SAVANNAH ENERGY

Featured article

Guest authored by Johan Norberg

Unlocking Africa's future: harnessing free markets and fostering entrepreneurship

Johan Norberg

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Biography

Johan Norberg is an author, lecturer and documentary filmmaker, born in Sweden. He is a Senior Fellow at the Cato Institute in Washington D.C. He received his M. A. in the History of Ideas from the University of Stockholm.

He has written books on a broad range of topics, including global economics and popular science. His In Defence of Global Capitalism has been published in more than 25 countries. Progress: Ten Reasons to Look Forward to the Future, was called "a blast of good sense" by The Economist, and a "book of the year" in The Guardian, The Economist and The Observer. His latest book, The Capitalist Manifesto, was described by Elon Musk as "an excellent explanation of why capitalism is not just successful, but morally right". Norberg regularly hosts documentaries on development and economics for American public television, including Free or Equal?, Economic Freedom in Action, Power to the People and The Real Adam Smith.

For his work, Norberg has received several awards, including the Distinguished Sir Antony Fisher Memorial Award from the Atlas Foundation, the Walter Judd Freedom Award, the Julian Simon Memorial Award and the gold medal from the German Hayek Stiftung, that year shared with Margaret Thatcher.

Please note that the opinions expressed in this article are those of Johan Norberg. They do not purport to reflect the opinions or views of Savannah Energy.

This should be Africa's moment.

While the rest of the world is ageing, Africa's population is increasing at the same time as fertility rates are declining fast. This creates the chance for a demographic dividend in the decades to come, with a large working population and relatively fewer children and older dependents. This will expand the workforce just as other continents are facing shortages, and so should create opportunities for investments and exports. Where else should capital go when opportunities are exhausted elsewhere?

Wages are increasing fast in many Asian exporting power houses and tensions between the US and China might create opportunities for those who stand outside. African countries that develop a welcoming business climate should be in a good position to attract investments that would stimulate both manufacturing sectors and advanced services. The potential for catch-up growth is huge, as local agriculture as well as factories and offices could be radically upgraded with better organisation and relatively cheap technologies.

The continent's ample supply of metals and minerals are more attractive than ever to a world in the midst of a green transition, and its supply of hydrocarbons and reliable place in the sun holds several of the keys to dealing with our climate challenges.

Africa is in a formidable position. But that is not enough. There have been false starts before.

City skyline at dusk, Beijing, China

> "As late as 1992, poverty rates were higher in East Asia than in sub-Saharan Africa. It wasn't Asians that changed, but Asian institutions. One by one, East Asian countries turned towards sound macroeconomics, secure property rights, free enterprise and embraced international trade, both within and outside the region."

Lost promises

In 1968, the Swedish economist and Nobel laureate Gunnar Myrdal wrote a monumental work about why Asia would stay poor. It had problematic cultural baggage, overpopulation, war and "soft states" that couldn't intervene in the economy to the extent needed. Africa, by contrast, seemed much more hopeful, with strong, interventionist governments and an endless supply of natural resources. In 1967, the World Bank's Chief Economist listed seven African economies that he thought would grow by more than 7% annually[1].

But then something went spectacularly wrong. 30 years later, two other World Bank economists observed that these seven hopeful countries had registered negative growth since they were designated as promises[2]. East Asia, meanwhile, experienced explosive growth.

Between 1950 and 2000, average GDP per capita in sub-Saharan Africa increased only from US$1,323 to US$1,981 in 2011 Dollars, adjusted for purchasing power, while East Asia grew from US$1,122 to US$8,164. Africa's level of income went from around 40% of the world average to just 20%[3].

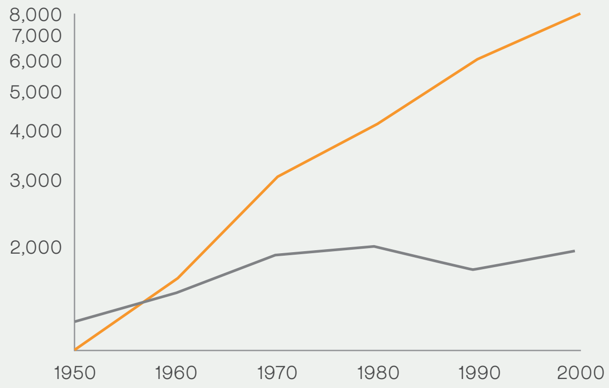
In 1950, Nigeria and Kenya were as rich as Taiwan and South Korea, but in 2000, Taiwan and South Korea were 12 times richer. Singapore was roughly on a par with Mozambique. In 2000, Singapore was 32 times richer. And then of course, India, China, Vietnam, Thailand, Bangladesh and Indonesia began following the East Asian tigers in their path.

During the era of globalisation, growth in low- and middle-income countries that have integrated into the global economy has been so strong that extreme poverty in East Asia, South Asia, Latin America and the Middle East today is actually lower today than it was in Western Europe in 1960, a time remembered in Europe as the post-war boom. The only region where poverty is higher today than in 1960s Europe is sub-Saharan Africa[4].

What went wrong? "Culture" is the last refuge of economists who have run out of explanations. But cultural explanations of wealth and poverty neglects that cultures are complex entities and we emphasise different parts of it depending on what societies and governments encourages and penalises. The culture that supposedly stopped Asia from growing in the 1960s is now often used to explain why it now prospers. It is difficult to remember today, but as late as 1992, poverty rates were higher in East Asia than in sub-Saharan Africa. It wasn't Asians that changed, but Asian institutions. One by one, East Asian countries turned towards sound macroeconomics, secure property rights, free enterprise and embraced international trade, both within and outside the region.

Many used to think, like the rock star and activist Bono, that it was simply a matter of too little redistribution. Perhaps African countries just needed large-scale foreign aid to get the growth process going. However, many of these

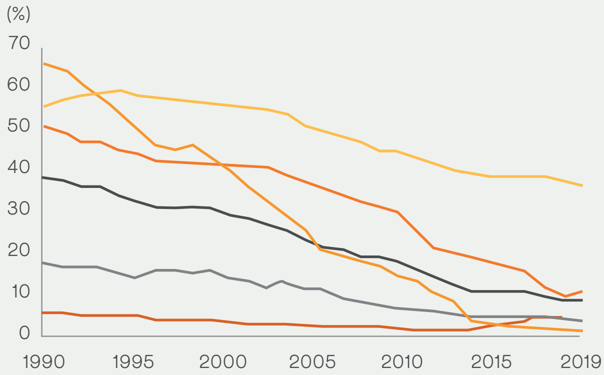
GDP per capita: Africa vs East Asia 1950 to 2000



Source: Bolt and van Zanden - Maddison Project Database 2023 (2024), OurWorldInData.org.

Note: This data is adjusted for inflation and for differences in the cost of living between countries. This data is expressed in international-$ at 2011 prices.

Share of population living in extreme poverty by different regions 1990 to 2019



Source: World Bank Poverty and Inequality Platform (2024), OurWorldInData.org.

Note: Extreme poverty is defined as living below the International Poverty Line of $2.15 per day. This data is adjusted for inflation and for differences in the cost of living between countries This data is expressed in international-$ at 2017 prices. Depending on the country and year, it relates to income measured after taxes and benefits, or to consumption, per capita.

governments have made hundreds of billions of Dollars on oil, minerals and crops, while simultaneously their populations got poorer. It shows that it is not just capital, but its productive use that is lacking.

If all conditions for growth other than capital is present, capital will soon be generated, locally or through international investment on purely commercial terms. However, if those conditions are not present, capital will be unproductive and ineffective.

Since 1960, Africa has received massive amounts of foreign aid, but despite local success stories, especially on targeted health problems, it did not fulfil its growth promise. In fact, there is a negative correlation between aid received and subsequent growth, according to Nobel laureate Angus Deaton[5]. Some of this is probably just because more aid was given to the most distressed countries, but it establishes that aid did not provide the capital needed for development.

Bono has recently talked about how his charity work in many African countries has forced him to reconsider all his presumptions about development:

"I ended up as an activist in a very different place from where I started. I thought that if we just redistributed resources, then we could solve every problem. I now know that's not true. There's a funny moment when you realise that as an activist: the off-ramp out of extreme poverty is, ugh, commerce; it's entrepreneurial capitalism."

He seems almost startled by his own conclusion: "Rock star preaches capitalism. Shocker. Wow. Sometimes I hear myself and I just can't believe it. But commerce is real… Aid is just a stopgap. Commerce, entrepreneurial capitalism takes more people out of poverty than aid."[6]

Believe it we should. Bono's music might be less innovative today than in the 1980s, but his views are far more realistic. Entrepreneurial capitalism, private investment and the ability to participate in trade is exactly what Africa has been excluded from all these years.

Or as, Uganda's president Yoweri Museveni has formulated it: "We Africans are no longer looking for handouts. Rather, we are asking for the opportunity to compete, to sell our goods in Western markets, to be considered for private investment funds, and to participate more fully in the global trading system. In short, we want to trade our way out of poverty."[7]

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Bono
Irish singer-songwriter and activist

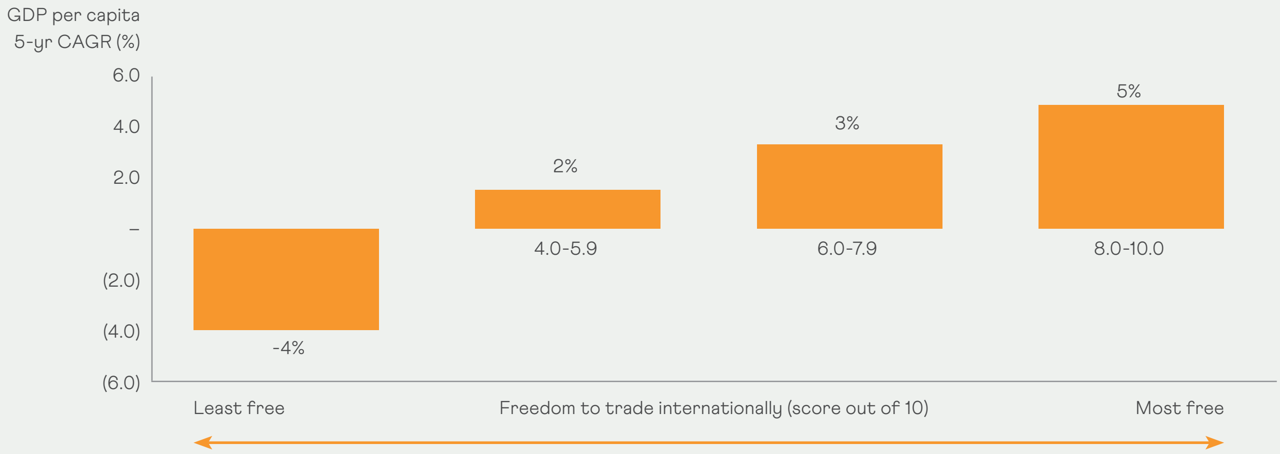
Obstacles on their way

As the Ghanaian economist George Ayittey has shown, there is a strong African tradition of private property and markets with prices set by supply and demand. Historically, most parts of the continent were integrated into vast trade networks where merchants, goods and currencies moved about relatively freely.

The era of colonisation created centralised structures, which isolated economies from each other. After de-colonisation, countries inherited these structures, which often resulted in farming, investment and trade being undermined by erratic confiscations, command economics and price controls.

Countries with greater freedom to trade have higher economic growth

Freedom to trade internationally vs. economic growth rate



Source: World Bank, Fraser Institute.

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> **HE Yoweri Museveni**
> President of Uganda

Under such institutions, the natural resource wealth benefited rulers but often impoverished populations, while rich countries often compounded the problem by shutting their borders to their exports, and subsidising its own farmers, to stifle the competition.

It was not any inherited culture that made people less interested in investing, taking risks and co-operating with strangers for a potential future reward, but the fact that they couldn't be certain that the government would uphold contracts, or that a more well-connected person would not take their land or business once they had invested heavily in it.

When I walk around the muddy paths of the slums of Kibera in Nairobi I don't see passivity, but hard work and entrepreneurship. The streets are thronging with young people selling food, clothes and gadgets. There is activity and energy, but unfortunately much of it has to be devoted to avoiding regulation and dealing with the legal vacuum of the informal sector.

On one corner, I meet Pamela at her food stall. To get a permit to sell her food legally she would have needed the signatures of several different bureaucrats and that would have cost her half a year's income in official fees – not to mention the cost of bribes.

Since Pamela doesn't have a license, she can't get a loan and can't expand her business. It's dangerous to trade with strangers, since she can't go to the police if contracts are broken. Since she works outside the law, the authorities can demand bribes to leave her alone. The despondent joke in Kibera is that it is dangerous to carry large amounts of cash – because there are too many policemen.

The underground entrepreneur sticks to what is known to her – the old neighbourhood, the same group of customers and the traditional line of business.

The Senegalese entrepreneur Magatte Wade has documented the Kafkaesque regulations of business, employment and trade she has to go through to set up a formal business in her own and many other African countries. Excess bureaucracy and selective enforcement force entrepreneurs to stay small while turning corruption into big business. As she implies, when you look at all the bureaucratic hoops entrepreneurs have to jump through, the mystery is no longer why Africa has so little formal business, but why it has as much as it does.

Sub-Saharan Africa has just seven countries among the top 100 countries of ease of doing business, according to the World Bank. There are more African countries in the bottom 20 – no less than 12! The continent underperforms the most in registering property and trading across borders. While almost all high-income countries make electronic filing or payment of taxes possible, just 17% of African economies do, creating more work for entrepreneurs, and often even forcing them to hand in documents in person[8].

The International Property Rights Index puts the continent last in terms of protection of property, at just 4 out of 10, compared to over 7 in North America and Europe and 5.8 in East and South Asia[9]. This seems almost designed to deter business and scare away foreign investment.

When the British journalist Robert Guest hitched a ride with a truck in Cameroon delivering beer from the brewery to a town 500 km away, they were stopped no fewer than 47 times by policemen looking for any kind of error in the driver's permit papers to extort cash. One of them even made up a law on the spot that trucks can't have passengers, unless they paid extra.

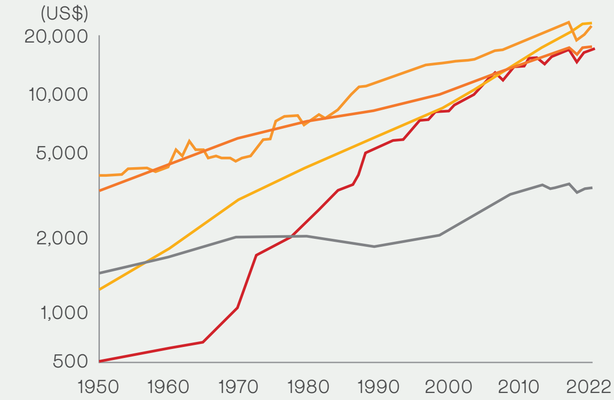
Because of such obstacles, tariffs and non-tariff barriers, sending goods across an African border is often more costly than sending it all the way from there to the UK or Hong Kong, estimates Alexander Hammond, founder of the Initiative for African Trade and Prosperity. Combined with underdeveloped infrastructure, this goes a long way to explaining why trade within and between African countries is diminishingly small compared to other regions.

Market stall for food in Kibera, Nairobi

Success stories

What would Africans be able to accomplish if they were not constantly harassed on their way to market? Great things. We know this, since the African countries that have experimented with rule of law and free markets for a long time have done remarkably well.

GDP per capita: Botswana and Mauritius vs. East Asia, Africa and the world 1950 to 2022



Source: Bolt and van Zanden - Maddison Project Database 2023 (2024), OurWorldInData.org

Note: This data is adjusted for inflation and for differences in the cost of living between countries. This data is expressed in international-$ at 2011 prices.

Gaborone, capital city of Botswana

One of the most successful economies on the planet in recent history is in fact a southern African country, Botswana. After independence it developed democracy, independent courts and free enterprise. During the 40 years after 1960, the Asian tigers and China grew annually between 5.2 and 5.8% per capita. Botswana grew by an astonishing 6.4% on average – more than 10 times faster than the world average. Since 1985, extreme poverty has declined from 42 to 15%.

> “If sub-Saharan Africa could repeat Botswana’s achievements against poverty since 1985, extreme poverty would be reduced by 230 million people.”

Some say it’s because of Botswana’s diamond industry, but many African countries have natural riches, and it often led to conflict and stagnation. What distinguishes Botswana is not the resources but the fact that it did not nationalise them, and instead created a stable regulatory framework that attracted foreign investment.

Another African country has had a high degree of economic freedom for a long time: Mauritius. In 1961, the Nobel laureate James Meade predicted that in such a small country, with ethnic divisions, without natural resources and dependent on a single commodity (sugar), the “outlook for peaceful development is weak.”

But precisely because Mauritius was so small, it realized early on that it could not do without world trade, and the economy was opened in the early 1970s. The country introduced export-processing zones where a textile industry could expand, and the economy has continued to diversify with a modern service sector.

After uninterrupted high growth, Mauritius was classified by the World Bank as a high-income country in 2019. Due to the impact of the pandemic, it slipped back to upper-middle status, but will probably soon be back. Today, Mauritius and Botswana have GDP per capita similar to a EU country like Bulgaria.

Recently, many African countries have learned from such successes and made reforms to establish at least some degree of markets and macroeconomic stability. Economic freedom has grown in the last two decades and median growth per capita also increased from 0.2% in the 1980s and 1990s to 1.6% in 2000–19. Extreme poverty in sub-Saharan Africa has decreased from almost 60% in the mid-1990s to around 35%, a major achievement, even though population growth means that the absolute number of poor has increased by 60 million[10].

Now, increasingly, you come across examples of entrepreneurs whose hard work is not wasted. Sylvia Banda from Zambia always had ideas and ambitions. When she was 12 she started making fritters and took them to school and sold them to her friends. After working her way through college, she started a one-room restaurant with furniture she got from a local carpenter in exchange for providing him with three meals a day.

Sylvia’s cooking became popular and soon she had 16 restaurants in Lusaka. She expanded into catering, then a school for restaurant staff and eventually large-scale processing and distribution of foodstuff. At every step, she has added value and created employment. In 2001, her empowerment through business reached a symbolic mark: she hired her husband, Hector, in what is now one the biggest food service companies in the region. “She made me an offer I couldn’t refuse!”, Hector says smilingly.

Ghana has attracted car-assembly plants from industry leaders like Volkswagen, Peugeot, Toyota and Nissan with business-friendly policies, for example tariff-free imports of inputs and machinery. Rwanda has acquired a reputation as hospitable to foreign direct investment with tax and tariff reductions, no restrictions on foreign ownership and a very open visa regime. Uganda has managed to develop service sectors like finance, telecommunications and transport.

Success stories continued

Nigeria's music, film and print industries are prospering.

Here and in many other countries, it is telling that many "industries without smokestacks" are doing well, like business services, and information and communications technology. However, when governments intervene with unpredictable regulations, import barriers or subsidies to particular businesses, it distorts the market and makes life difficult for entrepreneurs and investors.

What should be done?

Africa is in a formidable position. But that is not enough. Without opportunities and jobs, a youth bulge can easily turn a demographic dividend into a source of instability and violence. Without predictable politics and rule of law, resource wealth can once again become a cause of conflict. If this is to be Africa's moment, the continent has to build on its success stories and remove obstacles to new ones.

Further expansion takes educated workers, access to credit and reliable power. The cost to obtain a permanent electrical connection in sub-Saharan Africa is three times higher than the world average, and more than 50 times higher than in high-income countries[11]. Unreliable power also comes at a high cost when machinery and servers are constantly interrupted. A 1% increase in outages in a country reduces long-run GDP per capita by almost 3% on average[12].

Ibom Power Station, Nigeria

> "Unreliable power also comes at a high cost when machinery and servers are constantly interrupted. A 1% increase in outages in a country reduces long-run GDP per capita by almost 3% on average."

One hopeful development is the creation of the African Continental Free Trade Area ("AfCFTA") of 55 African states. The potential of an agreement that would abolish tariffs on most goods and services over a period of 5, 10 or 13 years, depending on the country's stage of development, is huge. It could double intra-regional trade and would spur specialisation, competition and economies of scale across the continent.

It would attract foreign investors as they would no longer have to worry about a patchwork of opaque rules and tariffs. A realised customs union would join these diverse economies into the world's sixth biggest economy. The World Bank estimates that full implementation of the AfCFTA would boost GDP by almost half a trillion Dollars within 15 years and reduce poverty by 50 million people[13]. This would facilitate the process of being included in regional and global supply chains, a rapid path to productivity and diversification.

But globalisation, like charity, begins at home. Many African economies have huge domestic markets. A country like Nigeria has a population of roughly 220 million, more than half of whom are between 15 and 64. This is a huge consumer market and a great source of talent. If the private sector is allowed to build new companies in diverse sectors this could deepen the internal specialisation and so give many more a place in the economy, and spur consumption.

Foreign investment contributes to more productive and higher-paying jobs, but in the long run, their most important effect is the transfer of know-how to the local economy. The IMF estimates that knowledge flows from abroad contributed twice as much to productivity growth in emerging economies as domestic R&D does, concluding that "globalisation has intensified the diffusion of knowledge and technology across borders"[14].

If African countries can tap into this, the most valuable consequence is that the workers and partners involved will soon leave and start their own domestic businesses, combining what they have learned there and the connections made with their local knowledge and individual creativity. The physical and digital infrastructure that was upgraded for a particular sector can then be exploited for a wide variety of future and now unforeseeable businesses and exports. This is the real prize.

On a trip to Kenya, I once met a young businesswoman, June Arunga, who explained that the biggest problem with a lack of economic freedom was not that it deprives businesses of incomes and profits, but that it deprives people of the opportunity to make use of their minds, to improve their situations through their own energy and intellect. "Protectionism and privilege perpetuate not only economic bankruptcy, but stagnation of intellect, courage, character, will, determination, and faith in ourselves."

The track record of free market capitalism globally is spectacular. Wherever people have had the freedom to experiment with new methods and markets, they have created unprecedented growth. Currently, weak rule of law, insecure property rights, and excessive red tape hinder this potential in many African countries. Remove the obstacles in their way, and Africans can finally move forward.

Imagine a billion young people, each with unique ambitions and ideas. If liberated from control and given access to knowledge and markets, they can innovate new solutions to local problems, develop new business models, and create technologies beyond our current imagination. They are the ones who could turn the 21st century into Africa's century.

Children of the Nganha District, close to Savannah's Bini a Warak project site, Cameroon

Footnotes

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