

# Economic Report on Africa 2012

## Unleashing Africa's potential as a pole of global growth

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13 June 2012, Cairo, Egypt



# Outline of the Report

- Part I: Recent economic and social developments
  - Developments in the world economy and implications for Africa
  - Economic and social developments in Africa and prospects for 2012
- Part II: Unleashing Africa's potential as a pole of global growth
  - Africa as a global growth pole
  - Unleashing Africa's development capacity
  - Mobilizing resources for structural transformation

# Key messages

- World economy slowed down as risks and uncertainties increased with the escalated euro area sovereign debt crisis in 2011.
- Africa's growth declined in 2011 primarily due to the political unrest in North Africa, but its prospects in 2012 remain optimistic.
- Social development remain slow in African countries, and unemployment, especially among youth, stays high.

# Key messages (cont'd)

- Over the past decade, African countries have registered high levels of economic growth thanks to:
  - Improved economic management
  - A generally hospitable international economic environment
  - Increased capital inflows, and
  - Rising prices for Africa's commodity and other strategic minerals.
- The impressive growth over the past decade must be examined in a proper context if Africa is to become a bona fide global growth pole.

# Part 1: World economic developments in 2011 and implications for Africa

- Global economic performance weakened in 2011
- onset of sovereign debt crisis in the euro area raised risks, uncertainties, and challenges that are set to continue in 2012 and beyond
- Persistence of the debt crisis may affect Africa by:
  - Reducing export receipts, capital inflows especially FDI, ODA and remittances; reducing tourism receipts, and by adversely affecting financial markets in Africa

# Africa's economic recovery weakened in 2011, but is poised to rebound strongly in 2012

- Political and social unrests in North Africa caused Africa's growth momentum to slow down in 2011
- But many African countries showed strong growth, which sustains the recovery
- Growth has been driven by increasing domestic demand and incomes, increased commodity export receipts due to higher prices and strong demand; and recovery of FDI inflows
- Growth is poised to recover strongly in 2012 and beyond, supported by similar set of factors

# Growth's modest impact on social and human development

- Despite strong growth for a decade now, progress in achieving social and human progress remains modest
  - Unemployment remains high, especially among the youth and most employment is vulnerable - in low productivity agriculture and the informal sector.
  - Inequalities in incomes and access to assets and social services have widened
  - Poverty remains stubbornly high and social protection is limited.
- Accelerating structural transformation is key for Africa to achieve its economic and social objectives

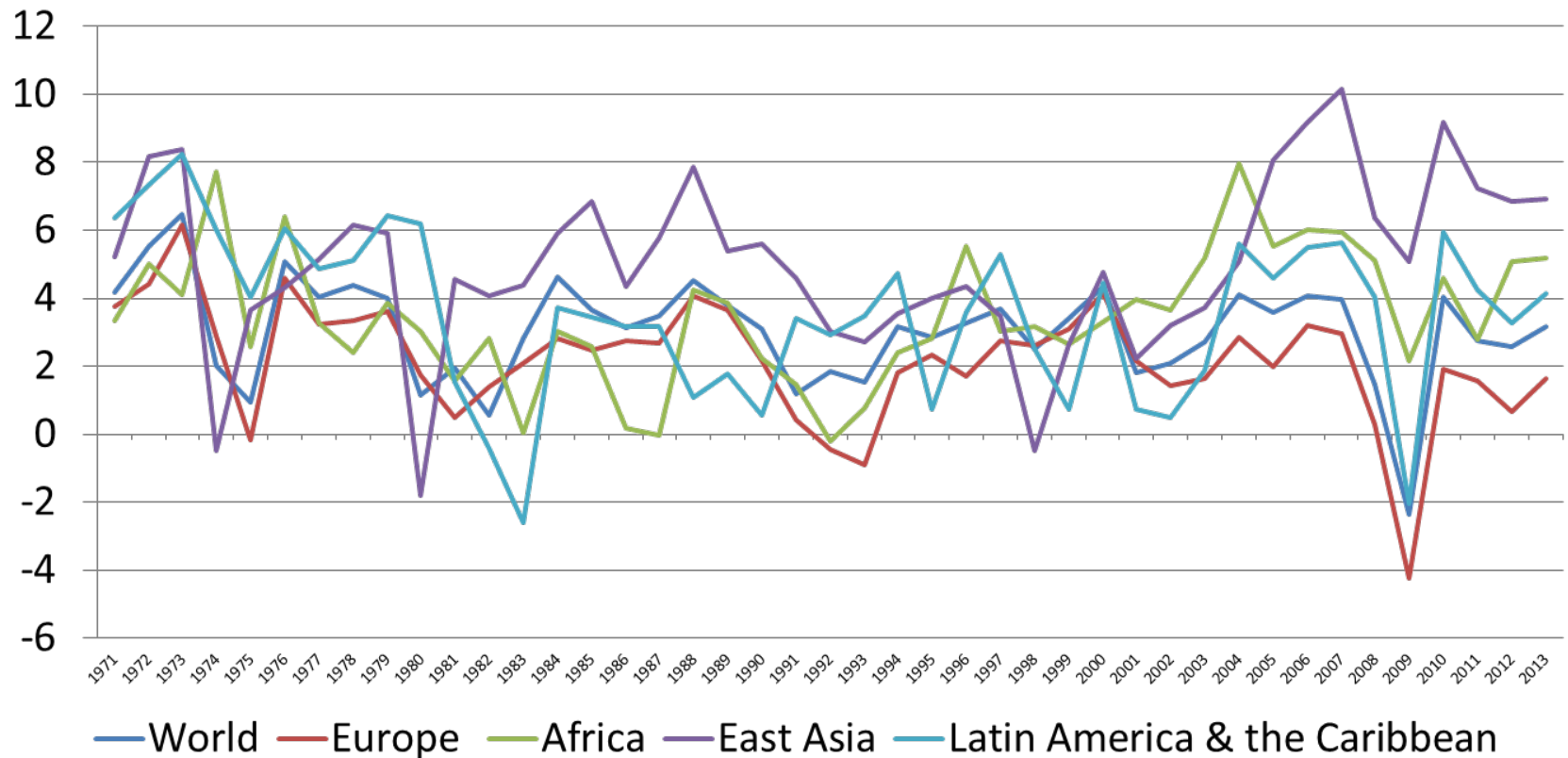
# Part II: Unleashing Africa's potential as a pole of global growth

- Sustaining the current growth momentum in Africa and unleashing the continent's productive capacity requires innovative and bold actions on many fronts



# Africa as an emerging market and global growth pole

Growth Performance of Different Regions of the World, 1971-2010



# Africa as an emerging market and global growth pole (cont'd)

- Primary commodity production was the key driver of economic performance in Africa in the last 50 years
- Attempts to transform the economies through the ISI and the SAPs failed to secure accelerated and sustained growth and economic transformation.
- In addition to the commodity boom, the growth spurt during the first decade of the 21st Century was underpinned by good macroeconomic management, microeconomic reforms, good governance, reduction in armed conflicts, increased capital inflows as well as implementation of market friendly policies.

# Africa as an emerging market and global growth pole (cont'd)

- The experience of the last decade suggests strongly that Africa is likely to make the 21st century its own.
- Africa grew by an average of 5.6% in 2002–2008, making it the second-fastest growing continent in the world.
- Several prominent international financial organizations and private think tanks, observing this trend, have stressed Africa's potential to be a “global growth pole”.

# Africa as an emerging market and global growth pole (cont'd)

- The key factors underpinning Africa's potential are:
  - African Governments have continued to promote good political, economic and corporate governance reforms that made many countries more attractive to investors.
  - Natural resources. Currently, the continent boasts about 12 % of the world's oil reserves, 40% of its gold, and 80% to 90% of chromium and platinum group metals, in addition to 52% of arable land and vast timber resources.
  - Demographic potential and increasing urbanization - Africa boasts the youngest population in the world, and its labour force is rapidly expanding.
  - Africa has a huge untapped regional market, a factor that could help African countries attract higher levels of domestic and foreign investments



# Africa as an emerging market and global growth pole (cont'd)

- Economic Growth Imperatives
  - For Africa to be a global growth pole, the size of its economy should be large enough and its growth rate should be high and sustained for a reasonably long period of time.
  - If Africa is able to maintain an average growth rates of 5 per cent per annum (as experienced in 2001-2008) while the rest of the world maintains the 3 per cent growth rate, Africa's contribution to global GDP should reach 5 per cent within two decades.
  - Growth imperatives are fundamental attributes of a global growth pole.
  - Structural imperatives are also key for Africa to become a new pole of global growth.



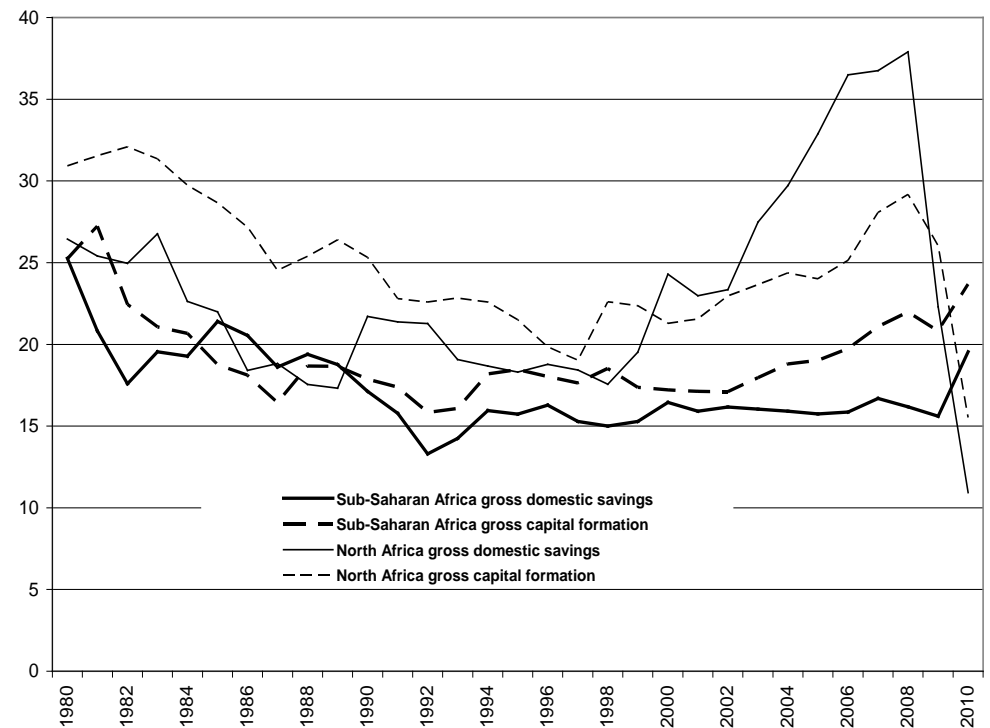
# Unleashing Africa's development capacity

- Promoting visionary leadership, strong institutions and good governance
  - Deepening democratic governance and the rule of law
  - Improving economic governance
- Investing in human capital and technology
- Investing in physical infrastructure
- Unleashing Africa's agricultural potential and investing in climate change
- Regional economic integration
- Harnessing new partnerships

# Mobilizing resources for structural transformation and inclusive development

- Africa's financing gap remained wide over decades as savings rates declined sharply in the 1990s from high levels in the 1980s and remained lower than investment rates although they picked up in 2000s.
- Thus, increased external capital flows and improved access to international loan markets are essential for Africa to exploit its potential

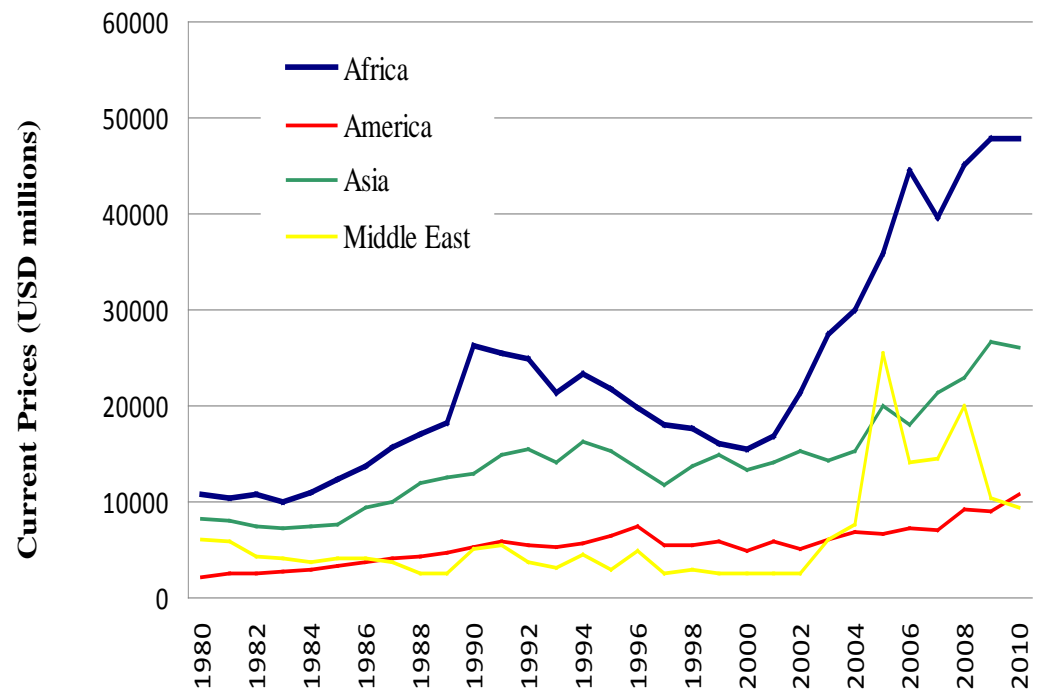
Gross domestic savings and gross capital formation in Africa, 1980-2010 (% of GDP)



# Mobilizing resources for structural transformation and inclusive development (cont'd)

- Africa received net aid flows of over US\$45 billion, equivalent to 35 per cent of global aid flows.
- Significant differences exist across African countries in terms of capacity of raising financial resources and the size and trends of the resource gaps

Total aid flows to the developing countries by region





# Mobilizing resources for structural transformation and inclusive development (cont'd)

- **Policy implications:**

- Windfalls from commodity booms and newly available resources should be effectively managed to help diversify and transform economic structures.
- Should seize upon their newly acquired stronger position by presenting their home-grown development visions and strategies as a basis of negotiations with investors and donors
- Deepen financial markets and strengthen the capacity of financial institutions in domestic resource mobilization.
- Forge a truly productive public-private partnership by undergoing substantial changes in the political economy of public resource management.
- Broadening the tax base by improving distribution mechanisms (e.g. better public goods provision) and by mainstreaming the informal economy into the development processes
- Explore and deepen mechanisms of regional cooperation for counter-cyclical macroeconomic management.



# Conclusions and policy recommendations

- Sustaining the current growth momentum in Africa and unleashing the continent's productive capacity requires innovative and bold actions on many fronts:
  - improving political and economic governance
  - reforming African education to make it relevant for economic transformation
  - investing heavily in critical physical infrastructure
  - catalyzing a green revolution in agriculture
  - accelerating regional integration and enhancing intra-Africa trade; and
  - harnessing new partnerships with the emerging southern economic powers in order to tap into their abundant financial resources and technological know-how.

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Economic Commission for Africa



African Union

