The right blueprint for Africa?

WITH AFRICA WATCHERS so focused on the continent’s progress in reaching the UN Millennium Development Goals—an ambitious initiative to boost the living standards of the world’s poorest by 2015—it is easy to overlook another ambitious initiative under way in Africa: the creation of a single currency and common central bank by 2021. This goal is supported by a number of African countries, in keeping with the continent’s long quest for political and economic unity; in fact, countries are already lining up to put in bids to host the central bank.

Given the far-reaching economic and financial ramifications for Africa of pursuing this initiative, F&D chose to focus in its December 2004 cover story on the likely gains and costs of monetary union, a subject on which surprisingly little research has been done. We highlight an IMF-Brookings Institution study by Paul Masson and Catherine Pattillo that explores whether a single currency is in Africa’s best interests. They conclude that the answer is “probably not,” but that doesn’t mean the quest couldn’t yield some benefits. The political will behind moving toward greater monetary integration, they argue, should be harnessed to strengthen Africa’s economic policies, stimulate growth, and foster good governance. This could be done through selective expansion of the existing regional monetary unions and judicious use of peer pressure.

In People in Economics, we talk with the central bank governor of one of the countries that has offered to host an African central bank, Botswana’s Linah Mohohlo. We elicit her views on Africa’s best-performing economy, including the diamond-rich country’s move toward a more transparent monetary policy and its experience with obtaining a sovereign credit rating—one of only a handful of African countries to have done so.

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F&D also probes the furor, notably in U.S. press and political circles, surrounding the outsourcing of services to other countries, especially developing ones. Media stories would have us believe that the practice leads to wholesale job losses in the country doing the outsourcing—a worrying notion given an apparent backslide in support for free trade policies, particularly among white-collar workers. What’s the reality? An IMF study by Mary Amiti and Shang-Jin Wei concludes that the numbers do not support all the hype over job losses. It finds that “jobs are not being exported, on net, from industrial countries to developing countries as a result of outsourcing. In fact, the evidence suggests that job losses in one industry often are offset by jobs created in other growing industries.” Furthermore, for many industrialized countries, including the United States, the rest of the world outsources more business and computer services to them than the other way around. This is a pattern consistently showing up in the data over the years, but also consistently missing in most media reports.