

# *Is Africa on the right track to Economic Transformation*

Sanusha Naidu

[snaidu@hsrc.ac.za](mailto:snaidu@hsrc.ac.za)

Human Sciences Research Council

Presentation to

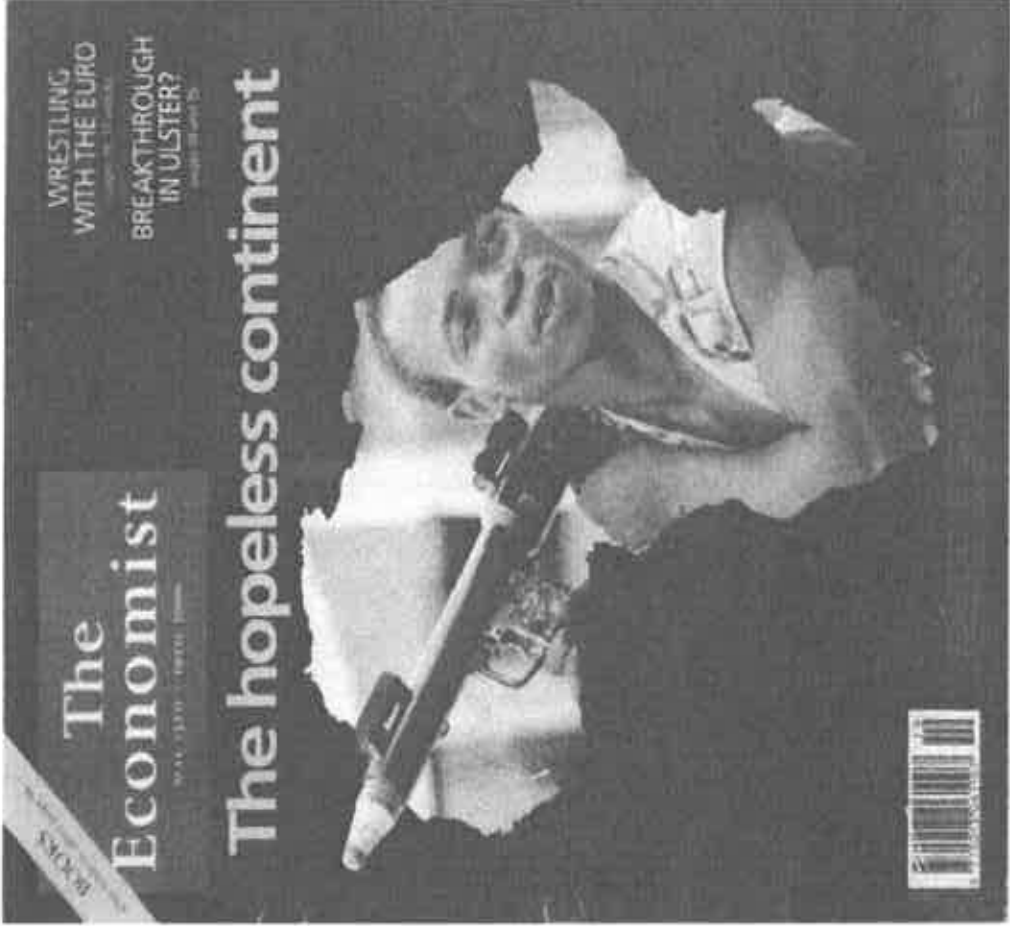
Economic Transformation for Africa  
Workshop, 11-13 May 2005

Crowne Plaza Hotel, Sandton

HSRC RESEARCH OUTPUTS

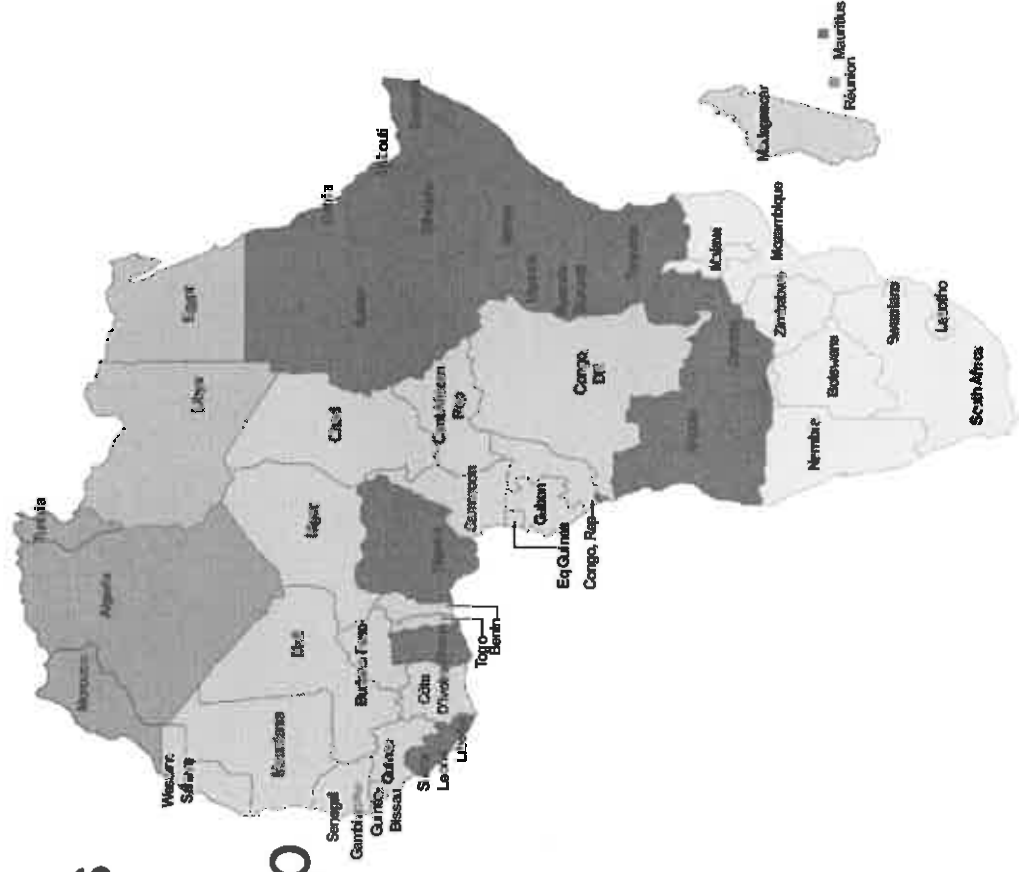
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# Global Image of Africa

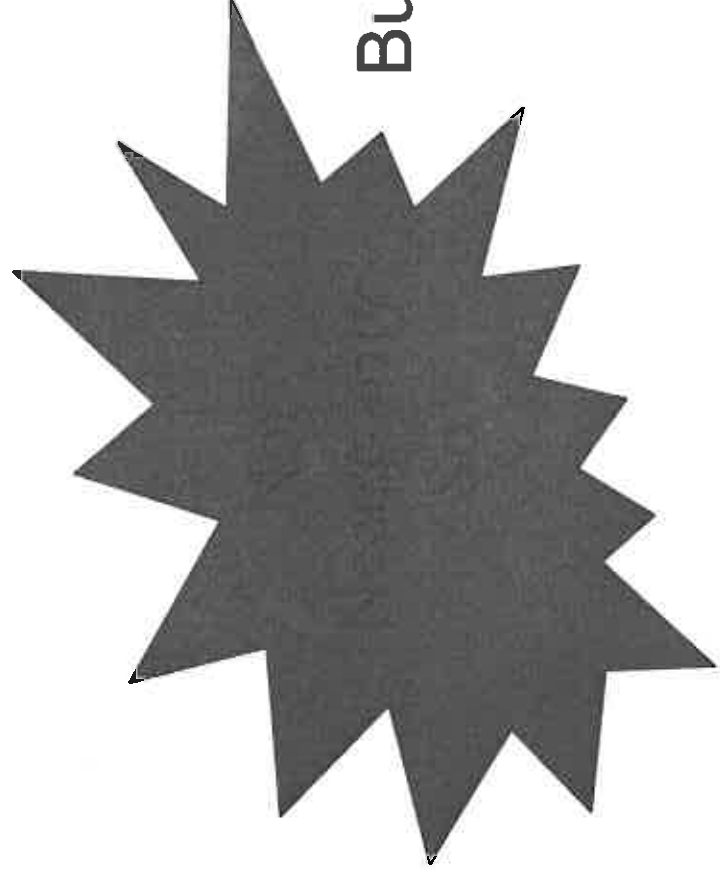


**WHY? because of inter alia:**

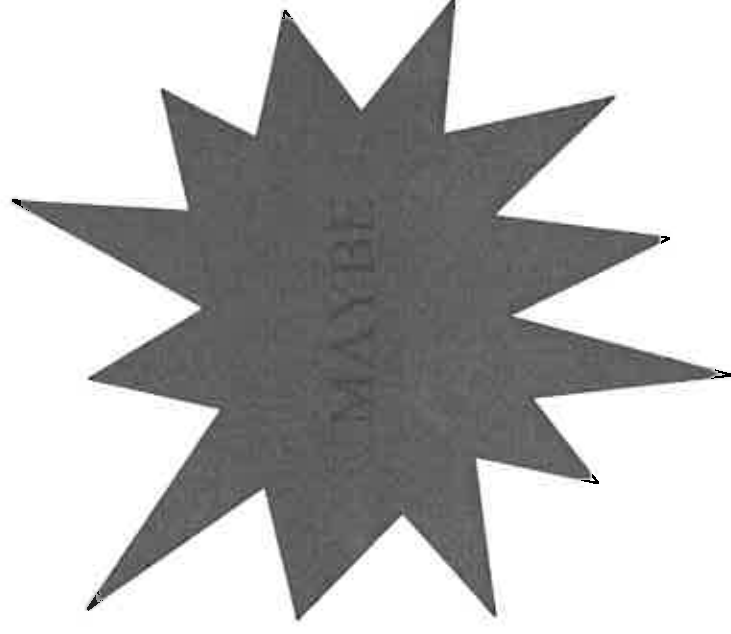
- ❑ Intercine Conflicts
- ❑ Weak states
- ❑ Corrupt leadership
- ❑ High levels of Poverty
- ❑ Low levels of life expectancy
- ❑ HIV/AIDS pandemic
- ❑ Poor Socio-economic conditions



*Does this mean that Africa's  
Economic Transformation is  
on the wrong track?*



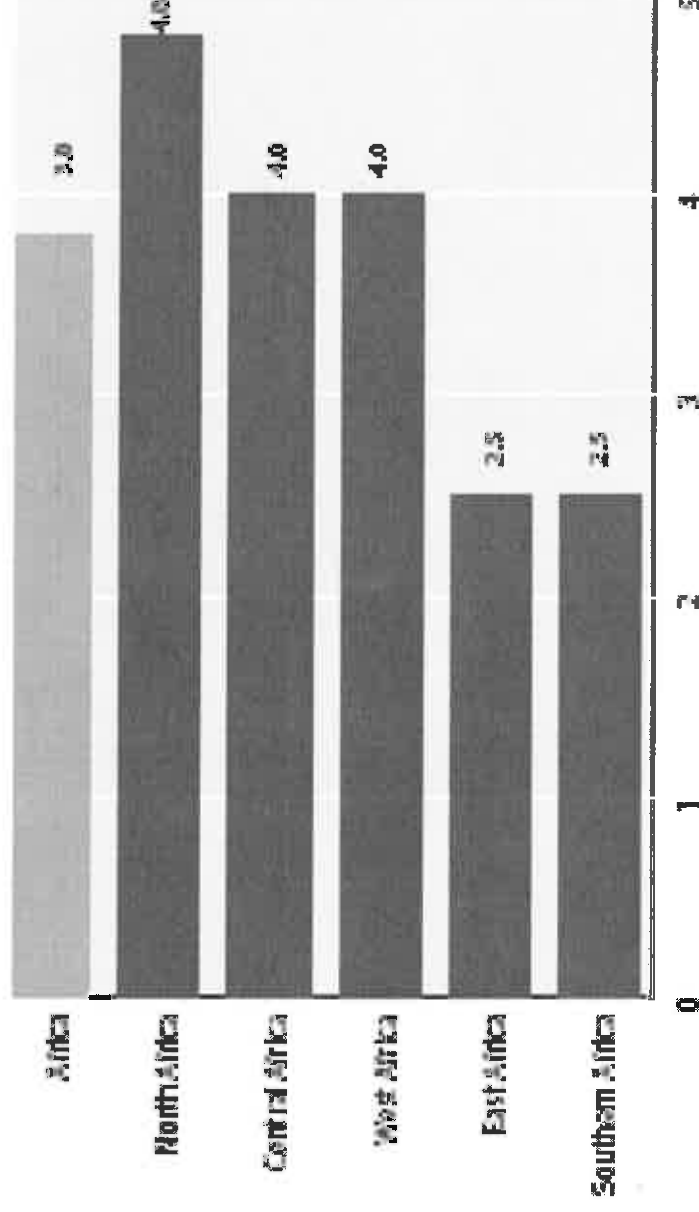
But



Continental economy showing signs of accelerating change because:

- In 2003 Africa's growth rate was the highest for the last four years

**Real GDP growth rates 2003 (Regional Performance)**



Source: ECA, from official sources

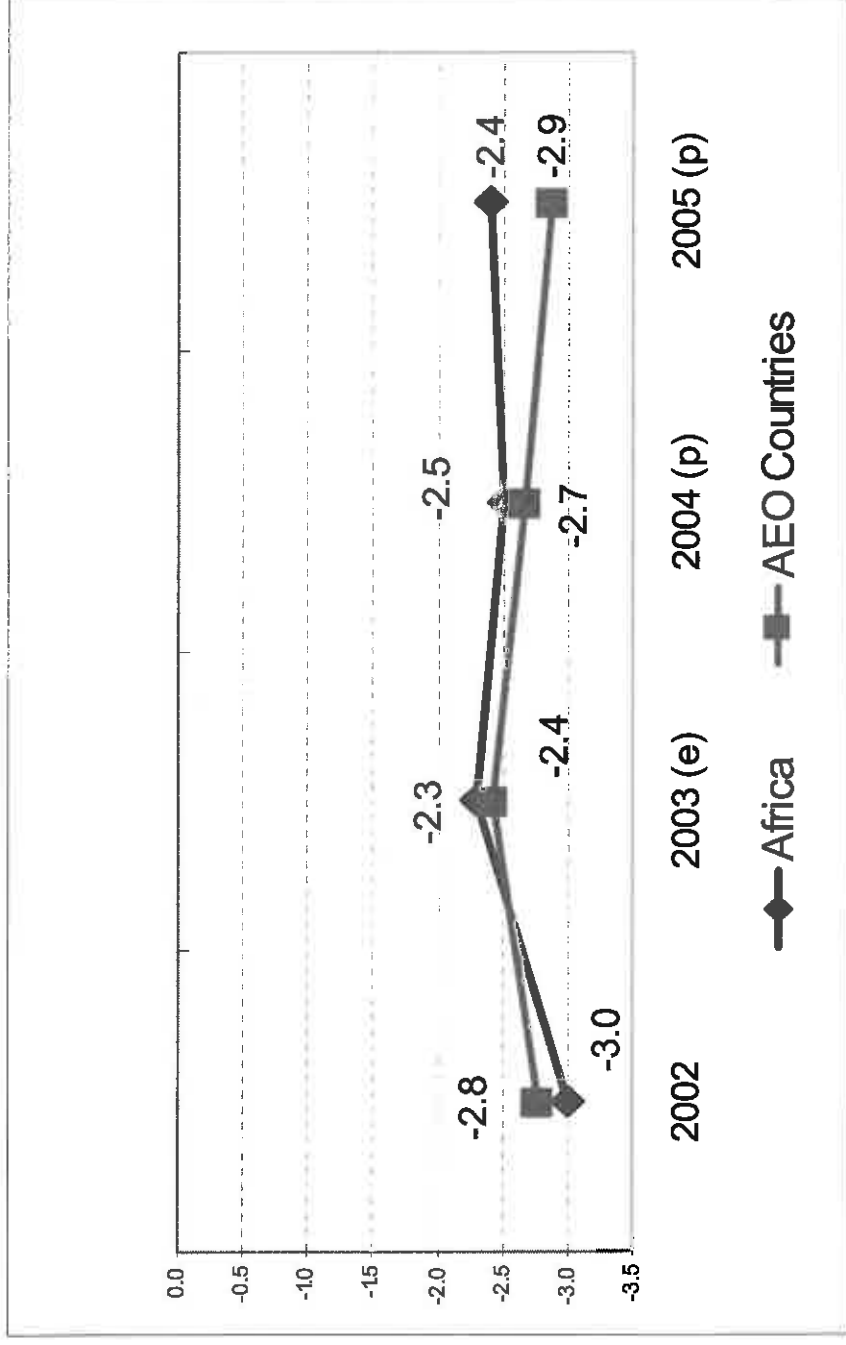
This was due to:

- Improvements in the prices of major primary commodities
  - ➔ **Copper:** Prices went up by 14% in 2003. This was mainly the result of production cutbacks that began in 2001.
  - ➔ **Cotton:** Cotton prices increased by 37% in 2003 to \$1.40 per kg. However, this is just a slight recovery after declines in the two previous years that took prices to 30-year lows. The upturn in 2003 was mainly due to a reduction in supply from China from the previous marketing season. The recovery is likely to be short-lived with prices expected to decline in 2004, particularly given the large subsidies provided by the US to its cotton farmers.

**Gold:** The 2003 higher-than-average price of \$363.5 per troy ounce (toz) was over 17% as registered the previous year, the result of buybacks of hedged positions by gold producers. The price rose to \$408.4 per toz in the first quarter of 2004.

**Crude Oil:** Crude oil prices rose to \$32.88 per barrel in February 2003 just before the start of the war in Iraq, because of expectations of supply then slightly disruption. Prices then slightly declined, averaging \$28.91 per barrel over the year. Since January 2004, they have increased, reaching \$37.63 per barrel in May as a result of strong oil demand.

- Fiscal deficits were largely kept under control

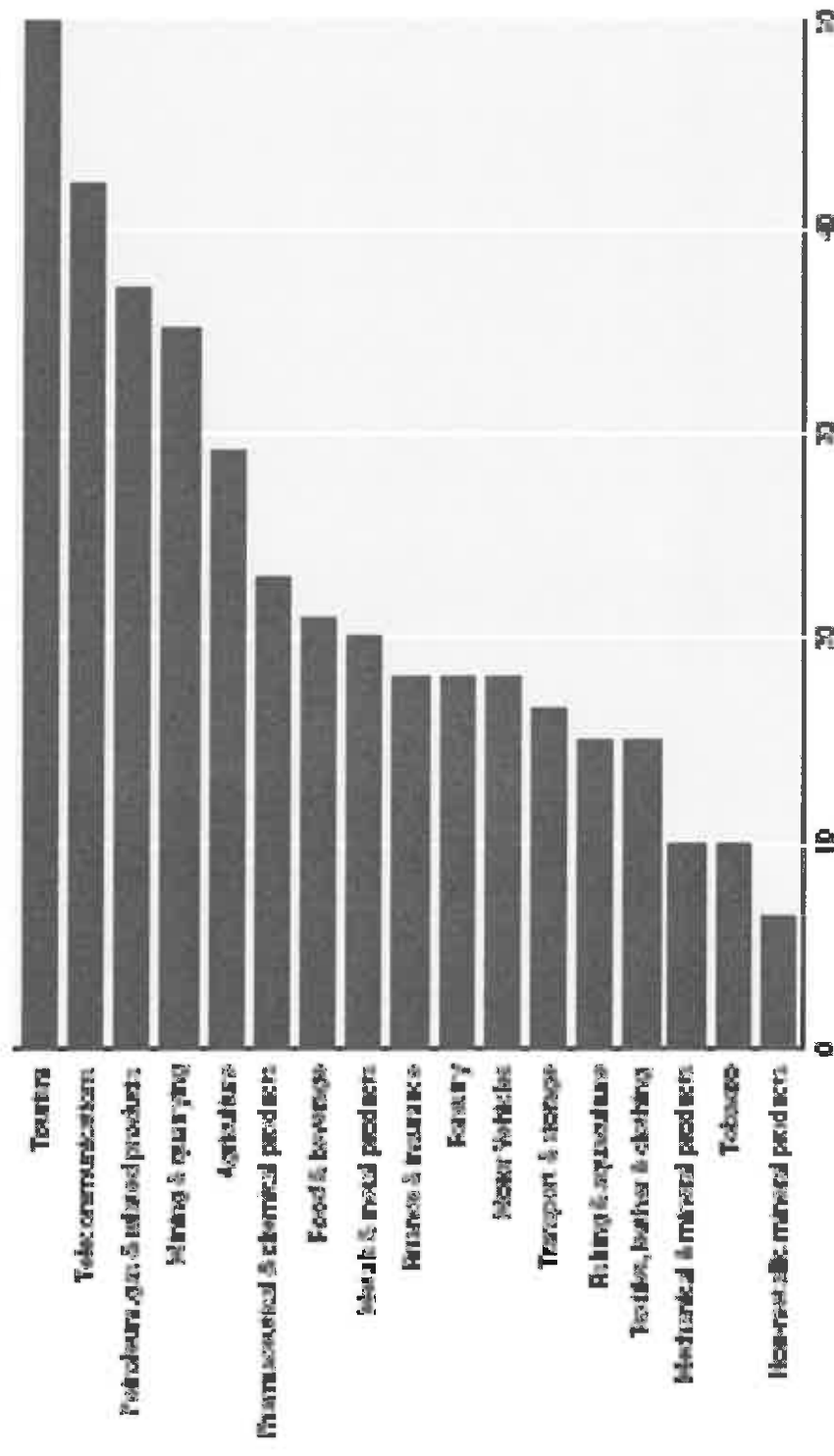


Source: African Economic Outlook 2003/2004



- Increased FDI from \$11bn in 2002 to \$14 bn in 2003

Economic activities in Africa with the largest FDI potential as perceived by transnational companies (TNCs), 2000-2003 (share in overall responses, %)

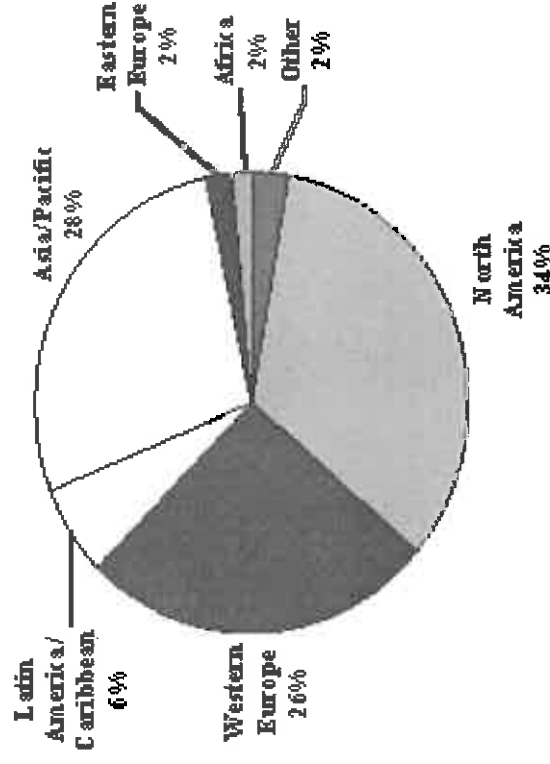


Source: ECA, from official sources

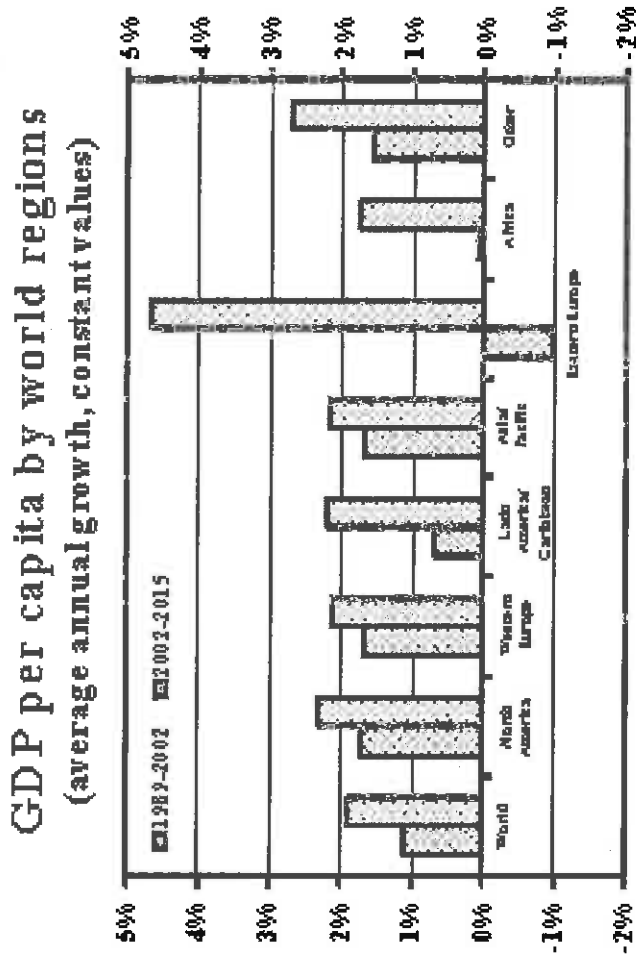
- **Other indications included:**
  - **Better macroeconomic management**
  - **Good weather conditions**
  - **Restoration of peace in some parts of Africa, albeit fragile**
  - **Inflations showed signs of decline**
  - **Renewed efforts by Africa's development partners for more effective AID and increased ODA**
  - **Some debt relief, especially under HIPC initiative**
  - **NEPAD and improved security in key areas of the continent**

## *But Signs are Worrying....*

- Why? Because Africa's gains are emerging from a relatively low base
- Africa's share of global GDP is meagre. Accounts for just 2% of world GDP.



# Growth in GDP and living standards



Source: WDI & OEF

...and with population growth relatively rapid, GDP per head has barely increased since 1989.

- Dependent on a small range of commodities like oil and raw materials. Demonstrates inherent risks because confined to only those countries that are rich in these sectors and again dependent on demand in the global economy eg China and USA for energy requirements
- Exporter of primary exports with very little diversification and room for beneficiation
- Importer of value added goods
- Inward Investment and savings level are low compared to other regions. In 2003 Sub-Saharan Africa received \$8 bn compared with \$39 bn to Latin America & Caribbean, \$14 bn to Central and Eastern Europe and \$89bn to Asia and the Pacific
- Economic Landscape remains at risk by bloated bureaucracies, unmodernised institutions, weak financial and physical infrastructure and exhaustive regulatory regimes

- Skills and human resource deficiency
- Intra Africa trade also meagre
- Leaky borders contagion effects of political instability/conflicts
- Healthcare risks not only HIV/AIDS but also preventable diseases like malaria, cholera
- Deepening poverty and inequality
- Negatively affected by intra and global barriers to trade eg. agricultural subsidies in the North

# *Prognosis for the Future*

- Bleak for achieving the MDGs. Need to sustain growth levels of 7%pa
- How?
  - Diversification of exports imperative
  - Focus on the value added chain instead of stand alone vertically integrated operations
  - Institutional and human resource capacity building
  - Greater Private Sector investment and involvement in national economies e.g. Public Private Partnerships
  - More effective trade agreements promoting equitable market access globally and internally

- **Infrastructural rehabilitation**
- **Rationalisation of the Regional Economic Communities**
- **Greater importance attached to the results of the African Peer Review mechanism especially for the promotion of good governance**
- **Integration of the rural poor**
- **Combating the HIV/AIDS and other preventable diseases**
- **Reversing the mortality levels and investing in education**



# ***Conclusion:***

- It is in Africa's interest to demonstrate its commitment to an effective economic trajectory
- Even though signs are there that change is beginning to take root much more needs to be done to ensure that Africa's people live a sustainable existence
- If the 21<sup>st</sup> century is about Africa reclaiming its position in the global economy then the realisation of the African century cannot be postponed because as we all know what happens when a dream is deferred

