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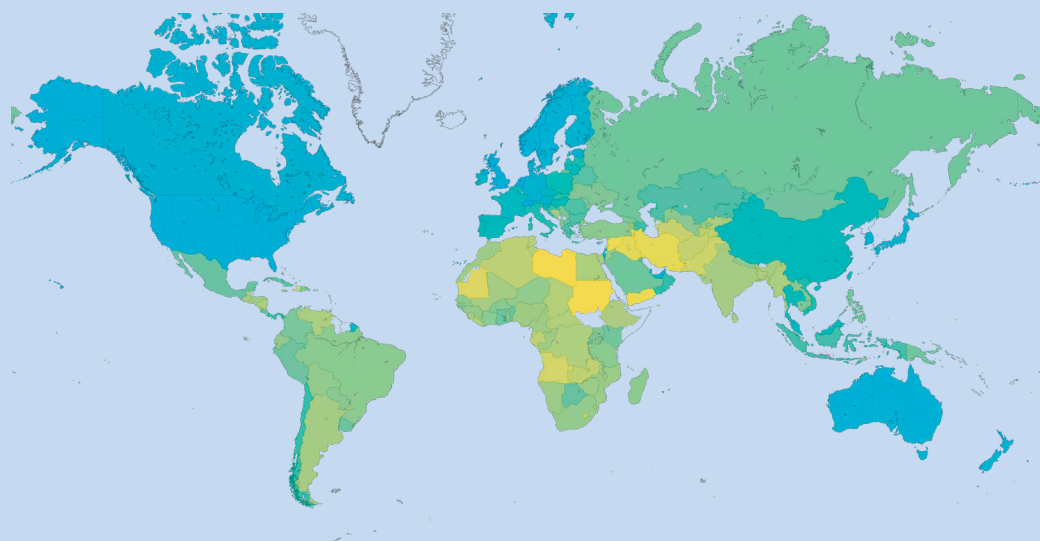
ELITE QUALITY REPORT 2021

Beyond a thought experiment: The EQx places a spotlight on Africa's promise

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4.4 Beyond a Thought Experiment: The EQx Places a Spotlight on Africa's Promise

In the EQx2020, we asked how forward-looking the Index was. Our underlying assumption is still that elite business models based on Value Creation (rather than extractive rent-seeking) generate inclusive and sustainable economic growth. Visual 4.6 underscores this relationship: the higher the EQx Country Score (i.e., the more prevalent the Value Creation business models in an economy), the higher the levels of economic development in terms of GDP per capita and purchasing power parity (ppp). Beyond this correlation (correlation coefficient 0.764), however, it remains to be seen whether most countries will ultimately transition towards this trendline and, if so, how long the shift will take? Should we be talking about a 3-year or 15-year timeline? Perhaps elites will use this longer timeframe to improve their business models.

A big question is whether the 'residuals' or distances (calculated as the difference between the fitted value and actual GDP per capita (ppp)) in Visuals 4.7 and 4.8 result from cumulative temporary deviations from a long-term relationship common to all countries. Alternatively, they might mirror the 'fixed-effects' of the socio-cultural characteristics of a particular country that cannot simply disappear in the medium-term. In other words, are the EQx Country Scores associated with negative vertical distances (countries sitting below a hypothetical common line) a signal of higher future income levels and economic growth rates or not?

While Singapore has the highest overall EQx score, its GDP per capita (ppp) basis is off the charts. Such a negative deviation suggests that unless Singapore further increases its Elite Quality it could face stagnation. A similar warning applies to other countries that excel in the EQx, albeit to a lesser extent, such as the US and Switzerland. The reverse is valid for the UK, South Korea, Israel, and is especially so for China and Indonesia—all of these countries can expect sustainable growth ahead.

Visual 4.8 answers a 'what if' question: "By how much will a country's GDP (ppp) go up or down to align with its recorded elite quality level (EQx score)?" The extreme case of Sudan is revealing. In 2010, Sudan's GDP per capita (ppp) was USD 3,000. Today, it is USD 1,200 and clearly cannot dip by a further USD 25,000. Yet this thought experiment points to a theoretically impossible negative GDP per capita and highlights the downward spiral that awaits countries riddled with extremely extractive elite business models, as is reflected in the EQx2021 (rank # 146).

For the most part, however, the EQx paints a far rosier picture of Africa in general, with most of its countries showing positive residuals, revealing a continent poised for growth. The implication is that Africa is now a place to invest and do business with tremendous potential for growth. Of course, the picture is not uniformly positive as the analysis shows: only in those countries—

118

Visual 4.6: The EQx and GDP per capita (ppp, in current intern. USD, 2019 data)

Note: Orange dashed line indicates fitted linear regression line. Adjusted R-squared = 0.662. Spearman correlation coefficient between EQx Scores and GDP = 0.764. GDP data retrieved from the World Bank. Random selection of country codes are printed in case of country overlaps.



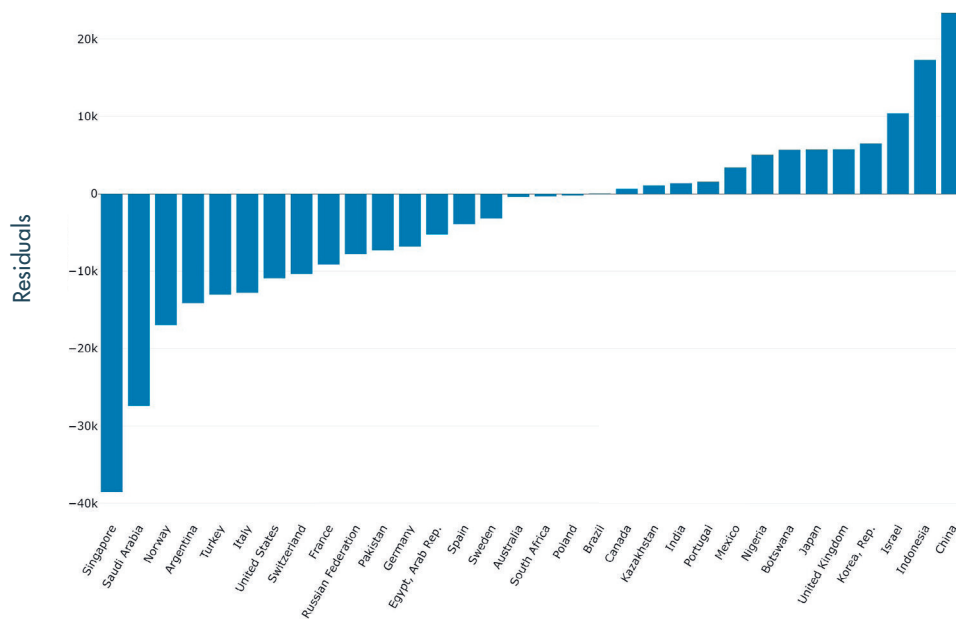
fortunately, a majority—with levels of GDP per capita (ppp) still below what might be expected for their domestic Elite Quality. A second caveat is South Africa. The second-largest Sub-Saharan economy has one of the continent’s highest GDP per capita rates of USD 13,000. Still, it is not likely to grow in the future, based on its current Elite Quality. With 50% of its population below 20, Africa is the world’s youngest continent. The elites in charge of investment and education there will shape the world’s future.

We more generally emphasize that once a country has achieved a certain level of prosperity its elites must engage in business model transformation to focus on Value Creation. Otherwise, economic growth and human development may come to a halt.

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Visual4.7: Fitted value differentials for 32 (EQx2020) countries as indication of GDP per capita (ppp) growth prospects

Note: Fitted value differentials are calculated as the difference between the fitted value and the actual GDP per capita (ppp) value (adjusted for ppp, in current intern. USD).



Visual4.8: Fitted value differentials for Sub-Saharan African countries as an indication of their GDP per capital (ppp) growth prospects

Note: Fitted value differentials are calculated as the difference between the fitted value and the actual GDP per capita (ppp) value (adjusted for ppp, in current intern. USD).

