

MARKETS IN MOTION

developments that matter in financial markets

Africa Calling

"While acknowledging the wide diversity in the fortunes and performance of the 53 countries that make up the mosaic of the African continent, it is now broadly accepted that Africa has created a new dynamic since the turn of the millennium."
Donald Kaberuka, African Development Bank Group President

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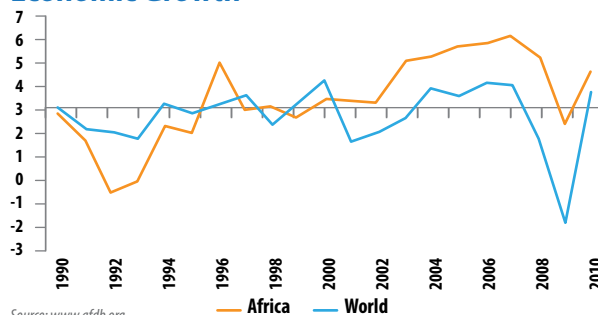
Introduction

Africa, which has been historically renowned as a slow growth region, is slowly emerging as one of the world's fastest growing economic regions. Africa's annual economic growth rate has increased to an average of 5.6 percent in the period 2001-08 from 2.3 percent in the 1990s. It was more than twice the global average growth rate in the 2000s. African regions are often classified into three groups: the oil-exporting countries, resource poor but diversified economies, and slow-growth economies. The slow-growth economies comprise coastal and land-locked countries whose access to international trade determines their economic growth. The continent, which was dependent on aid due to internal strife and poverty, is now showing promising economic growth with its own efforts in developing domestic industries.

Faster Economic Growth

More than one-third of African countries recorded an average growth rate of over five percent between 2001 and 2008. This high growth trend seems to have gained a stable basis. The graph shows the stable trend of economic growth in Africa in the 2000s, until 2008. Even during the financial crisis, African countries recorded 2.5 percent growth rate in 2009, while the world economy shrank significantly. Africa is maintaining a robust growth rate with its 2010 estimate, twice as high as that of 2009.

Economic Growth



Recent Trends

Africa's economic upturn was mainly due to microeconomic reforms. Even though natural resources accounted for 24 percent of the whole growth, all the economic sectors contributed to the overall growth, including resources, finance, retail, agriculture, transportation and telecommunication. This new trend indicates that there is a fundamental change occurring in Africa. The McKinsey Report (2010) states that the key to Africa's growth surge was government reforms that created greater political stability, improved macroeconomic stability and invigorated business sectors.

The African continent, which used to be ranked at a lower level in the past, is placed third, following East Europe and OECD countries, showing prudent economic reforms leading to the creation of a positive business climate in the region. The economic environment in Africa has become more productive, due to these fundamental changes.

	2004-08	2009	2010	2011	2012
				Latest projection	
Sub-Saharan Africa	6.6	2.8	5	5.5	5.8
Oil Exporting Countries	8.7	5.2	6.5	6.3	6.7
Middle-income Countries	4.9	-1.6	3.1	3.5	4
Low-income Countries	6.3	4.8	5.3	6.5	6.7

Source: IMF, World Economic Outlook database.

Africa: A Major Investment Destination

Africa now attracts attention as a major investment destination. Fast-growing African economies signal the second generation of emerging markets. The McKinsey Report (2010) draws favourable long-term prospects for the African economy on the basis of growth potential. Natural resources will continue to increase wealth in the African continent from a rising global demand. The continent is endowed with 10 percent of the world's oil reserves, 8 percent of gas reserves, 40 percent of gold reserves and a wealth of other precious metals. Fast-growing demand for raw materials will induce foreign direct investment to explore the resources and to develop infrastructure, which would have positive spillover effects in the neighboring region. The second growth potential is the sheer size of arable land. The size of Africa's land is much greater than that of China, the US, Europe or any other region. With the increasing population, land will constitute an attractive investment destination. Africa's labour force, which is expected to reach 1.1 billion by 2040, will form a basis of global consumption as well as production and will induce long-term economic development. The critical question now is whether this region would be able to continue the high economic growth and take advantage of the favourable natural conditions. Due to the wide variations across African economies, it is not appropriate to adopt one growth strategy for all the regions. Africa's new growth trend provides a new vision to the future of the continent and the global economy.

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