Africa Emergent: Five Trends Driving the Continent's Buoyant Economic Prospects

Written by J. Peter Pham, Guest Contributor | 19 July 2012

One of the unfortunate consequences of the well-advertised "bad news" out of Africa concerning some very real conflicts and the lingering authoritarian tendencies on the part of a few regimes is that most of the continent's "good news" tends to get eclipsed. As a result, it comes as a surprise to many that what *The Economist* described just a decade ago as the "hopeless continent" is home to six of the world's fastest-growing economies over the past decade and that, as a whole, Africa is expected to grow faster this year than any other region or country, apart from China and India. Having rebounded quickly from the recent global contraction, Africa is on track to see a total gross domestic product of $2.6 trillion by the end of this decade. Far from being a fluke, these positive indicators are the result of significant forces which have been at work transforming Africa's economic prospects and, ultimately, its social and political landscape.

First, demographics mean that Africa is not only one of the most populous regions on the planet, but one of the youngest. Since 2000, the continent's population has increased by 200 million to over 1 billion. Future growth projections indicate that the growth will be even more pronounced in the coming years, averaging 2.2 percent annually for the next decade, compared to just 0.9 percent in Asia. At these rates, by 2050, Africa's population of 2 billion will have overtaken both India (estimated to be 1.6 billion then) and China (1.4 billion); in fact, one in five of people in the world will be African.

Moreover, this rapid population growth means that Africa's population will be younger than that of every other region in the world. Already, Africa's median age of 19.7 years (18.6 in Sub-Saharan Africa) is considerably younger than the 29.2 years in Asia, 36.8 years in the United States, and 40.1 years in Europe. One result of this is that the size of the African workforce is growing more rapidly than its counterparts elsewhere; by 2050, one in four workers on the planet will be African. These demographic trends, when coupled with robust economic growth, will lead to the emergence of a solid consumer base, especially in countries that invest in a skilled workforce. Gabon, for example, spends its oil income on scholarships, which last year sent 4,287 of its young people—a large number when one considers the country's small population of just over 1.4 million—to institutions overseas to get training not available in the three major universities at home. Overall, the African Development Bank estimates that around 150 million Africans joined the ranks of the middle class since 1990 and another 40 million will join them by 2015. This, will in turn, create additional economic opportunities.

Second, Africa's population is rapidly urbanizing, thus adding further impetus to positive economic growth. Around 40 percent of Africans currently live in urban areas, but given current rates of urbanization—the fastest-growing in the world—that number will be slightly more than half by 2030 and well over 60 percent by 2050. Already, Africa has 49 cities with a population over 1 million. More importantly, there is a clear and mutually reinforcing relationship between urbanization and economic growth. Because of the benefits of agglomeration and economies of scale, urban-based enterprises are generally more productive, contributing more to GDP than their rural equivalents. Because of better access to basic infrastructure, urban dwellers can more easily engage in business. Because urban centers provide concentrated markets for agricultural products, rural areas benefit from the growth of cities. Because cities with their population densities facilitate mobilization for economically supportive political and social change, the increased urbanization will also enhance the development of civil society. Moreover, urbanization is also spurring increased investments in roads, buildings, water systems, and other infrastructure—creating additional stimulus for African economies as well as opportunities for the private sector.

Third, Africa has embraced recent technological innovations with alacrity, using them to "leapfrog" traditional stages of development. Nowhere is this more evident than in mobile telephony. The number of subscribers has mushroomed from almost none in the mid-1990s to 15 million in 2000 to 88 million in 2005 to over 500 million in 2010; by 2015, it is estimated that there will be nearly 800 million. Significantly, mobile phones not only permit Africans to converse with one another and, as often cited, engage in mobile banking, it has also become the main vehicle for many to access the internet and, through it, up-to-date market as well as political information. From 2000 until 2011, internet usage in Africa grew by an astounding 2,527 percent, compared to a global growth rate of around 480 percent. In Nigeria, Africa's most populous country, the number of internet users burgeoned from 200,000 to 44 million in the same period. Moreover, Africans are not only embracing new technologies in vast numbers, they are pioneering innovative information and communications technology solutions like mobile money transfers.

Fourth, Africa's financial services sector has grown rapidly in response to its changing economic landscape as rapid urbanization, rising incomes, and technological advances bring more people—many of whom were formerly locked out of the formal financial system—into contact with banks and other similar institutions. The expansion of the financial sector not only creates new jobs and other economic opportunities, but it helps establish formal identities for millions of market participants and it provides greater security than the current cash-based transactions. In the five years since its launch, for example, Kenyan mobile telephone operator Safaricom's M-Pesa money transfer service has brought more than 14 million individuals into the banking system, empowering them to move an estimated $7 billion annually—an amount equivalent to 20 percent of the country's GDP.

Fifth, demand for Africa's natural resources, the initial key driver for the economic boom in many countries, remains a powerful force. Demand from abroad, especially emerging markets like China and India, for its primary commodities—*inter alia*, Africa holds 95 percent of the world's reserves of platinum group metals, 90 percent of its chromite ore reserves, and 85 percent of its phosphate rock reserves, as well as more than half of its cobalt and one-third of its bauxite, while its proved petroleum reserves have increased by 40 percent in the decade—in contrast to the downward trends observed almost everywhere else—is boosting prices and, in turn, motivating new investment in exploration and extraction. Moreover, African agriculture's importance is also growing as demand for food by the developing world's rising and increasingly affluent populations surges even as local resources diminish. In contrast, in many places in Africa, the proportion of arable land under cultivation is negligible: in South Sudan and the Democratic Republic of the Congo, to cite just two cases, less than 10 percent of potential cropland has been exploited. The introduction of new capital, skills, and technology in this sector could unlock this extraordinary potential as even modest programs like the one in Malawi which, by increasing the availability of fertilizer and improved seeds to the country's small farmers, have more than doubled the maize yields since 2005 and led to the first food surpluses in memory.

Of course, economic potential is not the same thing as results and the history of Africa is strewn with the wreckage of once promising countries—Zimbabwe perhaps being the example *par excellence*—whose bad leadership and even worse policy choices reduced to little better than basket cases. On the other hand, political stability, commitment to reform, and policies liberalizing trade and markets can magnify the impact of the forces already reshaping the continent's economic, political, and social terrain. A 2010 study by the McKinsey Global Institute estimated that GDP growth accelerated three times as fast in African countries that adopted policy reforms, which privatized state-owned enterprises, allowed more business competition, opened trade, lowered taxes, and strengthened regulatory and legal systems than in non-reforming countries.

If these trends continue, Africa will emerge in the coming years as a significant force in the global economy—a place where engagement is no longer driven primarily by aid and humanitarian sentiments, but rather where economic opportunities and the potential therein for mutual benefit form the basis not only for a new social contract between African governments, businesses, and civil society, but for true partnerships between Africa and its international partners.

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