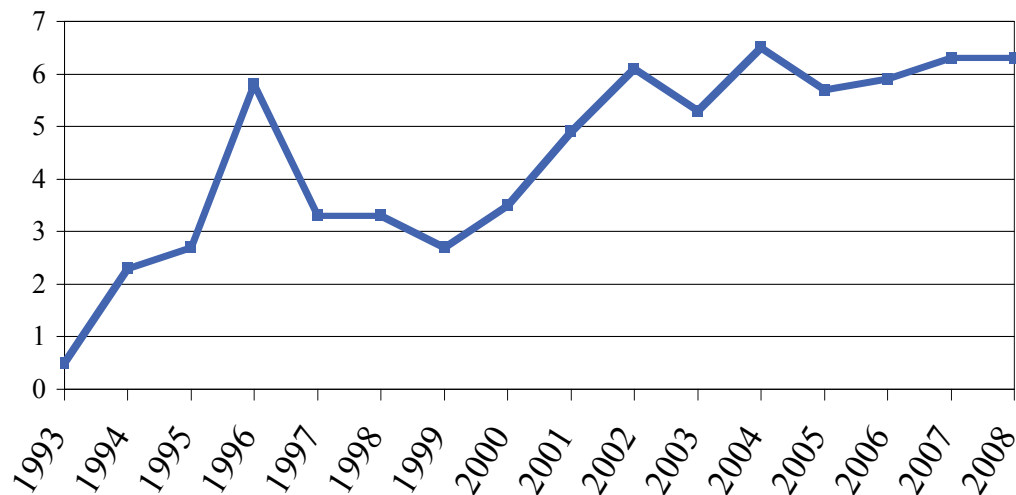


# Africa in Transition

## LESSON 3: Economics Update

Africa is home to most of the least developed countries in the world. It suffers from poor infrastructure, limited trade and foreign direct investment (FDI), huge external debts, and significant corruption and mismanagement. Nearly 70 percent of sub-Saharan Africa's population lives on less than \$2 a day.<sup>i</sup> Yet, despite these challenges, a number of positive developments have taken place in recent years. Since 1995, Africa has averaged between 2.7 and 6.5 percent annual economic growth, including a continent-wide average of 6 percent over the last four years (see Chart 1). Many countries have implemented political and economic reforms to strengthen economic growth and attract more FDI. Regional economic organizations have fostered greater trade among neighbors. Steps have been taken by developed countries to alleviate Africa's debt burden. This update looks at the economic challenges that Africa faces and prospects for future economic development on the continent.

**Chart 1**  
**GDP Growth in Africa**



Source: IMF, *World Economic Outlook*, April

[\(click here for enlarged version of chart\)](#)

### **AFRICAN ECONOMIES TODAY**

In order to truly understand African economies and their prospects for further development, one must first get a clear picture of the main economic activities on the continent. These activities include agriculture, energy and mineral resource extraction, industry and trade, and government service. In addition, it is important to examine rates of unemployment.

## **Agriculture**

(insert before “Traditional Economies” section on page 102)

Sixty-five percent of sub-Saharan Africa’s and almost 50 percent of North Africa’s population lives in the countryside.<sup>ii</sup> As a result, most Africans work in agriculture, which is largely undertaken by hand on small plots of family or village land, where economies of scale cannot take hold. Many African farmers are poor and survive at subsistence levels.

African states often have only a few cash crops. When world demand for a country’s few agricultural exports declines, or when droughts or other natural disasters occur, the country is left unable to pay for badly needed imports. Such situations are made more difficult by the fact that neighboring countries often produce similar products, which leads to increased competition, lower prices, and reduced opportunities for regional trade. Nevertheless, the African Union’s New Partnership for African Development (NEPAD) characterizes agriculture as the potential “engine for growth in Africa.”<sup>iii</sup> Over the past decade, several countries have initiated innovative rural development programs, such as micro finance and village empowerment initiative, helping break the cycle of poverty and subsistence. Indeed, agricultural growth in sub-Saharan Africa has accelerated, exceeding growth in other sectors.

Trade barriers and agricultural subsidies in industrialized countries also handicap Africa’s efforts to develop through agricultural exports. For example, removing U.S. cotton subsidies could increase the income of millions of West African households involved in cotton production by 8 to 20 percent.<sup>iv</sup> Better access to markets in the developed world would allow African countries to become less reliant on aid and loans. The United States has taken some steps to open its markets to African goods, particularly through the African Growth and Opportunity Act (AGOA). However, agricultural goods still comprise only a small percentage of African exports under AGOA.

## **Energy and Mineral Resource Extraction**

(insert before “Industry and Trade” section on page 103)

Africa has immense deposits of energy and mineral resources. In North Africa, oil and gas play a major role in the economies of Algeria, Egypt, and Libya. Libya derives 54 percent of its gross domestic product (GDP) from petroleum exports, and Algeria garners nearly 30 percent.<sup>v</sup> Egypt’s energy earnings are more limited, but still significant. In sub-Saharan Africa, Angola, Equatorial Guinea, Nigeria, and Sudan all have significant energy resources. Most of the west coast of Africa, stretching from Angola in the south to Côte d’Ivoire in the northwest, is rich in oil. In 2007, Africa supplied 20 percent of U.S. oil imports, and that number is expected to rise to 25 percent by 2015.<sup>vi</sup>

Africa also has enormous non-energy resources. In addition to oil, Angola has diamonds, gold, bauxite, and uranium. The Democratic Republic of the Congo (DRC) has cobalt, copper, diamonds, gold, silver, tin, and uranium. Namibia has large deposits of copper, diamonds, lead, tin, and zinc. Zambia has large quantities of cobalt, copper, lead, and zinc. South Africa has huge quantities of antimony, chromium, copper, diamonds, gold, manganese, nickel, platinum, tin, and uranium. Roughly a third of the world’s bauxite reserves can be found in Guinea.

Since Africa holds such enormous energy and mineral wealth, why is it one of the poorest regions of the world. First, one must consider Africa’s historical legacies and the general

problems associated with a reliance on just a few primary products for export. Second, much of Africa's natural wealth is concentrated in only a few countries. Third, some countries that do have natural wealth have not been able to exploit it. Fourth, foreign corporations are often the beneficiaries of the exploitation of Africa's natural wealth. These businesses pay wages and bring in investment and technology. However, there have also been many cases where foreign firms have abused populations, severely degraded the environment, and taken home huge profits. Finally, even when African states have control over their natural resources, few people generally benefit. Corruption on the part of government and corporate officials is a significant problem. Money that could be used for development is often diverted into personal bank accounts.

## **Industry and Trade**

(insert after 2<sup>nd</sup> paragraph on page 104)

Industrial production in Africa is modest but increasing. It accounts for about one-third of the overall African GDP.<sup>vii</sup> Also, African trade grew from \$246 billion in 2000 to \$570 billion in 2006.<sup>viii</sup> Nevertheless, it is important to note that African countries account for only 2 percent of world trade.<sup>ix</sup>

Under the United States' African Growth and Opportunity Act (AGOA), forty-one sub-Saharan African countries receive trade preferences to export goods to the United States. Initially, this expanded access led to strong job gains in the textile industry. However, since 2005, U.S. imports of African textile products under AGOA have decreased, while U.S. AGOA-related imports of crude oil, platinum, diamonds, transportation equipment, and cocoa have been increasing.<sup>x</sup>

Over the last few decades, an increasing number of Africans are engaged in export processing zones (EPZs). In these areas, multinational corporations pay workers to assemble imported parts into finished products for reexport. The main criticism of EPZs is that export companies are physically separated into their own areas. Technology and production skills often do not spread throughout the rest of the economy. Still, EPZs attract needed foreign investment, and increase employment, exports, and foreign exchange.

## **Government Service**

(insert before "Unemployment" section on page 104)

After independence, many African leaders maintained overstuffed government bureaucracies and state-owned enterprises (SOEs). They hoped this added employment would foster development, ensure loyalty, and discourage political unrest. This practice proved expensive, inefficient, and ripe for corruption. Friends, relatives, and supporters were often given high-level government or business positions that they were unqualified to handle.

SOEs were created to establish industries and build up the economy; however, many SOEs produced inferior products at a high cost. As a result, beginning in the 1980s, many African countries started to privatize state-controlled businesses. This trend caused layoffs, protests, and even riots in several countries. Since the start of the 2000s, privatization has generally slowed, even though it has at times brought some improvements in services, examples ranging from water services in Senegal to electrical services in Gabon and Tanzania. A survey conducted in 15 African countries shows that only a third of respondents prefer private to state-owned companies.<sup>xi</sup>

## **Unemployment**

(Insert before “Country Snapshots” section on page 104)

The estimates for the number of unemployed Africans are generally considered unreliable, but the United Nations projects that the average unemployment rate in sub-Saharan Africa has persisted at about 10 percent since 1990.<sup>xii</sup> To gain a sense of the variability, in 2007, Nigeria posted a hard to believe unemployment rate of only 5 percent, South Africa posted a rate of 24 percent, and Senegal 48 percent.<sup>xiii</sup> Meanwhile, in North Africa, unemployment has declined, dropping from 14 percent in 1996 to 11 percent in 2006.<sup>xiv</sup>

The number of underemployed is even more difficult to estimate. Many agricultural workers and those who have migrated to African cities hold only part-time jobs. They often work in the informal sector outside of taxation and regulation. In sub-Saharan Africa, informal employment is estimated to comprise two thirds of non-agricultural employment.<sup>xv</sup>

## **PROSPECTS FOR ECONOMIC DEVELOPMENT IN AFRICA**

(insert before “Structural Adjustment Programs (SAPs) section on page 108)

Many people inside and outside of Africa are working to overcome the challenges faced by the continent. Here, we examine six key issues to gain a better understanding of how to achieve sustainable development in Africa: Structural Adjustment Programs (SAPs), “development with a human face,” reduction of debt, foreign investment and aid, education, and regional economic integration.

### **Structural Adjustment Programs (SAPs) and “Development with a Human Face”**

(insert after 2<sup>nd</sup> paragraph on page 110)

To address their development needs, African countries often have to go to the International Monetary Fund (IMF) and the World Bank for loans. These loans are tied to specific policy reforms, commonly called Structural Adjustment Programs (SAPs). SAPs have been a factor in Africa’s stronger economic growth since the mid-1990s. However, some argue that SAPs, while setting the stage for economic growth, place a disproportionately heavy burden on the poor. Africans have protested that the policy reforms requested by the IMF and World Bank, such as privatization, trade liberalization, and fiscal restraint, undercut their chances for “development with a human face.” In response, the IMF and World Bank have sought to focus more closely on the broader development picture, and transform SAPs into Poverty Reduction Strategy Papers (PRSP). The aim of PRSPs is to promote growth with an emphasis on poverty reduction. PRSPs also emphasize greater involvement of national governments in decision-making. Still, difficult choices often have to be made and overall development remains a long-term challenge.

In 1990, the United Nations Development Program (UNDP) launched its annual *Human Development Report*. This report is designed to focus international attention on a broader understanding of development, or “development with a human face.” It looks at more than economic indicators, such as growth rates, per capita incomes, and debts. The Human Development Index (HDI), published in the report, looks at three criteria: life expectancy, educational achievement, and income. The 2007/2008 Human Development Index ranked 177 countries around the world, including 50 African countries. Of the 22 countries in the “low human development” category, all were from Africa. Twenty-five African countries were

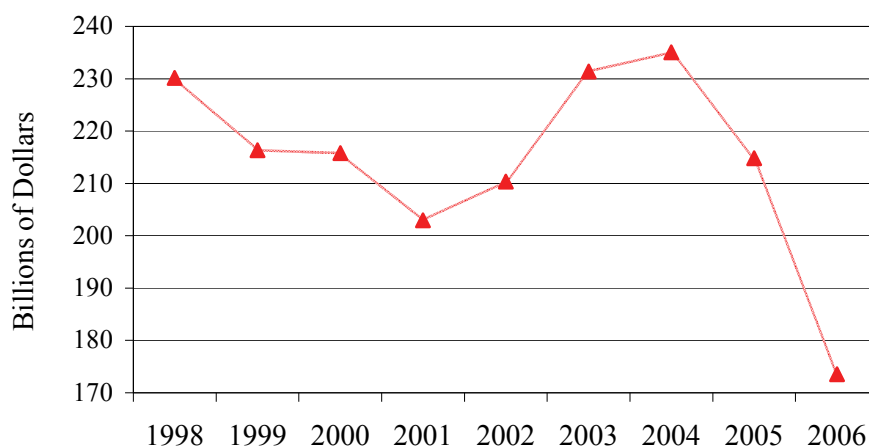
classified in the “medium human development” category. Only 3 countries—Seychelles, Libya, and Mauritius—had a “high” level of human development.<sup>xvi</sup>

## Debt

(insert before “Foreign Investment and Aid” section on page 110)

In 2006, debt in sub-Saharan Africa declined to \$174 billion, down from \$215 billion in 2005, and \$235 billion in 2004 (see Chart 2). Much of this reduction has come because of debt-relief programs from the international community, which has recognized the tremendous drain on resources debt burdens cause in African countries. For example, the Highly Indebted Poor Countries Initiative (HIPC), which started in 1996, seeks to reduce the debt of eligible countries to “affordable” levels. The program initially received mixed reactions, partly because of the conditions attached to HIPC, such as privatization and trade liberalization. Critics argued that these conditions had a negative impact on African economies, and instead called for an unconditional and total cancellation of Africa’s debt.

**Chart 2**  
**External Debt in sub-Saharan Africa 1998 - 2006**



Source: The World Bank, *World Development Indicators*, 2000-2008.

[\(click here for enlarged version of chart\)](#)

At the 2005 Gleneagles Summit in Scotland, Britain’s Prime Minister Tony Blair focused the Group of Eight (G-8) industrialized countries on development issues in Africa, including debt. The eight leaders agreed to expand the HIPC initiative to provide 100 percent cancellation of all multilateral debt for countries that have completed the HIPC program. This new initiative is called the Multilateral Debt Relief Initiative (MDRI). As a result of these two initiatives (HIPC and MDRI), the overall external debt of sub-Saharan Africa has declined significantly, allowing these countries to spend more on such areas as health care, rural infrastructure, and education.

## Foreign Investment and Aid

(insert after 1<sup>st</sup> paragraph on page 111)

Foreign investment and foreign aid are also important sources of capital for African countries as they try to expand their economies. African countries provide some of the highest rates of return

on investment in the world. Nevertheless, even though 2006 FDI inflows in Africa were twice their 2004 level, they remain small. In 2006, Africa attracted only 2.7 percent of the world's total FDI. Investors often shy away from Africa because they see the continent as a high-risk, high-gain business environment, plagued by rampant crime and corruption, poor infrastructure, and a lack of skilled labor. The investments that do come to Africa are highly concentrated in a few countries that export natural resources, such as oil and minerals. More than one third of all FDI to Africa goes to North Africa, primarily to Egypt.<sup>xvii</sup> Much of the remaining FDI goes to Equatorial Guinea, Nigeria, Angola, and Sudan, each of which has substantial oil reserves, as well as South Africa, which has a rich mining sector.

Aid to Africa has increased since the turn of the century. In 2005, the G-8, the World Bank, the UNDP, and the UK Commission for Africa all developed initiatives to address the challenges to development in Africa. For example, the G-8 pledged to double aid to Africa by 2010, to \$22 billion (by 2008, only \$3 billion had been delivered).<sup>xviii</sup> Private foundations such as the Bill and Melinda Gates Foundation, the Ford Foundation, and the Rockefeller Foundation are also playing increasingly major roles in development assistance. Still, much needs to be done to meet the Millennium Development Goals, set out by the UN, of achieving a serious improvement in quality of life by 2015.

## **Education**

(insert before "Regional Economic Integration" section on page 111)

Education is also critical to economic growth and development in African countries. Increased access to education can lead to improvements in such areas as health, labor productivity, and environmental protection. Improvements in female education are particularly important because they result in decreases in both infant mortality rates and population growth, among other social statistics. For these reasons, many African countries now consider education a top priority.

Despite significant increases in recent years, only 70 percent of primary-school-age children in sub-Saharan Africa are enrolled in school. Only 25 percent of secondary-school-age children are enrolled. Illiteracy rates in sub-Saharan Africa are 50 percent for women and 30 percent for men.<sup>xix</sup> A major obstacle to universal education in Africa is a lack of resources—teachers, schools, and classroom materials. These problems are particularly severe in rural areas.

There are, however, some success stories. While illiteracy in sub-Saharan Africa is still high, it has improved from rates of more than 90 percent in 1960.<sup>xx</sup> In 1978, the small country of Benin adopted legislation on compulsory education. As a result, by 2006, 80 percent of school-age children were enrolled in primary schools.<sup>xxi</sup> In Botswana, Ethiopia, Seychelles, South Africa, and Sudan, over 90 percent of graduating primary school children continued their education in secondary schools.<sup>xxii</sup> And in South Africa, the number of black students and teaching staff in universities has vastly increased since the end of apartheid.

## **Regional Economic Integration**

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Another important area to look at when discussing the prospects for sustained economic growth in Africa is regional economic integration. Intra-African trade represents only 12 percent of all African trade, and the continent's regional economic organizations have had limited success for several reasons.<sup>xxiii</sup> First, African economies tend to be more competitive than complementary.

Second, the benefits and costs of regional integration tend to be unevenly distributed among participating states. Third, the organizations themselves often have institutional deficiencies. And, fourth, many regional organizations in Africa overlap, resulting in a duplication of effort. Nonetheless, as discussed in the update for Lesson 6, “Foreign Policy,” several regional organizations show significant promise, such as the Southern African Development Community (SADC), the East African Community (EAC), the Economic Community of West African States (ECOWAS), and the Common Market for Eastern and Southern Africa (COMESA).

*For more recent information, please visit the timelines at [www.southerncenter.org](http://www.southerncenter.org).*

Christopher L. Brown and Bozena Radwanska-Zayac  
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<sup>i</sup> Table “2.6: Poverty,” in *2007 World Development Indicators*, World Bank, (Washington, DC: World Bank, 2007), 63.

<sup>ii</sup> United Nations (UN), Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2007 Revision Population Database*, <http://esa.un.org/unup>, (percentage of rural population (accessed June 30, 2008).

<sup>iii</sup> Harsch, Ernest, “Agriculture: Africa’s ‘Engine for Growth’,” in *Africa Renewal*, United Nations Department of Public Information, October 2007 <http://www.un.org/ecosocdev/geninfo/afrec/nepad-reprint/nepad-reprint-web.pdf> (accessed July 30, 2008).

<sup>iv</sup> Oxfam America, “Paying the Price: How US Farm Policies Hurt West African Cotton Farmers – And How Subsidy Reform Could Help,” Key Findings from “Impacts of Reduction in US Cotton Subsidies on West African Cotton Producers,” Julian M. Alston, Daniel A. Sumner, and Henrich Brunke’s Study, 2007, [http://www.oxfamamerica.org/newsandpublications/publications/research\\_reports/paying-the-price/Paying\\_the\\_Price\\_Summary.pdf](http://www.oxfamamerica.org/newsandpublications/publications/research_reports/paying-the-price/Paying_the_Price_Summary.pdf) (accessed July 14, 2008).

<sup>v</sup> U.S. Department of State, Bureau of Near Eastern Affairs, “Background Note: Libya,” October 2007, <http://www.state.gov/r/pa/ei/bgn/5425.htm> and “Background Note: Algeria,” <http://www.state.gov/r/pa/ei/bgn/8005.htm> (accessed June 2008).

<sup>vi</sup> Energy Information Administration, “U.S. Imports by Country of Origin: total crude oil,” [http://tonto.eia.doe.gov/dnav/pet/pet\\_move\\_impcus\\_a2\\_nus\\_epc0\\_im0\\_mbb1\\_a.htm](http://tonto.eia.doe.gov/dnav/pet/pet_move_impcus_a2_nus_epc0_im0_mbb1_a.htm) (accessed July 31, 2008) and National Intelligence Council, “External Relations and Africa,” Discussion Paper, March 16, 2004, [www.dni.gov/nic/PDF\\_GIF\\_2020\\_Support/2004\\_03\\_16\\_papers/external\\_relations.pdf](http://www.dni.gov/nic/PDF_GIF_2020_Support/2004_03_16_papers/external_relations.pdf) (accessed July 31, 2008).

<sup>vii</sup> Table “4.2: Structure of Output,” in *2008 World Development Indicators*, World Bank (Washington DC: The World Bank, 2008), 202-204.

<sup>viii</sup> International Monetary Fund, *Direction of Trade Statistics: Yearbook 2007* (Washington DC: International Monetary Fund, 2007), 2.

<sup>ix</sup> Ibid.

<sup>x</sup> The U.S. Department of Commerce, International Trade Administration, “U.S. – African Trade Profile,” 2008, <http://www.agoa.gov/resources/US-African%20Trade%20Profile%202008%20-%20Final.pdf> (accessed July 1, 2008).

<sup>xi</sup> John Nellis, “The Evolution of Enterprise Reform in Africa: From State-owned Enterprises to Private Participation in Infrastructure and Back?” ESMAP Technical Paper 35990 (The World Bank, November 2005) [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/05/01/000090341\\_20060501103146/Rend ered/INDEX/359900PAPER0ES1John1Nellis01PUBLIC1.txt](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/05/01/000090341_20060501103146/Rend ered/INDEX/359900PAPER0ES1John1Nellis01PUBLIC1.txt) (accessed August 1, 2008).

<sup>xii</sup> United Nations Economic Commission for Africa, *Economic Report on Africa 2008* <http://www.uneca.org/era2008/> (accessed August 4, 2008).

<sup>xiii</sup> Central Intelligence Agency, *The 2008 World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/fields/2122.html> (accessed October 2, 2008).

<sup>xiv</sup> United Nations Economic Commission for Africa, *Economic Report on Africa 2008*.

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