

Free exchange

# No need to dig

Many of Africa's fastest-growing economies have not relied on oil or mining

Nov 2nd 2013 | From the print edition

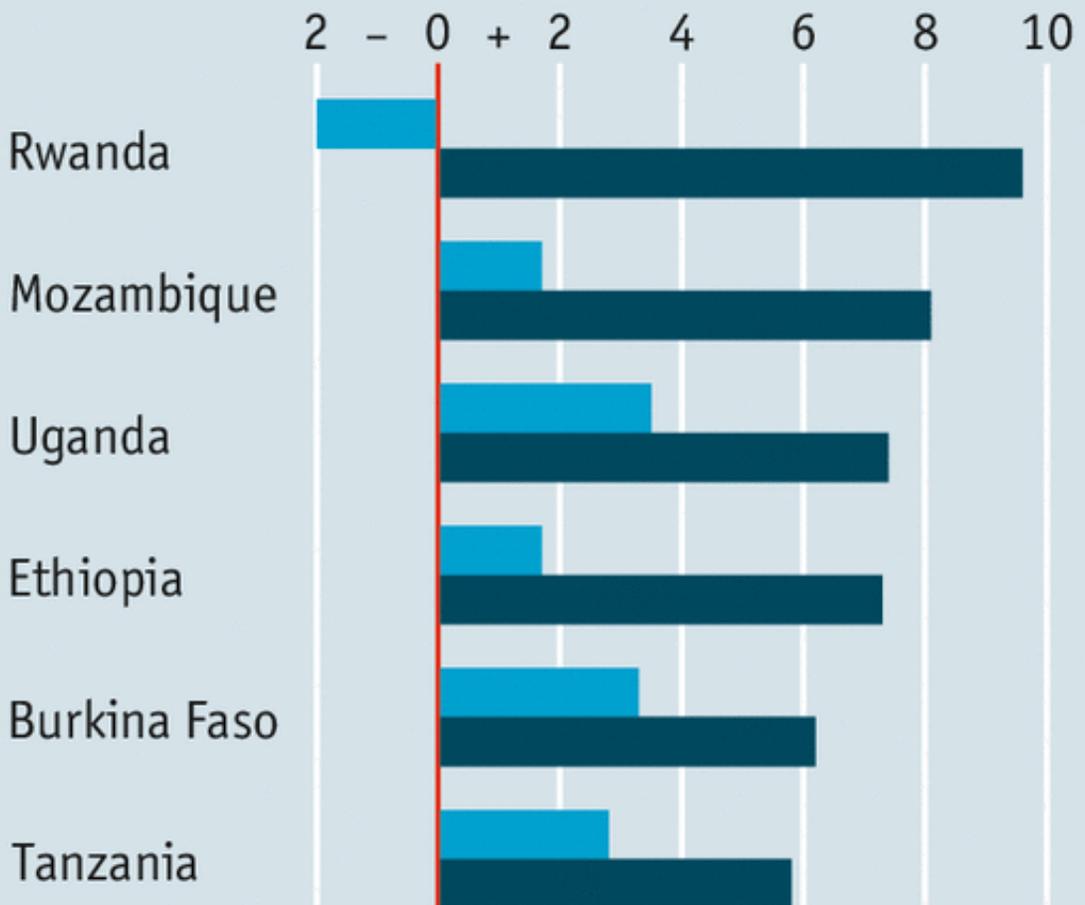
AFRICA is a continent rich in minerals and oil. China has an economy that requires them in

## African pride

GDP, average annual % change

1980-94

1995-2010



Source: IMF

abundance. Since the mid-1990s the economy of sub-Saharan Africa has grown by an average of 5% a year. At the start of this period Africa's trade with China was negligible. It is now worth around \$200 billion a year. Most of Africa's exports are raw materials. China sends manufactured goods back in return.

It can thus be quite hard to see past the role of China's ravenous appetite for raw materials in Africa's recent economic success. Natural resources make up a quarter or more of export revenues for around half of the 45 countries in sub-Saharan Africa. Nine of them, including Nigeria and Angola, which have two of Africa's largest economies, benefit from exports of oil and gas.

Yet mining and oil are far from the whole story. A study published this week by the International Monetary Fund (IMF) finds that eight of the 12 fastest-growing economies in Africa in recent years did not rely on natural resources. Together these economies grew more quickly even than the group of oil producers.

To discover what lay behind this success, IMF researchers focused on countries that met two criteria: GDP growth of at least 5% a year on average from 1995 to 2010, and growth in GDP per head of at least 3% a year. Six countries qualified: Burkina Faso, Ethiopia, Mozambique, Rwanda, Tanzania and Uganda (see chart). They are a diverse bunch. Mozambique and Tanzania have ports; the rest are landlocked. Ethiopia has a population of 87m; Rwanda 11m. What they have in common is poverty. Even after their growth spurt none has an average income per head above \$1,500 a year.

The first thing the IMF wanted to confirm was that the growth was real. Countries of meagre means cannot afford to devote much money or manpower to gathering economic data; their GDP figures can be shaky, forcing analysts to fall back on rough-and-ready guides to the economy's health. Beer sales, for instance, are often a good gauge of overall consumer spending. The IMF's researchers used such ploys to check official statistics in four of the countries in their study, and found that they stacked up. Construction figures tallied with cement sales; output growth in telecoms was in line with mobile-phone subscriptions; growth in financial services mirrored the rise in bank deposits.

Why did the six economies grow so fast? Stable and purposeful policy-making helped. All six countries took steps in the 1990s to control public finances and curb inflation. Tanzania is a striking example. In 1998 it introduced a value-added tax in place of less reliable forms of revenue. Income-tax bands were simplified and rates cut. Tax inspectors focused on the cases likely to yield the most money. Receipts rose from 10% of GDP in 2000 to 16% by 2009. That allowed higher public spending.

Higher revenues, in turn, helped to control inflation. Tanzania's government had once relied on the central bank to plug its budget deficits. The more money the bank printed, the less it was worth. From 1980 to 1994 inflation in Tanzania averaged almost 30%. With a more reliable tax base and

better control of public spending, the central bank was freed to focus on inflation, which has since dropped to single digits. In neighbouring Uganda the headway has been even greater. Inflation fell to 6% in 1995-2010 compared with an average of 92% over the preceding 15 years.

Progress was not restricted to economic policy. The six countries in the IMF study are far better governed than they were in the mid-1990s. Based on indicators compiled by the World Bank, they are less corrupt, have better bureaucrats, enjoy more stable politics and are better regulated than their African peers.

Wake up and deregulate the coffee

The climate for private business is also much improved. Price controls and state-backed monopolies have been swept away. Rwanda stands out for its progress. Its coffee farmers once had little incentive to produce for export. The state set a single price for beans and took the lion's share of any profits. But from the mid-1990s it granted private enterprise a bigger role. Now gourmet coffee from Rwanda is sold in posh grocery stores around the world. The country has risen to a heady 32nd in the World Bank's global ranking for ease of doing business.

Such reforming zeal attracts outside help. All six countries in the IMF study received more aid (in the form of grants or cheap loans) and more foreign direct investment than their peers. The aid helped, among other things, to prop up investment in education and infrastructure. When governments run short of cash, spending on roads, schools or power plants is more likely to be cut than the wages (or jobs) of civil servants. Reliable flows of aid, however, enable countries to protect their capital spending. This has allowed as poor a place as Burkina Faso to plan its public spending over several years. Debt relief has helped too. Money that had gone on interest payments went instead to education, which rose as a share of GDP in all six countries—markedly so in Tanzania and Mozambique.

Few would have tipped these six countries in 1995 to achieve much. Mozambique had endured a long and brutal civil war; Rwanda had suffered a genocide that claimed up to 1m of its people. All were poor, so at least they had a great deal of scope to catch up. Reforms helped them to do so. They are still a long way short of their potential. There are big gaps in their infrastructure. Poor roads hold up trade. Power shortages are a bar to manufacturing. Development is uneven. The bulk of the population still scrape a living in agriculture.

And alongside these familiar challenges are some new ones. Burkina Faso has become a gold producer. There is natural gas off Tanzania's coast. In a few years Mozambique will be a big source of coal, oil and gas. In Africa, it seems, natural resources are never far away.

[Economist.com/blogs/freeexchange](http://www.economist.com/blogs/freeexchange) (<http://www.economist.com/blogs/freeexchange>)