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Africa on the Rise

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Structural transformation in progress

Africa has seen fairly impressive growth in recent years. Six of the 10 countries with the highest economic growth between 2001 and 2010 were in the Sub-Saharan region (World Bank, 2013). Strong growth combined with managing population growth and progress made towards the Millennium Development Goals (MDGs) has resulted in major social changes, transforming Africa into a significant consumer market. A number of changes have occurred:

(i) Increased average life expectancy at birth from 50 years in 2002 to around 54 in 2010, which is expected to trigger a rise in the proportion of the population aged over 65 from 3.2% in 2010 to 4.5% in 2030. This will create a massive source of potential consumers, as consumption is usually highest among this age group (AfDB, 2012).

(ii) Rapid urbanisation: In 2010, urbanisation rates in Africa were in percentage terms almost on a par with China. 52 African cities have more than one million inhabitants. This put the continent on equal footing with Europe, ahead of India (48) and North America (48), but lagging behind China (109) and Latin America (63) (McKinsey, 2010b). Urbanisation has had an unprecedented effect on demand in Africa. Symptoms include the proliferation of hypermarkets in major African cities and mobile phone usage. Since the year 2000, the number of mobile phone users in Africa has risen by 44%, compared with an average of 34% for all developing countries and 10% in industrialised nations. Africa is therefore a major potential market for ICT products in the coming years (Deloitte GSMA, 2012).

(iii) Average per capita income has increased from USD 514.91 in 2000 to USD 1,301.75 in 2010 – a gain of around 152% in 10 years and around 9% per year. The African Development Bank (AfDB) estimates that around 313 million people – 34% of the African population and more than twice as much as 20 years ago – spend USD 2.20 a day making Africa the continent with the most rapid middle class growth[1]. According to the McKinsey Global Institute, consumer spending in Africa is set to rise dramatically over the next decade, from USD 860 billion in 2008 (60% of GDP) to USD 1,400 billion in 2020.

(iv) Higher levels of education are improving Africa's human capital. In 1990, 52% of all adults in Africa could read and write, compared with 63% in 2008. This progress is linked to the 6% per annum increases in school enrolment over the past 20 years (UNESCO, 2012). These statistics reveal that structural transformation is a reality in Africa, why the continent is definitely a promising market of the future.

Moving towards greater economic diversification

The appeal of the African economy may well still be limited, but it is thriving during this period of global crisis, which is making Africa a favourite destination for financing. The attractions of the African economy are based on real assets and potential benefits linked to the economy's current capacity and performance. In terms of physical assets, Africa has 12% of world oil reserves, 42% of gold deposits, 80-90% of chrome and platinum deposits, and 60% of all arable land, along with substantial timber resources (UNECA, 2013). Africa's extensive natural resources are not new, but they have become all the more significant given the growing need for resources to maintain the global economy. Also, the fact that most Sub-Saharan countries have now achieved peace and stability reduces risk and makes it more profitable to exploit the continent's resources. Demand for resources and recurring tensions in the Middle East have driven up oil prices, from USD 20 per barrel in 1999 to USD 110 in 2012, hitting a high of USD 145 in 2008. The price hikes for petrol and other natural resources have made Africa even more financially attractive. The growth of foreign direct investment (FDI) is evidence of Africa's appeal. Growth rates for new FDI projects have risen from around 3.2% in 2007 to 5.6% in 2012. In 2012, three African countries ranked among the top four for FDI project growth: 66.2% in South Africa, 77.8% in Kenya, and 73.2% in Nigeria, just behind South Korea at 84.2% (Ernst & Young, 2013). Despite an 18% fall in global FDI in 2012, Africa saw FDI volumes rise by more than 5%, proving just how attractive the continent's economy is (UNCTAD, 2013).

Notwithstanding the elevated levels of FDI inflows, political decision-makers are increasingly concerned about the lack of diversification within Africa's economy. It is important to put this point in context by looking at the breakdown of FDI inflows and sources of economic growth in Africa. According to the 2013 Ernst & Young report, in 2012 70% of funding for already existing FDI projects in

[1] http://www.uhy.com/the-worlds-fastest-growing-middle-class/
http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/the-african-consumer-market-8901/

Africa went to the services sector, while 73.5% of capital invested in new FDI projects went to manufacturing and infrastructure. These statistics confirm that the African economy is gradually diversifying, and that although the extractive industries remain a favourite destination, other sectors are gradually becoming more popular targets for FDI. A study by the McKinsey Global Institute (2010a) also revealed that only one-third of economic growth in Africa was driven by extraction, while almost two-thirds came from other sectors, such as manufacturing, services, ICT, trade, etc. This trend towards diversification has also been reflected in the sources of FDI inflows, with the emergence of unconventional new partners including Malaysia, South Africa, China and India, which are investing heavily in Africa (UNCTAD, 2013).

Massive untapped potential

Alongside these trends, which confirm Africa's status as an emerging economy, the continent's physical characteristics offer genuine scope for significant growth in the coming years. 32% of African states are landlocked which is the highest share worldwide. 75% of all infrastructure is concentrated in South Africa. Consequently, improving infrastructure could dramatically improve productivity in the continent. The outlook is similar for many other sectors, such as agriculture and services. The African Union has recognised this potential and adopted a comprehensive programme intended to allow Africa to establish itself on the international arena as an essential business platform. The programme includes (i) the Comprehensive Africa Agriculture Development Programme (CAADP), which is designed to increase agricultural productivity by at least 6% per annum by allocating 10% of national budgets to developing agriculture, in line with the Maputo Declaration, and (ii) the Programme for Infrastructure Development in Africa (PIDA). The latter seeks to promote the creation of a single market in Africa by improving access to integrated regional and continental infrastructure. PIDA's estimated budget is USD 360 billion to 2040, which includes USD 68 billion for implementing the Priority Action Plan for 2012 to 2020, or about USD 7.5 billion each year for the next eight years. The progress made thus far in terms of improved governance, a stronger macroeconomic framework, and establishing peace and stability in most African countries has created huge scope for growth and should allow the continent to gradually become a world economic power.

All this potential cannot mask the fact that Africa needs to maintain existing peace and stability, while also pursuing reform with a view to establishing transparency and good governance as the norm for the public sector and promoting the principle of accountability, which is vital if Africa's potential is to be realised. ■

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