

Economic Progress and Opportunities within Africa

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In June 2010 the McKinsey Global Institute (MGI) produced a report on Africa's progress and potential entitled, "Lions on the move: the progress and potential of African economies".

In the report they point out that:

1. Africa's collective GDP in 2008 was \$1.6 trillion (approximately equal to that of Brazil and Russia);
2. \$860 billion was the combined consumer spend;
3. 360 million new mobile phone subscribers have signed up since 2000;
4. Africa has 60% of the world's total amount of uncultivated arable land;
5. there are 52 cities in Africa with a population of more than one million;
6. there are 20 African companies with revenues of at least \$3 billion annually; and
7. by 2020, 128 million African households will have discretionary income (more than half of all African households).

There is no doubt that Africa is becoming the new frontier of global investment and the new frontier of economic opportunity.

Africa's growth acceleration was widespread, with 27 of its 30 largest economies expanding more rapidly after 2000. All sectors contributed to Africa's growth, including resources, finance, retail, agriculture, transportation and telecommunications.

Natural resources only accounted for 24% of the continent's GDP growth from 2000 through 2008. Key to Africa's growth surge was improved political and macroeconomic stability and microeconomic reforms.

Future economic growth will be supported by Africa's increasing ties to the global economy. Rising demand for commodities is driving buyers around the world to pay dearly for Africa's natural riches and to forge new types of partnerships with producers. And Africa is gaining greater access to international capital. Total foreign capital flows into Africa rose from \$15 billion in 2000 to a peak of \$87 billion in 2007.

Today the rate of return on foreign investment in Africa is higher than in any other developing region. Early entry into African economies provides opportunities to create markets, establish brands, shape industry structure, influence customer preferences, and establish long-term relationships. Business can help build the Africa of the future.

The rise of the African urban consumer also will fuel long-term growth. Today, 40% of Africans live in urban areas (similar to that of China) and continuing to expand. The number of households with discretionary income is projected to rise by 50 percent over the next 10 years, reaching 128 million. By 2030, the continents' top 18 cities could have a combined spending power of \$1.3 trillion.

Africa's economic growth is creating substantial new business opportunities that are often overlooked by global companies. MGI projects that consumer, resources, agriculture and infrastructure business opportunities together could be worth \$2.6 trillion in annual revenue by 2020.

To understand the growth opportunities and challenges of individual economies, MGI developed a framework that groups them in four broad clusters: diversified economies, oil exporters, transition economies, and pre-transition economies.

Diversified economies: Africa's growth engine

Africa's 4 most advanced economies (Egypt, Morocco, South Africa and Tunisia) have significant manufacturing and service industries. Over the last 10 years construction, banking, telecoms and retailing accounted for more than 70% of their GDP growth.

Their cities gained more than 10 million additional residents, while real consumer spending grew by 3 to 5% per year. Today 90% of all these households have disposable income. Their economies have stable growth, but unit labour costs are higher than China or India and must move towards competing in higher-value industries.

The future:

- challenges of expanding exports to both global and regional markets;
- improving education to produce a skilled workforce in advanced industries; and
- building the infrastructure needed to support growth.

Oil exporters: Enhancing growth through diversification

Africa's oil exporters (Libya, Equatorial Guinea, Gabon, Angola, Algeria, Congo Republic, Chad and Nigeria) have the continent's highest GDP per capita, but the least diversified economies. Rising oil prices have lifted their export revenue.

The 3 largest producers (Algeria, Angola and Nigeria) earned \$1 trillion from petroleum exports from 2000 through 2008, but manufacturing remains small (33% of GDP on average).

Future:

- Great growth prospects if they can use petroleum wealth to fund broader economic development;
- Require investment in infrastructure and education; and
- Challenges: maintaining political stability, economic reforms, avoid over investment or over spending, and creating a flourishing business environment across industries.

Transition economies: Building on recent gains

Africa's transition economies (Ghana, Kenya and Senegal) have lower GDP per capita than those in the previous 2 groups, but their economies are growing rapidly. The agricultural and resource sectors account for 35% of GDP and 66% of exports.

Exports mainly consist of manufactured goods (fuel, processed foods, chemicals, apparel and cosmetics) to other African countries. Although their service sectors are expanding rapidly, the penetration rates of key services such as telecommunication, banking and formal retail remains far lower than those in the diversified countries.

Future:

- Expanding intra-African trade and creating larger regional markets;
- Compete globally with other low-cost emerging economies (but first improve infrastructure and regulatory structures);
- Increase resource exports; and
- Ghana and Uganda – recent oil finds to spur further diversification.

Pre-transition economies: Strengthen the basics

These economies are extremely poor, but some economies are growing fast. DRC, Ethiopia and Mali grew on average by 7% a year since 2000, but growth is erratic and could falter again.

Future:

- Challenges: lack of strong stable governments and other public institutions, good macroeconomic conditions and stable agricultural development; and
- Challenges: to maintain political stability, installing economic fundamentals, creating a more predictable economic environment.

The study has shown that Africa is presented with various growth opportunities and South Africa is ideally positioned to benefit from this. South Africa is the gateway to Africa, even more so now that North Africa is confronted with social upheaval.

South Africa is also a shining example of democratic possibilities within Africa and it is no wonder that in a recent survey done by the BBC South Africa was rated second to Brazil in terms of its global influence as an emerging nation.