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KEYNOTE ADDRESS

Developing opportunities and challenges for mining and agriculture

Mario Pezzini

Paper prepared for presentation at the "Mining, Agriculture And Development: Bread from stones?" A joint conference conducted by the Crawford Fund and the Africa Australia Research Forum, Perth, Western Australia, 26-27 August 2013

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KEYNOTE ADDRESS

Developing opportunities and challenges for mining and agriculture

Mario Pezzini
Director, OECD Development Centre

Abstract

Countries in sub-Saharan Africa have experienced growth in gross domestic product (GDP) averaging 5% per annum over the last ten years. It is a growth rate that outstrips that of many other countries except some in South-East Asia, but unlike in Asian countries the growth has not translated into employment. Very large numbers of young people across Africa hope to enter the workforce with salaried jobs and career prospects, but though jobs have increased it has been at too slow a rate to absorb these people. This is 'the Africa challenge', and it could lead to increasing social tension unless growth can create jobs soon based on the economic advantages that have flowed from Africa's wealth of natural resources. One solution is for African countries to strengthen their existing local economic fabric, such as by focusing support on small to medium-size firms and farms. Structural transformation in Africa cannot rely only on traditional job creation or direct foreign investment: too many thousands of people need work. Mineral and agricultural resources in Africa are actually underdeveloped in comparison to similarly resource-rich countries in other continents which have invested more heavily in exploration and export initiatives. African economies should encourage diverse primary production activities, to take advantage of their resource wealth without becoming dependent on a dominant natural resource: for example, by developing new plant and animal industries as well as mining, and by cross-investment and using revenue to create strong secondary and tertiary sectors. Industrial development needs well-structured public services and business environments which can support mining and agriculture as well as manufacturing and knowledge industries. Such development may require more fiscal revenue as a percentage of GDP than may be available. Government investment in development projects to build local capacity, with or without contributions from foreign mining companies, will have social, environmental and economic implications.

This talk looks at the big picture of development in Africa in relation to mining, as it is seen from the point of view of the OECD (Organisation for Economic Cooperation & Development). The OECD was the organisation that administered aid via the Marshall Plan in Europe after World War II; in 1961 it transformed into a body working on economic issues to assist developing countries. At that time it was decided to restrict the membership to developed countries (note that the 'D' in the name stands for 'development' rather than 'donors'). However, the policy-makers, in particular John F. Kennedy, soon

proposed the creation of a centre where both developed and developing countries can sit around the same table with equal voices. This group is called the OECD Development Centre, and its members are countries such as Vietnam, Indonesia and India. Other members include developed countries in Latin America and Africa, such as Brazil, Argentina, Columbia, Costa Rica, Morocco, Senegal, Mauritius, South Africa and others.

The main theme of this conference is the linkages between mining and agriculture in Africa. In that context I will share with you the findings of the *African Economic Outlook* (2013 Edition) that my OECD Development Centre (OECD DEV) prepares and presents every year, jointly with the United Nations Economic Commission for Africa and the African Development Bank and the United Nations Development Programme.

In this report in particular this year we have addressed how agriculture and mining together can be an option for development. I will outline some of the issues discussed in the report. The first is 'the Africa challenge'. Second, the good and bad news recently in Africa for workers in mining and agriculture. Third, what is the potential of natural resources? Are they a curse or are they a resource? Finally I will suggest four topics that need further discussion and consideration in relation to economic development, and not only in Africa.

The Africa challenge

There is an important challenge in Africa. It has to do with transformation.

Africa's recent growth story is well known: there has been approximately 5% per annum growth in average gross domestic product (GDP) in the sub-Saharan area of Africa. Obviously this varies from country to country across the continent, and in fact it is not just a recent result. For ten years, 5% has been the average GDP growth rate. This is a much better growth rate than is occurring not only in developed countries that are in crisis but also in other parts of the globe, such as Latin America where the average growth rate is 3% for this year. The growth rate across Africa is slightly lower than the rate in South-East Asia, which is 5.3%, but nevertheless it is very good news for Africa.

A closer look, however, shows that this decade of growth in Africa has not created enough jobs for Africa: far from it. Only 7%, on average, of young Africans 15–24 years old have what people at this conference would call 'a decent job'. That is, not street vending or unpaid work on the farm but a productive job with a salary and some degree of safety.

Now, without a faster and much more profound economic transformation on a large scale, Africa runs the risk of losing out on the demographic window of opportunity that Asia was able to tap some decades ago. Here is an example. One day a colleague of mine came into the office and said to me: 'Mario, there is a country in North Africa that for ten years has been capable of 5% GDP growth each year. Moreover, its national public sector deficit is 3% — below the Maastricht criterion (for European countries to adopt the Euro); its national public debt is 42.8% — again below the Maastricht criterion. It is a country where the enrolment in primary school is 100%. Which country is it?'. I didn't know. He said, 'It is Tunisia'.

Before the Arab Spring, Tunisia was a country that from every point of view could be considered a success; and yet there was a major upheaval, as we have seen. This is a demonstration of the social tension that is present in Africa. Clearly it is because in Africa there is the highest concentration of youth at present, and this concentration is going to grow after the year 2040.

I am saying the people have left extreme poverty; they have new expectations; but if they do not find a job and if they do not find social services then obviously there is friction and tension such as is reported every day in the newspaper. There is a window of opportunity here that calls for a strong response.

The contrast with most of Asia is evident. In Asia the solution in many cases has been found by addressing those countries' comparative advantage — that is, their cheap, sometimes qualified, labour. In the case of Africa the big advantage is the immense wealth of natural resources. There is energy, there are mines, there is agriculture. Therefore the big question here is: How can African countries create job-intensive growth combined with faster structural transformation? To do that, are mining and agriculture a resource or a curse? That is the debate that is very often encountered in government.

Good and bad news in mining and agriculture

Now, the second point from the OECD report. What good and bad news is contained in the data?

One piece of good news is that since the beginning of 2000 there are signs that Africa's economic transformation is picking up. In the 1980s and '90s African economies were unable to create good jobs. The share of Africans in the most productive sectors such as industry or agro-processing or modern services was declining. Most people found low quality jobs in what economists call the informal sector: remember Tunisia. There was some progress in the productivity of several economic sectors such as energy, but they remained small. There was no rise of new more productive activities. As a net result the economic transformation in Africa in those decades was negative. Then, during the 2000s, Africa's labour productivity increased — and increased by close to 3% — with almost half of this resulting from workers moving to new activities higher in productivity. By contrast, in Latin America, the increase of productivity in the same decades was just 1%.

Another noteworthy fact about African countries' growth since 2000 is that raw materials, for example from agriculture, mining or hydrocarbons, have contributed only about one third of this growth. Africa's 5% growth rate thus reflects a much wider picture than just the commodity boom. Good news.

Now the bad news. First, the pace of that structural transformation has been too slow — too slow to make growth sufficiently inclusive — and primary job creation and poverty reduction did not 'take off' as was necessary.

Let me be clear here about what could be done. One might think the traditional solution is the obvious one; that is, increasing public employment. We calculate, however, that to keep pace with an increasing number of young people entering the labour market every year 10 million jobs should be created. That is not

possible. One might think that foreign direct investment could contribute so as to employ the large number of young people entering in the labour market. Again that is not possible given the number, even if you double the amount of foreign direct investment.

The real solution is to strengthen the existing local economic fabric. That means, very often, strenthening the small to medium-size firms and farms.

The second item of bad news is that, contrary to the cry that Africa's growth relies too much on commodities, Africa's natural resources are contributing less than they could. Of the world's agricultural land, 24% is in Africa but only 9% of agricultural production is in Africa. In fact, Africa's share of global resource assets in agriculture and in mining declined during the recent boom, because other regions have invested more in exploration for mining and in agriculture.

At the OECD DEV we have calculated that spending on exploration, on average, in Africa has remained below $5 per square kilometre. In Canada and in Australia and in Latin America the average is $65 per square kilometre. This means that the necessary conditions and incentives for exploration were not put in place in African countries, and the necessary knowledge was not created. Agricultural production in particular was perceived as backwards in African countries, and was actively penalised by policies.

What is the potential of natural resources: curse or resource?

There are two obvious questions from the above. Surely it is conventional wisdom that for development to take off in a country it must leave commodities behind and focus on building factories? Could it be a good thing to leave most mineral resources in the ground and the fields underused? These questions relate to the so-called Dutch disease*, which explains in part the low development of manufacturing and therefore creation of jobs for Africa.

In answer I would say that, if managed well, natural resources can play a crucial role in transforming economies.

There are three important points here. The first principle is that overcoming dependence on natural resources is key, but abundance of natural resources is not a bad thing in itself: the problem is the dependence. A look at resource economies across levels of development shows that many of the developed countries are strong producers of natural resources: the United States, Australia, Canada, and also newly developed countries such as Chile, for example. The point is that it is not the absolute amount of resources that matters; it is the weight on the general economy.

The second principle is that, to diversify beyond natural resources into secondary and tertiary activities, a country must start by diversifying amongst natural resources and building a lively sector of natural resources production.

* 'Dutch disease' is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves, because the currency appreciation makes the country's other products less price competitive on the export market, and also leads to increases in cheap imports (Financial Times Lexicon, http://lexicon.ft.com/)

Here is where the strong link between mining and agriculture is important — which is exactly the point of this conference. Most of the time, countries that have large reserves of iron will also have gold and other metals or minerals and agricultural production. For example, it is clear that while Chile produces copper they also invest in commodities such as salmon, and also forests and now also wine. Malaysia invests part of the rent they gain from oil into forestry and into palm-oil, building very successful industries. Columbia now is thinking about using the royalties from oil, gas and coal to invest in regional development and build regional infrastructure.

The third principle is that very often the structural matters that need to be addressed in order to further develop mining and agriculture are crucial also for developing other sectors. Good public services are required for mining and agriculture as well as for manufacturing. A good business environment is crucial for natural resources as well as for manufacturing. So instead of putting natural resources aside, African countries should look to them for their strengths and for the opportunities they offer to create a diversified economy.

Thinking forward

To guarantee this connection between existing resources and the greater development which is vital for a country to provide good jobs and therefore face the real challenge (which is the growing tension), requires 'industrial policy'. There is a need to strengthen the natural resources sector so that the country can further develop and build local and national jobs. This is obviously an issue calling for industrial policy. It is also an issue that companies can take on. Many resources projects engage in local development, though not necessarily explicitly as development. Sometimes a company faces the issue of providing food to the local population that is indispensable to the project. Yet the thinking can go a little bit farther — how can this project help to build local capacities?

A second matter for consideration is how to use the capacity accumulated in the resources sector to fertilise other activities, outside the resources sector? Sweden, for example, built knowledge clusters to support the forestry sector and those knowledge clusters were used then to develop information in communication and technology. Those clusters did not appear from scratch for use in technology; they had already been developed for the resources sector. The same can be seen in Finland. The message is that horizontal transfer of skills can be facilitated.

Third: resources are required before action can be taken. How can a government be provided with the necessary resources to intervene? In OECD countries the fiscal revenue as a percentage of GDP is 35%. Now compare developing countries: in Columbia the ratio is 14%, and even in Mexico it is 11.3%. Many African countries have fiscal revenue below 15% of GDP. With this level of fiscal revenue a country cannot guarantee the public goods that are essential for the type of national development under discussion here.

Fourth: even where a government has the resources, there is the problem of building projects. They need to be local and regional projects. How can these projects be built? Is it just a matter of a top-down traditional approach or is

it more a matter of a bottom-up approach? If it is bottom-up what are the mechanisms for involving the local community in the decisions about priorities, investment and monitoring of the results? What are the environmental and social implications as well as the economic benefits to be derived?

These questions are under discussion not only in Africa but also in many other parts of the globe, and they are crucial questions in guaranteeing results through effectiveness in policies. This is the big picture, these are the big questions, underlying this conference.

The world has really changed in recent decades. The centre of gravity of the world's economy is moving to Asia and the south. The Government of Australia has produced a very interesting paper about the Asian century; yet Asia is only part of the story. In the '90s only 13 countries were capable of a rate of growth more than double that of the OECD average. In the year 2000 the countries that were capable of a growth rate more than the double the OECD average, including Australia, had grown to 83. The world is changing and we therefore need to recognise and respond to this change, which offers new opportunities.

Let me end this talk with a joke from an economist, Albert Hirschman, who unfortunately died two years ago. It tells how incapable we are of recognising change. Two people meet each other and one says to the other, 'Paul, what's happening to you? It has been ten years. You were tall, now you are small; you were fat, now you are thin.' And the other says, 'Sorry but my name is not Paul'. The first replies, 'You have changed so much! Even your name!'.

Reference

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Mr Mario Pezzini is Director of the OECD Development Centre. The OECD Development Centre is an institution where governments, enterprises and civil society organisations informally discuss questions of common interest. Its Governing Board includes most of the OECD countries but also developing and emerging economies as full members. The Centre helps policy makers in OECD and partner countries to find innovative solutions to the global challenges of development. Before joining the Development Centre in 2010, Mario Pezzini held several senior management positions in OECD. He was Deputy Director of the Public Governance and Territorial Development Directorate and, prior to that, Head of the Regional Policy Division, covering policy analysis on urban development, rural development, regional competitiveness and public governance. Prior to joining the OECD, Mr Pezzini was Professor in Industrial Economics at the Ecole Nationale Supérieure des Mines de Paris as well as in US and Italian universities. Also, Mr Pezzini served as an Adviser in the field of economic development, industrial organisation and regional economics in international organisations and think tanks (e.g. ILO, UNIDO, European Commission and Nomisma in Italy). Mr Pezzini started his career in the Government office of the Emilia-Romagna Region.

Email: Mario.Pezzini@oecd.org