CHAPTER 3: 2050 SCENARIOS

I. Introduction

Three scenarios—convergence, business-as-usual, and downside—are outlined here to illustrate the broad range of outcomes possible. These scenarios are based on a model of the global economy and methodology prepared by Centennial Group International, which projects long term evolution of GDP of 186 countries as a function of labor force, capital stock, and total factor productivity (see Appendix 1: Model).[39]

This chapter presents the economic outcomes associated with the vision Africa 2050 –based on convergence with emerging market economies. The chapter also presents two other scenarios--business-as-usual and downside—to illustrate the broad range of outcomes possible. These scenarios are based on a model of the global economy and methodology prepared by Centennial Group International, which projects long term evolution of GDP of 186 countries as a function of labor force, capital stock, and total factor productivity (see Appendix 1: Model).[40] The chapter includes an assessment of the opportunity cost of continuing with "business as usual" vs. achieving convergence. The chapter concludes with a discussion of the more pessimistic downside scenario.

II. Convergence vs. Business-as-usual

Africa's recent improved performance (see Figure 3.1) forms the basis for the convergence scenario, in which convergence in standards of living is driven by trade that reduces factor price differences between rich and poor countries, capital deepening in countries with lower capital/ labor ratios, and accelerated TFP growth to catch up with TFP levels in advanced economies. The scenario assumes that 19 African countries are "early convergers"[41] whose TFP growth begins to converge with that of advanced countries this decade, that 15 are "late convergers"[42] whose TFP growth begins to converge in the following decade, and that the remaining 20 countries currently considered "fragile"[43] transition out of fragility over the next 30 years.

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[39] The Centennial growth model is further explained in Kohli, Szyf, and Arnold (2012) and its results are reflected in numerous studies including Mexico 2042—Achieving Prosperity for All, Asia 2050—Realizing the Asian Century, India 2039—An Affluent Society in One Generation, and Latin America 2040—Breaking Away from Complacency.

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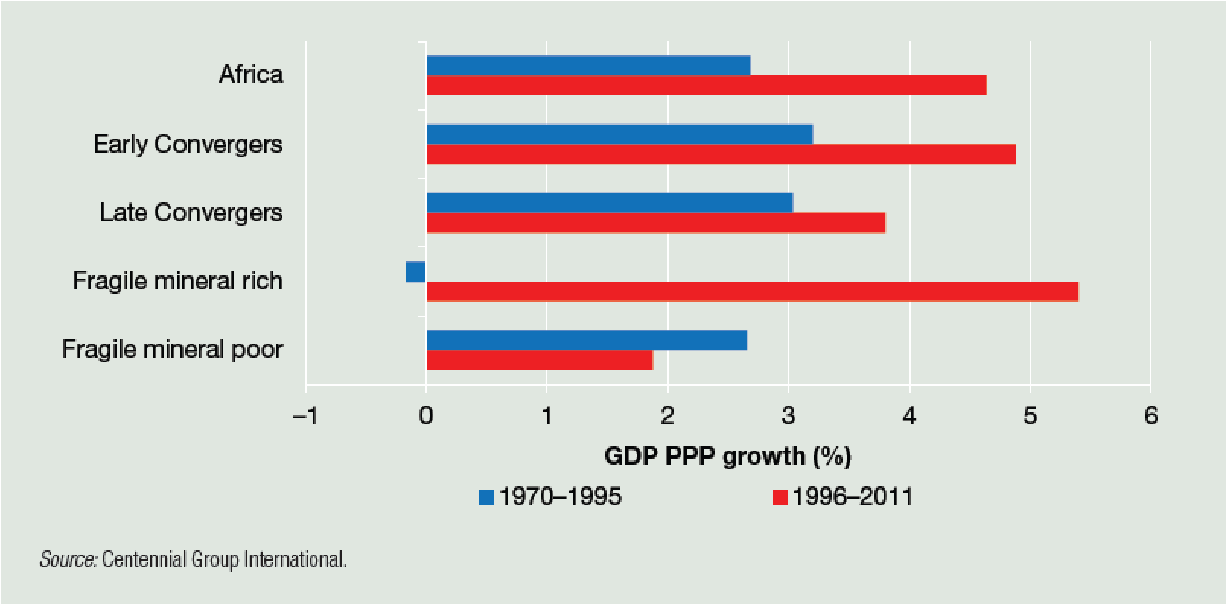
[41] Four countries (Botswana, Cape Verde, Mauritius, Mozambique) with 25 years of per capita GDP growth greater than 3.5 percent plus 15 countries with annual TFP growth over the last decade greater than one percent.

[42] Fifteen non-fragile countries with annual TFP growth over the last decade of less than one percent.

[43] The 20 countries classified by the African Development Bank and the World Bank as being in "fragile situations".

Figure 3.1 African GDP growth has greatly increased since 1995 (real GDP growth)



Under the convergence scenario per capita incomes in Africa could grow by 4.6 percent annually over the next 40 years and exceed US$17,000 (2010 PPP US dollars) in 2050 (Figure 3.2). Africa-wide per capita income would be higher than that of Russia, Malaysia, Mexico, or Turkey today. Under such a scenario African per capita incomes would begin to converge with the rest of the world, moving from 27 percent of the world average today to 52 percent.

Such sustained growth would set in motion many changes that would transform the lives of Africans and Africa's role in the world. The size of the middle class[44] would increase more than 10-fold in absolute numbers, and to 68 percent of the population from 12 percent today. The number of poor would decline to 53 million (or under 3 percent of the population) from 380 million (or 37 percent) today. Africa's share of world GDP would more than triple from less than 3 percent today to 9 percent in 2050 (see Figure 3.2).

The charts on the following page compare these outcomes of the convergence scenario with those under the business-as-usual scenario. The latter assumes that Africa's higher investment rates of recent years continue, its labor force continues to grow, commodity prices remain high, and the generally improved policies of the last 10–15 years are maintained—but there is no sustained action on the policy agenda described above. As a result, unlike the convergence scenario, productivity growth does not accelerate. Four countries with consistently high growth for the last 25 years[45] continue to converge, but the other 30 non-fragile countries do not converge[46], and the fragile countries stay fragile.

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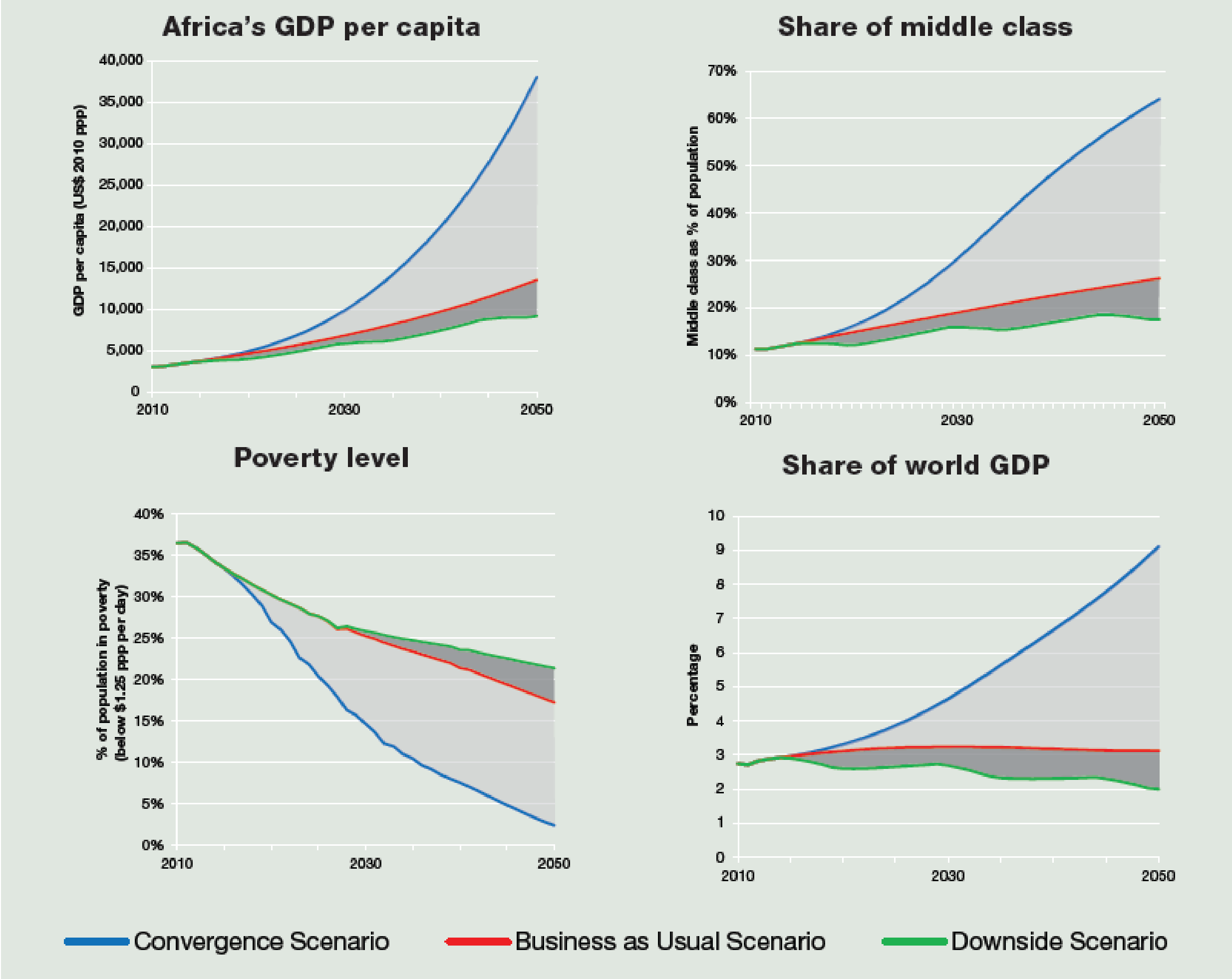
[44] Middle class defined as per capita income greater than US$10.80 and less than $100 a day (2010 PPP US dollars).
[45] Botswana, Cape Verde, Mauritius, and Mozambique.
[46] Their TFP growth matches that of the long-run TFP growth of the advanced economies (1 percent).

Figure 3.2: There is a high opportunity cost for not achieving the convergence scenarios



Source: Centennial Group International.

Under the business-as-usual scenario per capita incomes continue to rise at 1.9 percent annually and reach more than US$6,000 (2010 US dollars PPP) by 2050 (see Figure 3.2). Given growth in the rest of the world, however, Africa's per capita incomes would actually diverge further from those in the rest of the world, falling to 20 percent of the world average by 2050. The size of the middle-class would increase but after 40 years would still be only 27 percent of the population. Nearly one in five Africans would, correspondingly, still be mired in poverty. Finally, given growth elsewhere in the world, Africa's share of global GDP would stagnate at around 3 percent.

The shaded area in the charts indicates the enormous opportunity cost to Africans if Africa follows the business-as-usual scenario and fails to realize the convergence scenario. Per capita income would be lower by more than US$10,000, some 40 percent of the population (900 million) would be unable to reach middle class status, an additional 15 percent of the population (325 mil-lion) would be left in poverty. with most African countries approaching 100 years of independence, a continent with a quarter of the world's population but only 3 percent of its economic activity is not only highly unattractive but poses serious threats to the social and political stability. The threat is acute because such an outcome diverges so far from the aspirations of Africans.

III. Downside Scenario

The business-as-usual scenario is, however, by no means the pessimistic scenario. A much more worrisome downside scenario could arise, for example, if Africa's terms-of-trade were to deteriorate because of commodity price changes and if fragility and conflict were to spread to more countries. It is difficult to model such a scenario but the downside scenario shown in Figure 3.2 assumes that, as a result of commodity price fluctuations, Africa's terms of trade cyclically fall by 15 percent over five years and then recover 15 percent over the following decade (hardly dramatic when seen in the perspective of the last 40 years), that an additional five countries slip into fragility and conflict, and that all the middle-income countries are stuck in the middle-income trap and do not converge with today's advanced economies.

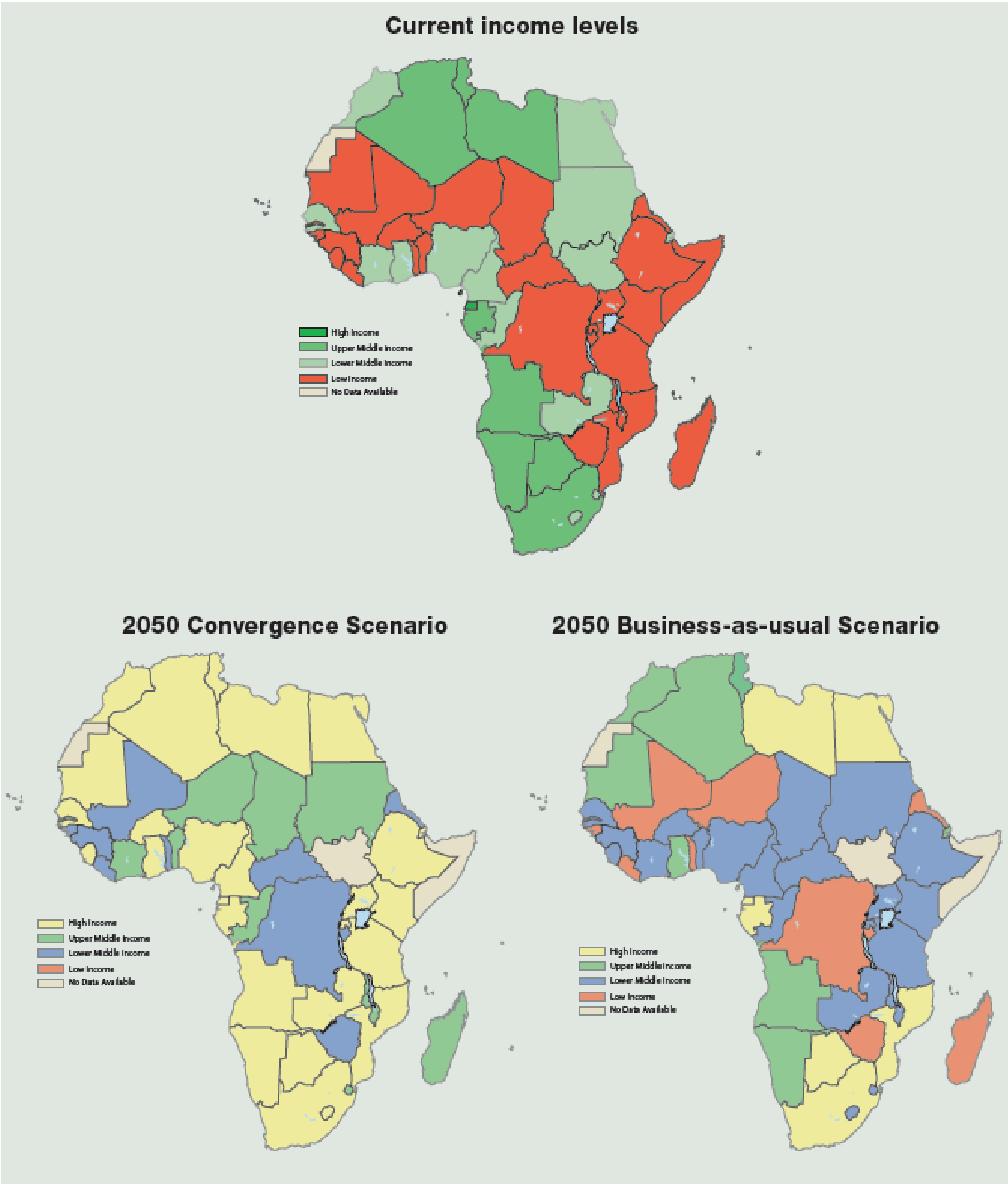
In such a scenario per capita income would grow by less than one percent a year and would in 2050 be only around US$4,000 (2010 US dollars PPP). Given faster growth in the rest of the world, Africa's per capita income would have fallen to only 14 percent or one seventh of the world average, the worst ever. one in three Africans, some 690 million people, would still be in poverty and the middle class would have grown to only 18 percent of the population. On the global stage Africa would be marginalized with only 2 percent of world GDP. In 2050 Africa would still have many low-income countries and few high-income ones (see Figure 3.3). Under such a scenario the aspirations of Africans would be crushed.

IV. Conclusion

The downside and the business-as-usual scenarios paint a very unattractive future. The convergence scenario is feasible but will be realized only if there is vigorous and sustained implementation of the action agenda outlined in this report. This scenario requires sustained, higher productivity growth for most countries over the next 40 years. Countries in other regions, though not many, have achieved such sustained productivity growth. Success with a 40-year agenda depends most on institutional development and political resolve for sustained implementation.

Such a strategy would be a clear break with the past and requires a cultural change. African leaders need to focus on realizing the convergence scenario and be willing to be judged on their success in delivering results. To be able to do so, however, they need to have established a new social contract with their citizens—one that cuts across political, ethnic and religious lines and that promises the Africa in 2050 described above but recognizes that delivering it depends on an unrelenting focus on the action agenda set out in this report.

Figure 3.3: The high opportunity cost for not achieving the convergence scenario, as shown in income levels



Source: Centennial Group International.