

# Externalities of Colonial Schools in Africa

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05. May 2022

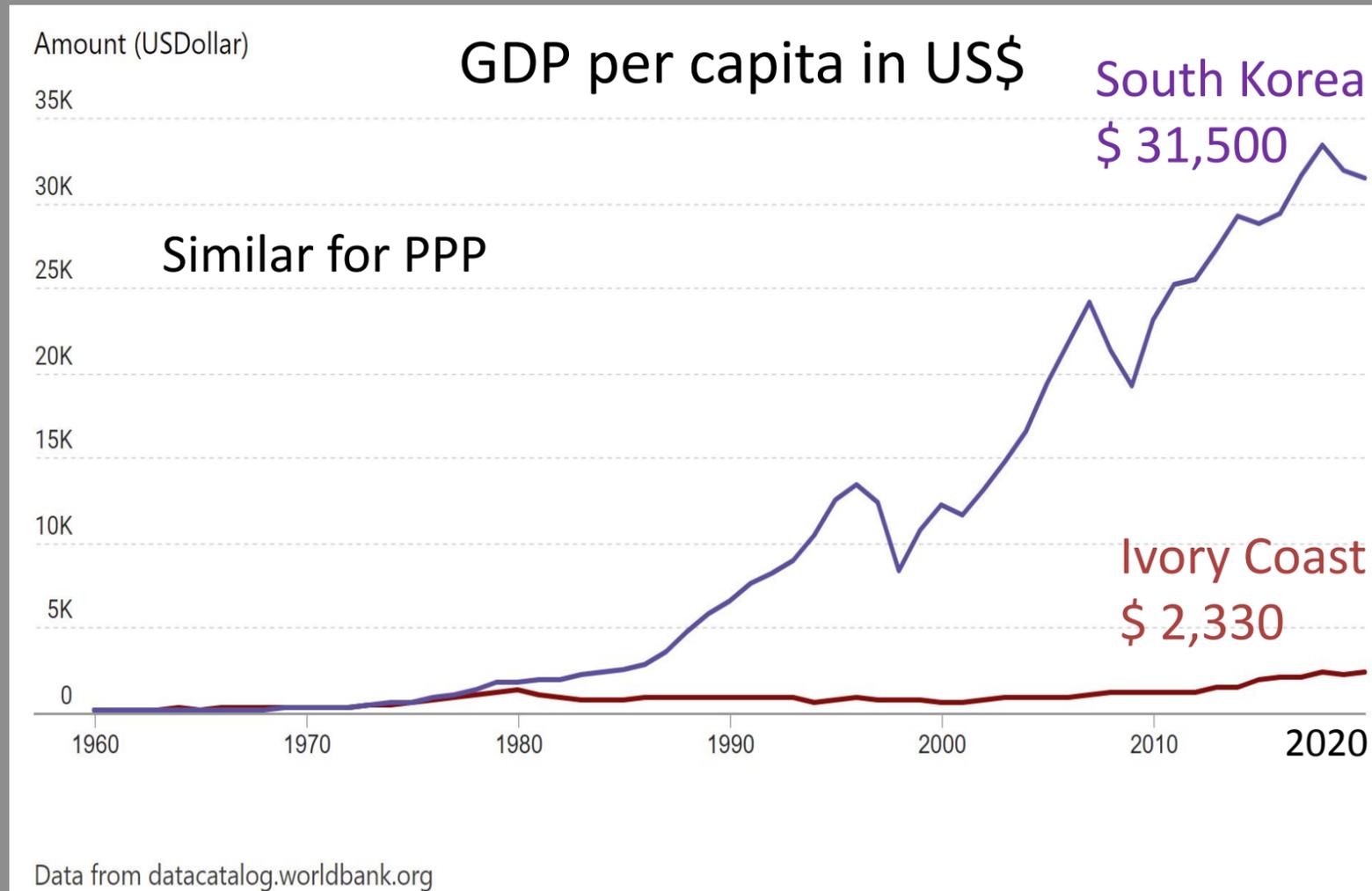
Markus

Brunnermeier

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# GDP Growth: Striking Differences

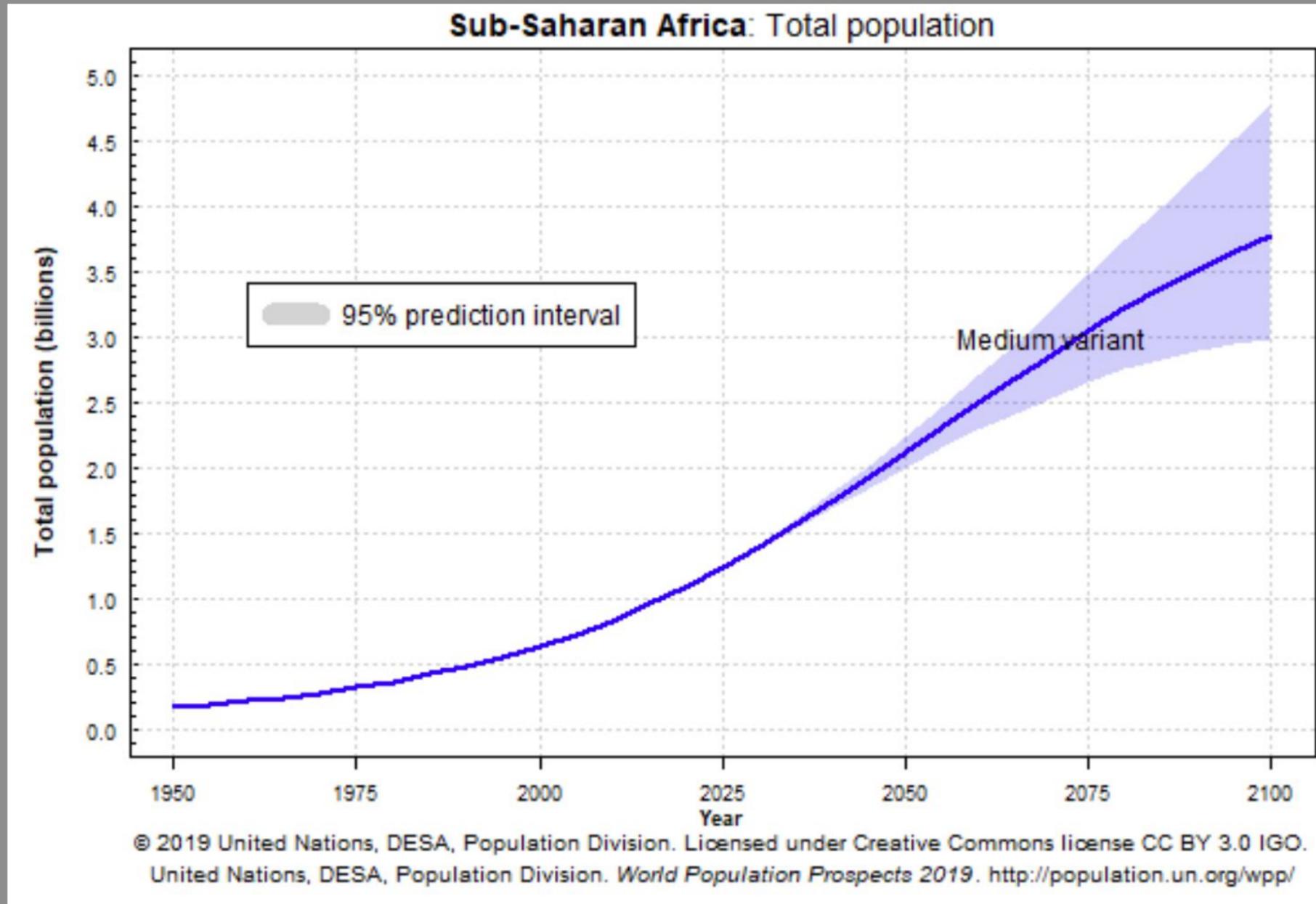
## ■ Ivory Coast versus South Korea



## ■ Export-led growth model?

- Webinar Arminio Fraga (on Brazil)

# Demographics in Sub-Saharan Africa



- Growth or migration pressure (to Europe)

# New Technology & New Institutions

- FinTech
- Digital Money
- BigTech platform
  
- Traditional institutions
- Education
  - African School of Economics

# Poll

1. Education expansion in Colonial Africa was, by and large, demand driven
  - a. Yes
  - b. No
2. In Colonial Africa, income shocks have stronger long-term impact on social mobility than aspiration shocks?
  - a. Yes
  - b. No
3. African governments should...
  - a. Primarily focus on improving access to basic education
  - b. Prioritize vocational training to improve employability
  - c. Prioritize higher education and research

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# Poll

1. What could the most successful growth model?
  - a. Import substitution
  - b. Export-led growth
  - c. Consumption-led growth
2. What is the biggest impact on Africa's growth?
  - a. Education
  - b. New forms of governance
  - c. New Tech (incl. FinTech)
  - d. Global trade
  - e. New entrepreneurship
  - f. Others
3. African demographics is more of a
  - a. Opportunity
  - b. Challenge

# War in Ukraine

- Food prices
- Social unrest

# **On the Triple Impact of Ukraine Invasion on Africa**

Rabah Arezki

Kennedy School of Government

Harvard University

# Structure of the talk

- 1. The Shock
- 2. Vulnerability
  - Macro
  - Micro
- 3. Domestic Policy Response
- 4. International Community

# 1.The Shock

- Ukraine invasion has led to losses of lives and destruction of crops (Russia navy blockage of [Black Sea](#) port) and accompanied by sanctions on Russia
- 2 distinct effects on food and energy markets:
  - Supply disruptions linked to bilateral flows from Ukraine and Russia
  - Soaring international prices for oil and energy which were already rising prior to the invasion (Ukraine and Russia 30 % of wheat and exports; 70% of sunflower oil and energy prices feeding into transport costs)
- Cost of borrowing spiked on account of socio-economic risk also in a context of Fed rate hikes (actual and anticipated). Spread doubled for Pakistan, Egypt, Tunisia and Lebanon already effectively cut from K markets
- Persistence: The invasion will likely persist, Russia being a major exporter of (raw product for) fertilizers and hence [futures for grain prices](#) like wheat are skyrocketing (anticipation effect on next season, building up of reserves, hoarding, food moving North?...)

## 2.Vulnerability (1/2)

### Macro

- Supply disruptions: food shortages as it is not easy to reorganize one's supply in the midst of such crisis.
- Real income effect: take a country with 1/3 of net import over GDP of food/energy with a 60 % increase in food/energy prices this would lead to a 18% drop in real income. Economically (very) significant.
- Economies which are importing **both** food and energy are hit the most (Lebanon, Egypt, Tunisia, Ethiopia, Somalia,..)
- Economies which are exporters of **either** energy (Nigeria) or food (South Africa) will benefit on the export side but lose on the import side because they are typically food or energy importers respectively

## 2.Vulnerability (2/2)

### Micro

- Africa, home to 70% of the world's poor, stands to be most affected (with the majority in rural areas)
- Real income effect: for the poorest households, food and energy can represent over half of total expenditures hence massive loss in income
- Social instability: link btw food prices and social instability (Arezki and Brueckner, 2011; Peersman et al. 2019). Wave of protests in 2011 & 2019, wave of coups in Sahel and Sri Lanka, Peru... Youth increasingly aware through social media on how divergent their standards of living are compared to Western countries.
- Urban vs. rural population: typically, farmers benefit from higher food prices or at least are insulated in contrast to rural poor, but a new wave of drought has triggered famine in the horn of Africa including affecting Madagascar (climate related famine). FAO estimated that 13 millions will fall into hunger just in the Horn of Africa prior to the Ukraine crisis.

### 3. Domestic policy response (1/2)

- Post GFC, “post” Covid-19, economies of the continent have little to no fiscal and financial buffers, also exhausted their strategic reserve of grains (and energy)
- Fiscal policy: 2 school of thoughts with radical different implications on incentives of producers and consumers
  - No Pass-through: shield consumers from int. prices through universal subsidies (price controls) lead to widening deficit and debt
  - Pass-through: consumers not shielded but targeted subsidies (in cash or in-kind transfers) for vulnerable segments
  - Other policies consisted in reducing taxes, and ban on exports with perverse effects on international prices (Indonesia)
  - Limitations: difficulty to target, even when targeting if oligopoly facing inelastic demand prices can increase more than what the international fluctuation warrant and hence targeting could prove costly
  - Build social protection is a better way to cushion shock but costly and limited resources

# 3. Domestic policy response (2/2)

- Exchange rate and monetary policy (Arezki and Landau, 2021):
  - Given supply/external shock not much role for monetary policy (instead raising rate disincentivizes domestic production of food)
  - Short run: Avoiding a depreciation/devaluation to limit imported inflation but running out of reserves. Economies with open K account have attempted to raise interest rates to limit k outflows (portfolio Egypt/Turkey)
  - Macro-prudential policy to limit bank leverage ex ante and avoid bank deleveraging in midst of crisis
- Fixing food and agriculture systems
  - Way to ensure food security and limit impact of international food price shocks
  - Address longstanding issues of access to k, land, infrastructure to access markets and incentivize investment
  - But also issue competition in transport and distribution sectors

## 4. International Community

- Should provide financial assistance to help poorest countries whilst ensuring that it **effectively** reaches the poor and help countries with procuring food in international markets and avoid hoarding/stock building/export bans.
- Need bolder action on debt restructuring: G20 initiative debt service suspension helped early on with suspending debt services. Now, Common Framework inclusive of China and bringing private creditors has so far fallen short of helping with orderly debt restructuring. Hold out problem costly for recovery as in 1990s. (Episode of Fitch downgrade of Ethiopia upon approaching common framework, recent news that Zambia and creditor committee ).
- Invoking “force majeure” (Bolton et al. 2021) could catalyze debt restructuring if not resources both domestic and foreign will go to private creditors and not those who need it the most.
- Of course, and above, the international community should come together strongly and stop the invasion and bring peace back to Ukraine.

# Further reading

1. War in Ukraine, impact in Africa. The effect of soaring energy and food prices | VOX, CEPR Policy Portal

<https://voxeu.org/content/war-ukraine-impact-africa-effect-soaring-energy-and-food-prices>

2. Op-ed on the same topic in French in Le Monde:

[https://www.lemonde.fr/afrique/article/2022/03/02/guerre-en-ukraine-l-afrique-est-tres-vulnerable-a-la-hausse-des-prix-des-produits-energetiques-et-alimentaires\\_6115878\\_3212.html](https://www.lemonde.fr/afrique/article/2022/03/02/guerre-en-ukraine-l-afrique-est-tres-vulnerable-a-la-hausse-des-prix-des-produits-energetiques-et-alimentaires_6115878_3212.html)

3. Preventing Developing Countries' Debt Disaster (with Mahmoud Mohieldin)

<https://www.project-syndicate.org/commentary/rising-food-and-energy-prices-mean-developing-economy-debt-crises-by-rabah-arezki-and-mahmoud-mohieldin-2022-04>

4. The Developing World's Hidden Inflation Risks (with Jean-Pierre Landau)

<https://www.project-syndicate.org/commentary/developing-world-hidden-inflation-risks-by-rabah-arezki-and-jean-pierre-landau-2-2021-09>

5. Ebook Shaping Africa's post-Covid recovery: A new eBook | VOX, CEPR Policy Portal (with Simeon Djankov and Ugo Panizza)

<https://voxeu.org/article/shaping-africa-s-post-covid-recovery-new-ebook>

6. Africa's wave of coups

<https://www.project-syndicate.org/commentary/afrika-democratization-and-military-coups-by-rabah-arezki-2022-03?barrier=accesspaylog>