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Africa : Economic growth and sustainability

I. INTRODUCTION

After four decades of sluggish economic activities, improved macroeconomic conditions, better business climate, political and currency stability, and a burgeoning middle class have triggered economic growth in many African countries. Telecom, banking, and retail are flourishing. Construction is booming. Foreign investment is surging. Africa’s long term economic prospects are so strong that global business cannot afford to ignore them and is of the opinion that Africa holds commercial potential on a scale not seen since China opened up more than 20 years ago. Multinational companies have started investing heavily in the region: telecom firms have signed up 316 million new African subscribers since 2000, more than the population of the United States. Wal-Mart recently bid $4.6 billion for one of the region's largest retailers.

However, if Africa’s economic momentum is widely recognised by the world business community, less known are its sources and likely lasting powers. African countries’ macroeconomic performance has improved dramatically over the last three decades. Inflation has subdued, foreign-exchange reserves and savings rates have increased, public finances showed surpluses and external debt has decreased. Africa is now one of the world's fastest-growing economic regions. Between 2000 and 2008, the continent's collective GDP grew at 4.9 per cent per year -- twice as fast as in the preceding two decades. In 2008, Africa’s combined economic output reached $1.6 trillion and consumer spending $860 billion. During the 2009's global recession, Africa and Asia were the only two regions in the world where GDP rose. Indeed in 2009 Africa was the third-largest contributor to world economic growth, after China and India. Africa now boasts more than 100 domestic companies with revenue greater than $1 billion. With good reason, Africa offers the highest rate of return on investment of any region in the world. The International Monetary Fund estimates that in` sub-Saharan Africa, a collection of 47 countries will grow 5.5% in 2011 and 6% in 2012.

The dynamics behind this renewal are both internal and external.

II. DOMESTIC DYNAMICS

1. Reforms

African countries were confronted with a debt crisis as early as in the 1970s. For the repayment of these debts and for fiscal rebalancing, they became the testing ground for the International Monetary Fund and the World Bank for the implementation of Structural Adjustment Programmes (SAP). These programmes always included the same set of measures: currency devaluation, decontrol of exchange rates, higher interest rates, financial deregulation, trade liberalisation, privatisation, wage cuts, reduction in the public service through budget cuts and massive retrenchments as well as labour market deregulation. Their implementation led to famine, environmental destruction and the dismantling of health, education, infrastructural and social welfare programmes. Hard won Government economic reforms have paid off. For the last decade long-term trends have been all about sound public finances, economic growth, healthier business environment and burgeoning middle class.

2. Remittances

More than 30 million Africans living outside their countries of origin are contributing every year for more than 40 billion dollars in remittances to their families and communities back home. Remittances are the continent's largest source of foreign capital after Foreign Direct Investment (FDI).

3. Urbanisation

Africa's growing young population is a key asset. In 1980, just 28 per cent of Africans lived in cities. Today, 40 per cent of the continent's 1 billion do. Africa markets are expanding. Over the past decade the number of middle-class consumers in Africa — those who spend between $2 and $20 a day —, has expanded more than 60% to 313 million, according to a new report from the African Development Bank Group. Its number rivals that of the middle classes in China and India. Africa's emerging middle class, and the accompanying consumer demand, is seen as an increasingly powerful economic engine, one that can complement the continent's traditional reliance on agricultural, energy and mineral production and exports.

4. Informal sector

Rising urban centers, a growing consumer class, and sizzling business deals have given birth to a dynamic informal sector which are more and more connected to the modern economy. With increased access to credits, this originally cash-based economy is a major contributor to the development of the productive capacity of the region. It is a major generator of job creation and is home to two-thirds of the retailers.

5. Regional trade

African countries have lowered trade barriers and cut taxes. As a result, regional trade has increase. Trade statistics do not capture that vital bigger force, the informal economy. A large proportion of intra-regional trade is carried out by small and medium enterprises from the informal operators. They are exporting all sorts of goods and services around Africa. Suited executives and business dealers are spotting opportunities across borders and are going out to grab them. They are the main proponents of the economic integration that is taking place.

6. Economic diversification

Revenues from natural resources, the old foundation of Africa's economy, directly accounted for just 24 per cent of growth during the last decade; the rest came from other booming sectors, such as finance, retail, agriculture, and telecommunications. Not every country in Africa is resource rich, yet GDP growth accelerated almost everywhere.

III. EXTERNAL DYNAMICS

1) Entry of Emerging economies

The entry of fast-growing economies such as China, India, Korea, Turkey, Brazil and Malaysia into Africa in the early 1990s broadened Africa’s countries options for economic growth and provided a platform for increased exports and the inception of a cooperation model based on trade, investment economic diversification.

2) Trade

Race for commodities from emerging markets entails a surge of global commodities price over the last decade: oil rose from less than $ 20 in 1999 to $145 in 2008. Gold broke the $1,500 an ounce barrier. Sub-Saharan Africa now conducts half of its trade with the world's emerging economies.

3) *Foreign Direct Investment*

Africa offers the highest rate of return on investment of any region in the world. Capital flows to the continent increased from just $15 billion in 2000 to $87 billion in 2007 – relative to GDP almost as large as the flow into China. And when oil and gas investments are stripped out, South Africa, the continent’s industrial and financial centre, is now the largest investor in the rest of the continent, not China or the US.

IV. CONCLUSION

If there is no doubt that African political and economic environment are improving, it remains that some 61% of its population of one billion people are still living on less than $2 a day. Unemployment among young people which make up more than half of the total population in some countries of sub-Saharan Africa is extremely high. So, if the present economic embellishment is to create jobs, especially for the urban youth, and make genuine inroads in tackling poverty, there are a few imperatives that need to be met:

- Economic growth has to be sustained in the long term and its benefits distributed more fairly among the population;
- Urban youth education has to be centred on innovation, creativity, entrepreneurship;

- The informal sectors enterprises has to be modernised to become what Small and Medium Enterprise (SME) and family enterprises stood for in post war Europe;
- Cost of migrant transfer has to be lowered. This implies putting an end to the exclusivity agreements that most African countries have signed with money transfer enterprises such as Western Union, MoneyGram, etc.
- Regional trade has to be strengthened by further economic integration;
- Extreme measures of economic reforms in the areas of financial deregulation and economic liberalisation have to be reviewed;
- Africa's interactions with fast-growing economies have had positive effects. However, while emerging countries have a strategy for the region Africa does not have any towards the emerging economies. So, African countries need to adopt a coordinated, coherent strategy and exercise greater ownership over their growing interactions with emerging economies.

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