Executive Summary

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In recent years, the political landscape in most of sub-Saharan Africa has improved considerably. Duly elected presidents came to power in Senegal and Ghana, significantly strengthening democracy in the region. Ethiopia and Eritrea signed a peace accord, and the long and devastating conflicts in Angola and Sierra Leone came to an end. The warring parties in the Democratic Republic of Congo came to an agreement that augurs well for a lasting solution to the problems of this potentially rich country. This is all good news, for armed conflicts in the region have exacted a terrible human toll, discouraged private investment, destroyed infrastructure, and hindered development.

In other parts of Africa, however, the political situation remains unsettled. While in previously peaceful and prosperous Côte d'Ivoire and in Liberia, fighting has stopped, partly through the efforts of international peacekeeping forces, including African forces, the civil war goes on in Sudan. And while democracy continues to thrive in South Africa, Zimbabwe has seriously backtracked in the areas of individual freedom and human rights, with the efficiency and the stability of its economy suffering greatly from self-inflicted and misguided policies. More generally, the long awaited *renaissance* of the African economy has not taken place. Indeed, it is very difficult to point to a single group of African economies that have experienced high, sustained per capita income growth. Countries will hop into and drop out of any such group with considerable frequency, with Mauritius and Botswana appearing to be the only permanent members of the group.

In the lead article to this *Africa Competitiveness Report*, "The Economic Tragedy of the Twentieth Century: Growth in Africa", *Elsa Artadi* and *Xavier Sala-i-Martin* characterize Africa's dismal growth performance after de-colonization as "the worst economic tragedy of the 20th century", with most sub-Saharan African countries in a state of greater poverty now than they were when they became independent. The authors provide convincing quantitative evidence to back their statements. Per capita GDP in sub-Saharan Africa is now US$200 lower than in 1974, a decline of 11 percent over a quarter of a century. During this same period the rest of the world was *growing* at an average annual rate of 2 percent, while per capita income in many of the East Asian countries was converging rapidly towards advanced country levels.

Artadi and *Sala-i-Martin* also show conclusively that the distribution of income in Africa has deteriorated, mostly because of a rise in *within-country* inequality, rather than an increase in inequality *among countries*. The Gini coefficient, a widely used measure of income distribution, shows a pronounced trend away from equality during the 30-year period from 1970 to 2000, a period during which, in contrast, inequality declined worldwide. Data for a comparable period shows that poverty in Africa increased dramatically, at a time when it was falling rapidly in the rest of the world. They conclude that the only reliable way to reduce poverty in the continent is to set the economy into a path of positive, long-term growth.

Artadi and *Sala-i-Martin* offer a wide range of explanations for Africa's "dismal" performance in the last third of the 20th century. The most important of these include expensive investment goods, low levels of education, poor health (due in large measure to the prevalence of malaria), adverse geography (as reflected in the proportion of territory located in the tropical zone), relatively closed economies, too much public expenditure, and devastating armed conflicts.

As if these problems were not daunting enough, the onslaught of HIV/AIDS in the last ten years has seriously complicated the task of improving living standards in Africa, including in some of the most successful countries, such as Botswana. In his article on "Health, Economic Growth, and Competitiveness in Africa", *Alan Whiteside* warns that the expected trend of improving health, falling child mortality, and rising life expectancy can no longer be taken for granted in Africa. He predicts that, in the absence of affordable, effective and deliverable treatment, including anti-retroviral therapy, health conditions in sub-Saharan Africa will continue to deteriorate.

It is often said that Africa's development problems cannot be resolved entirely within the borders of one country, and that they require an approach based on international cooperation, or even *integration*. Institutions such as the West African Economic and Monetary Union (WEAMU) and the related Central Bank of West Africa (BCEAO) have already been in place for years, and the general view is that they have contributed to price stability in francophone West Africa.

In their article "Africa's Economic Morass: Will a Common Currency Help?" *Paul Masson* and *Heather Milkiewicz* examine issues of monetary integration in Africa, and the ambitious plans by politicians to widen the membership of existing monetary unions. These include the creation of a more comprehensive union in West Africa, which would link Nigeria and other anglophone countries to the members of WEAMU, and eventually help to create a common African currency. Already, there are projects for regional monetary unions, and the bidding process for an eventual African central bank is about to begin. However, in their essay, *Masson* and *Milkiewicz* ask a fundamental question: is a common currency worth the effort, and will it provide an important solution to Africa's problems? The authors argue that those problems are linked to civil conflicts and corruption, to the absence of rule of law, to undisciplined fiscal policies, poor infrastructure, and low investment. Monetary union, they say, can address few of these problems: "At best, it can produce low inflation, but it cannot guarantee growth." In fact, without a fiscal policy that avoids large and continued government deficits, they contend that there is no monetary policy that will work. The government will have to accumulate foreign debt and face mounting debt service problems or, as has frequently been the case in Africa, to run domestic arrears and discourage private investment.

Masson and *Milkiewicz* consider that the New Partnership for African Development (NEPAD) is a more promising initiative through which African countries can exert peer pressure to correct governance failures, and thus contribute to the solution of Africa's problems. It is too early to see if that process will be effective. If it succeeds, monetary union can crown the achievement. If not, monetary union will almost certainly fail, and highlight Africa's more fundamental policy problems.

While there are legitimate doubts about a far-reaching extension of monetary integration, it seems clear that regional cooperation within Africa has an important role to play in certain areas, and particularly with regard to infrastructure. It has been recognized for some time that improving infrastructure will favor investment, growth and poverty reduction. In addition, improved infrastructure in the areas of transportation and communication will improve competitiveness and encourage exports, by reducing those "transaction costs" that Paul Collier has long recognized as being serious obstacles to private business, and especially to international transactions.

In this context, the author of "Africa's Competitiveness and Regional Infrastructure", *Peter Watson*, contends that the emphasis on regional infrastructure is well placed because most of the African economies are too small to generate the economies of scale that can be realized in larger markets. He stresses that "the potential for increasing economic efficiency through shared production, management, and operations, as well as through hubs, development corridors or poles, is immense." Existing studies already point to the possibility of substantial saving from regional cooperation projects, such as the West African Pipeline for gas transportation and trade, the Nile Basin Initiative for water resource management, and the Southern African Power Pool, which seeks to provide a stable supply of electricity to member countries in southern Africa. However, *Watson* makes an important point: the selection of infrastructure projects must be based on economic, not on political considerations. They should not be imposed, but solidly grounded on estimates of an adequate rate of return of the project.

The pitfalls of regional integration are also visible in analyzing sub-Saharan Africa's external trade and trade policies. In their paper "How Should Africa Position Itself in the International Trading System?" *Maria Oliva* and *Luis Rivera-Batiz* note that, except for South Africa, few African countries are significantly involved in international trade. Moreover, the continent's share in world merchandise trade has basically stagnated at a very low level (2-3 percent) since 1990. Trade participation has been hindered by insufficient education and skills, by the high "transaction costs" of transportation and communications, and sometimes by over-valued exchange rates, as, for example, in the French franc zone until 1994.

All these factors have played a role in eroding the competitive position of African producers. But *Oliva* and *Rivera-Batiz* suggest that Africa's trade policy, which focuses on preferential regional agreements among groups of African countries and on preferences granted to these countries by the United Sates and by the European Union, has not promoted trade. They stress that the policies needed for competitive integration into large global markets are "largely inconsistent with the customs union approach to trade integration followed by African countries up to now." They recommend that, in future, African countries consider other avenues for penetrating the world trading system, such as participation in multilateral trade negotiations for products of particular interest for African producers, and unilateral trade liberalization.

Regional cooperation could also play a useful role in the area of communications, notably, in the area of information and communications technology (ICT). In his article "Building Capacity to Narrow the Digital Divide in Africa from Within", *Ewan McPhie* sees ICT as an effective "tool for social and economic development". He recalls that the New Partnership for African Development (NEPAD) had set a number of ambitious objectives, including bridging the digital divide and developing the capacity to solve Africa's problems from within, with the e-Africa Commission mandated to deal with ICT-related issues. NEPAD has also stressed the importance of forming "strategic partnerships" between the public and private sectors in the ICT area.

The key preoccupation of central banks in Africa has been the avoidance of high inflation, an area in which some countries in the region have been fairly successful in recent years. The preoccupation is legitimate, and fears that it might lead to an overly restrictive, "anti-growth" monetary policy have turned out to be mistaken. The literature on this subject suggests that inflation, with its attendant uncertainty, is bad for growth and for competitiveness, and is particularly bad for the poorest segments of the population. In his article "How the Congo Decomposed in the 1990s", *Philippe Beaugrand* vividly recounts how an exceptionally long period of hyperinflation led to the ruin of the Congolese economy, and the destruction of the country's social and political fabric. Faced with over-extended financial commitments and a crumbling political system, the regime of Mobutu Sese Seko sought an easy way out of its problems by printing money. "The expedient," concludes *Beaugrand*, "slightly relieved financial constraints for a short period, but the macroeconomic situation quickly worsened, ultimately contributing to the end of the Mobutu regime".

In his paper "What Does the Growth Competitiveness Index Say About Development in Africa?" which concludes the Report, *Augusto Lopez-Claros* argues that the main challenge facing development experts is to shed some light on the factors that explain the sharply different growth performances of countries in the developing world. To gain insight into this important question the World Economic Forum has developed a vehicle, the *Executive Opinion Survey* (EOS), an annual exercise which delivers a wealth of information about the impediments to growth in more than 100 countries accounting for the bulk of global GNP. This survey of business executives aims to assess the importance of a broad range of factors that contribute to a healthy business environment, supportive of economic activity. Over the years the EOS has delivered valuable country-specific information about the varying strengths, weaknesses and challenges faced by the business community, as it proceeds to create jobs and contribute to productive activity.

The *Growth Competitiveness Index* (GCI) identifies three "pillars" in the evolution of growth in a country: the quality of the macroeconomic environment, the state of the country's public institutions, and the level of its technological readiness. The index uses a combination of hard data, such as budget deficits, the level of internet access in schools, and survey data, taking the "temperature" in areas such as judicial independence, the prevalence of institutionalized corruption, and the extent of inefficient government intervention in the economy. These various pieces are brought together under several "sub-indexes", each capturing a different aspect of the growth process and aggregated to give an overall competitiveness "score." *Lopez-Claros* examines some of the key components of this index and comments on both the performance of African countries and the factors that may lie behind the relatively low rankings achieved by the majority of them. Given the importance of a favorable environment for private sector activity, *Lopez-Claros* dwells on some of the institutional requirements for an improved growth performance in Africa, with particular reference to foreign investment, a central driver of growth in the developing world.

The second part of the Report contains country profiles for the 25 African countries covered in the World Economic Forum's *Executive Opinion Survey*. These profiles present some basic social and economic indicators, the GCI rankings and a National Competitiveness Balance Sheet, providing a useful data complement to the analytical pieces contained in the first part of the Report.