growth economies have a vibrant manufacturing sector. The output shares of manufacturing in national income and exports are good indicators.

The table compares the high-growth periods for the African economies with those for the Asian Tigers. With the exception of Mozambique, the share of manufacturing value added (MVA) in the Tigers was four times higher than the share in the high- and medium-growth economies of the sub-Saharan region. Mozambique stands out: the country's manufacturing value added reached 15 per cent, almost three times the share in other countries of the region. But only 6.6 per cent of Mozambique's manufactured goods are exported.

On average, manufacturing's share of total merchandise exports was 83 per cent in the Tiger economies. This contrasts with a 1.7 per cent share for the high-growth countries and 9.7 per cent for the medium-growth economies in sub-Saharan Africa. More revealing is the individual performance of these economies. Manufacturing exports made up only 0.5 per cent and 1.9 per cent of total exports in Angola and Sierra Leone, respectively. In Sudan, fewer than 7.5 per cent of exports were manufactured goods.

It is starkly obvious that the high growth rates are driven by commodity exports. Oil is Equatorial Guinea's only export. Petroleum accounts for about 96 per cent of Angola's exports; diamonds make up the rest. Oil accounts for three-fourths of Chad's exports. About two-thirds of Sudan's exports consist of fuel. To cut a familiar story short, last week *The Economist* stated bluntly that "African trade has not changed much since the end of the colonial era. Unprocessed raw materials go out; finished goods come in." These may read as hasty judgements. Botswana, Cape Verde and Mauritius have performed remarkably. About 80 per cent of their exports are manufactured goods. As a share of GDP, however, manufacturing value added is only 5.5 per cent.

Growth Rates, Manufacturing Value Added and Exports

	GDP growth rate	GDP per capita growth rate	MVA (% GDP)	Manufacturing exports (% total exports)
High-growth energy exporters*	10.2	7.5	4.4	1.7
Mozambique	7.4	4.9	14.9	6.6
11 medium-growth economies	5.5	2.9	7.4	9.7
Manufacturing exporters**	5.2	3.0	5.5	80.0
The Tigers***	7.4	5.7	24.8	83.0

* Angola, Chad, Equatorial Guinea, Sierra Leone, Sudan.
** Botswana, Cape Verde, Mauritius.
*** South Korea, Hong Kong, Singapore.
Data years: Africa (2000–2006) and Asia (1980–1990).
Source: Calculated from the World Bank *World Development Indicators*, 2008.

The high-growth performances are encouraging, but there is little sign of expansion in manufacturing activities among the so-called Cheetahs. The dependence on primary commodities and the extractive industry is worrying, particularly in economies that are heavily dependent on imports and where domestic manufacturing may possibly provide substitutes. To repeat an age-old argument, long-term decline in the relative price of primary commodities is empirically demonstrated. This is explained by the low income elasticities of demand and limited scope for product development. The current global economic downturn is already having an impact on commodity prices. Between July and October, energy prices fell by 28.4 per cent. Non-energy commodity prices fell by 16.4 per cent.

Why manufacturing? It is well established that the sector is superior in productivity increases, economies of scale and spurring all-round linkages. The sector also demands and absorbs a mix of high- and low-skilled labour. This is what distinguishes the Tigers from the Cheetahs. The former reaped the benefits of industrial policy. For instance, the Tigers managed allocations of credit and coordinated its flow to the manufacturing sector. They relied more on the provision of credit-based than on equity-based financing. Manufacturers in South Korea were subsidised by as much as 75 per cent when obtaining credit.

Cheetahs run fast, but not for long. Learning the lessons of history may lead them to the Tigers' trail.

International Poverty Centre (IPC)
SBS – Ed. BNDES, 10º andar
70076 900 Brasilia DF Brazil
Telephone: +55 61 2105 5000

www.undp-povertycentre.org
povertycentre@undp-povertycentre.org