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Booming Africa

IS AN EAST ASIA-STYLE BOOM UNDER WAY?

Once considered hopeless, much of sub-Saharan Africa is booming. Seven of the world's 10 fastest-growing economies currently are in Africa. High prices for the continent's oil and mineral exports have brought a surge of government revenue and investment, but the growth is occurring in commodity-poor countries as well. Better governance, less war and the rapid spread of cell phones and other communication technologies are fostering growth even in nations with few natural resources. Debt forgiveness and the rise of China, India and other emerging markets as trading partners and sources of investment also have spurred economies forward. Demographers say that with the continent's working-age population projected to expand by a third by 2020, Africa could benefit from a "demographic dividend" that would fuel sustained economic growth, even as populations in developed countries and Asia are growing older. Yet, the population boom also poses challenges: Africa's economies must provide enough jobs for the growing number of workers with expectations of a better life.

Construction cranes punctuate the skyline of Luanda, Angola's capital, where a building boom is being financed in part by high world prices for the country's oil exports. As in other oil-exporting African countries, a flood of petro-dollars has fueled Angola's robust growth — more than 14 percent annually in recent years — despite a sluggish global economy.

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Booming Africa

BY JASON MCLURE

THE ISSUES

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A young mineworker in South Kivu province in the Democratic Republic of Congo (DRC) helps to extract cassiterite and coltan, valuable minerals used to manufacture sophisticated electronics. More than 90 percent of the DRC's export income comes from diamonds, minerals and oil, leaving the economy vulnerable to fluctuations in global prices. Many African countries are trying to become less dependent on such commodity exports.

Just two decades ago, destitute Mozambique could have been the poster child for the economic basket case that was much of sub-Saharan Africa. More than a million people had died in a 17-year civil war, and up to a third of its 15 million people had fled their homes. With much of its farmland sown with landmines, the country had to import grain to feed itself. And the war's $15 billion cost — about seven times Mozambique's annual economic output — had virtually bankrupted the country. [1]

Today, the Texas-sized country bordering the Indian Ocean is rising from the ashes. Newly built resorts offer $600-a-night rooms along the 1,550-mile coastline. Vast coal deposits and the discovery of natural gas reserves twice the size of Saudi Arabia's could make Mozambique one of the world's largest energy exporters in the next decade, and a new aluminum smelter is one of the biggest in the world.

Mozambique's turnaround has been mirrored across much of sub-Saharan Africa, where per capita income has risen 132 percent over the past 15 years. Seven of the world's 10 fastest-growing economies currently are in sub-Saharan Africa, which is projected to grow by 5.3 percent next year, compared with 2.1 percent in the United States and 0.2 percent in eurozone countries, according to the International Monetary Fund (IMF). [2]

Yet many outside of Africa still think of the continent as it was 20 years ago. As recently as 2000, *The Economist* labeled Africa "the hopeless continent." The misperception "represents . . . a chasm between perception and reality," said a report this year from Ernst & Young, an international accounting firm. [3] "The facts tell a different story — one of reform, progress and growth."

The fruits of Africa's recent growth are visible across the continent: in the polished marble floors of the 205,000-square-foot Accra Mall, an American-style complex in Ghana's capital city featuring Apple and Nike stores and a five-screen cinema; in the high-tech, deep-water oil drilling platforms off Angola's coast; and in the sharp reductions in infant mortality in countries such as Ethiopia and Rwanda.

Analysts bullish on the continent's future see indications that sub-Saharan Africa is set for a sustained period of economic growth that could raise many of its countries to middle-income status. "Africa could be on the brink of an economic takeoff, much like China was 30 years ago and India 20 years ago," said a recent World Bank report. [4]

The growth is attributable in part to a boom in oil revenues stemming from high global prices and increased production in petro-states such as Angola, Chad and Equatorial Guinea. Yet, significantly, between 1996 and 2008 a star group of 17 emerging African economies produced per capita income growth of more than 2 percent per year — and another seven nearly reached that milestone, which economists say is a significant measure of rapidly rising living standards. None of the 24 countries were oil exporters.

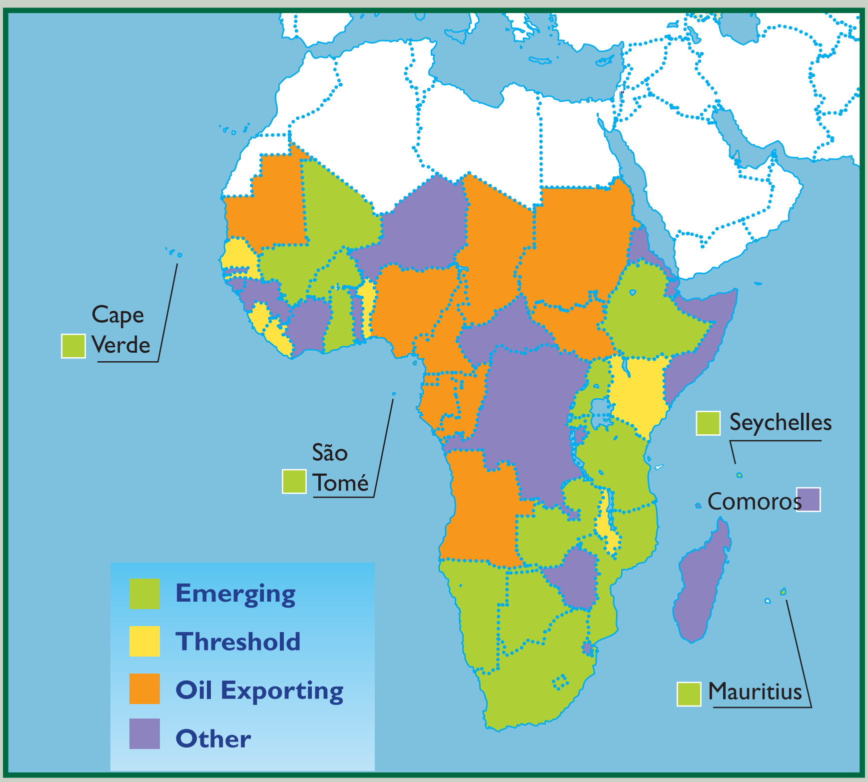
"Thailand in 1960 looks a lot like Ethiopia or the Democratic Republic of Congo today," says Susan Lund, director of research at the McKinsey Global Institute, a subsidiary of the international consulting firm. "South Korea in 1965 looks like Senegal, Tanzania or Ghana. When you look backwards you think Africa could capture this potential."

And while it may seem far-fetched to compare Africa's rise to that of emerging economic giants like India, China or Brazil, consider the following:

A Continent on the Rise

In the past 20 years, 17 sub-Saharan countries are experiencing what some are calling an African Renaissance. These "emerging" countries have embraced democracy and economic reforms — such as slashing regulations, tariffs and the cost of starting a business — and saw per capita income rise more than 2 percent per year between 1996 and 2008, according to Steven Radelet, chief economist at the U.S. Agency for International Development. In his 2010 book Emerging Africa, *Radelet also identified six "threshold" economies, with growth rates under 2 percent but showing signs of a turnaround. Ten oil exporting countries have economies and politics that are heavily influenced by oil revenues, and 16 others are neither oil exporters nor considered "emerging," according to Radelet.*

Economic Status of Sub-Saharan Africa



Source: Steven Radelet, Emerging Africa: How 17 Countries Are Leading the Way *(2010). Map by Lewis Agrell*

• Between 2010 and 2020, some 122 million young people will enter Africa's labor force, providing a massive "demographic dividend" that will give the continent a larger labor force by 2035 than any country or region, including China or India. [5] By 2040, 1.1 billion Africans will be of working age, according to McKinsey.

• Although most of Africa is viewed as corrupt, 28 sub-Saharan nations are considered less corrupt than Russia, and six score better than India on Transparency International's Corruption Perceptions Index. [6]

• Africa's income per capita is greater than India's, and six sub-Saharan countries have greater income per capita than China. [7]

• While African countries are considered more difficult to do business in than other developing nations, eight sub-Saharan countries rank ahead of Russia on the World Bank's "ease of doing business" index; 12 were ahead of Brazil and 13 ahead of India. [8]

Several changes have fueled sub-Saharan Africa's growth since the dark days of the 1970s and '80s. First, countries across the continent have significantly improved governance and expanded democracy. Though many countries are still dominated by a single party or governed by authoritarian rulers — such as Rwanda's Paul Kagame or Uganda's Yoweri Museveni — corrupt, unaccountable despots like Zimbabwe's Robert Mugabe are an increasingly rare species. Major civil wars such as those that damaged the economies of Sudan, Angola, Mozambique and Liberia in the 1980s and '90s have ended or quieted significantly.

"Africa has reached the point that the Scandinavians got to 100 years ago, when they decided they are tired of fighting each other and said: 'Let's put everything down and work towards a more peaceful region,' " says Ifediora Amobi, director of the African Institute for Applied Economics in Enugu, Nigeria. "More stability will translate into growth."

Second, African central banks and finance ministries have become better economic managers. In the late 1970s and '80s, Ghana was hit by low prices for cocoa, its main export, and high prices for oil, which it imported. The government responded by controlling consumer prices, paying artificially low prices to cocoa farmers and expanding the civil service nearly 10-fold. As a result, the budget deficit ballooned, inflation reached 120 percent and cocoa production plummeted. Since the reversal of some of the harmful policies, Ghana's economy has become one of the strongest in Africa, with growth averaging more than 5 percent over the past 25 years. [9]

In addition, Africans have benefited enormously from technological advances, particularly in communications and information technology. The Internet provides more information — ranging from scientific research to engineering designs to financial data — than the continent's largest research libraries, and it is increasingly available, even in rural areas. Moreover, on a continent where phone service was once rare and expensive, mobile phones have become ubiquitous, even in remote areas of the Sahara Desert.

"Africa had no connectivity, and now everyone is connected by mobile phone. That has just changed things everywhere," said Jacko Maree, chief executive officer of South Africa-based Standard Bank Group. [10]

Finally, international lending institutions have forgiven many African countries' foreign debt, which has freed up government revenues to be spent on education, health care and infrastructure. Interest on foreign debts fell from 16 percent of Africa's export earnings in 1995 to 8 percent today. [11]

To be sure, growth has not occurred evenly across the continent, and even some of Africa's fastest-growing economies still face corruption, inequality and ethnic strife. Long-running conflicts continue in Somalia and the Democratic Republic of Congo, discouraging foreign investment, hindering efforts to build infrastructure and prolonging instability.

In addition, outside of South Africa and a handful of small countries such as Mauritius, nearly all sub-Saharan economies depend heavily on exports of raw materials such as oil, gas, minerals or agricultural commodities. And while many commodity prices are high at the moment, export-driven economies remain vulnerable to fluctuations in global prices.

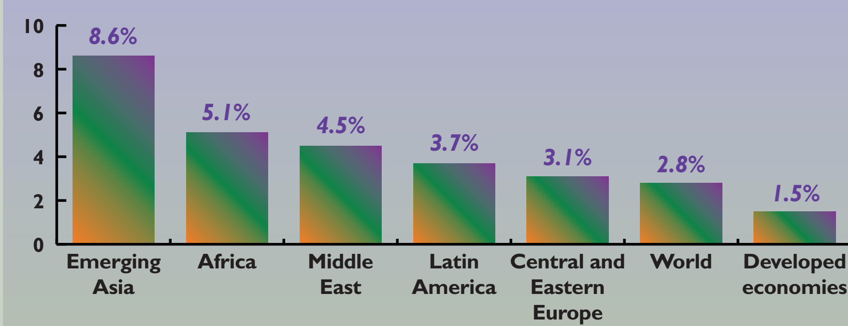
"A lot of this [growth] is still being driven by natural resources," says Vijaya Ramachandran, a senior fellow at the Washington-based Center for Global Development. "Africa has not diversified into manufactured exports. It has not been able to compete with Asian countries."

Moreover, while exports of minerals, oil and gas generate high revenues for governments, they have so far provided few jobs for Africans. Many of the jobs in these industries are filled by foreign workers trained by multinational companies. The failure to develop labor-intensive manufacturing has left many countries with high unemployment. Although the official un-

Africa Among Fastest-Growing Regions

Africa's gross domestic product (GDP) — a measure of economic output — grew at an average rate of 5.1 percent from 2000 to 2010, second only to emerging Asia (top). Angola, which has been exploiting its newfound oil reserves, had the world's fastest-growing GDP during the decade ending in 2010. For the current five-year period, seven of the world's fastest-growing economies (below, in red) are expected to be in Africa, with Ethiopia ranked just behind booming China and India.

Compound Annual GDP Growth by Region, 2000-2010



World's Fastest-Growing Economies, by Annual Average GDP Growth

2001-2010		2011-2015	
Angola	11.1%	China	9.5%
China	10.5%	India	8.2%
Myanmar	10.3%	Ethiopia	8.1%
Nigeria	8.9%	Mozambique	7.7%
Ethiopia	8.4%	Tanzania	7.2%
Kazakhstan	8.2%	Vietnam	7.2%
Chad	7.9%	Congo	7.0%
Mozambique	7.9%	Ghana	7.0%
Cambodia	7.7%	Zambia	6.9%
Rwanda	7.6%	Nigeria	6.8%

Sources: "Africa's Impressive Growth," The Economist, *January 2011, www.economist.com/blogs/dailychart/2011/01/daily_chart; David Fine,* et al., *"Africa at Work: Job Creation and Inclusive Growth," McKinsey Global Institute, August 2012, p. 1, www.mckinsey.com/insights/mgi/research/africa_europe_middle_east/africa_at_work*

Miners' Strike Deepens South Africa's Woes

Vast gulf between rich and poor bedevils the economy.

Even now, exactly how the trouble started in a dusty, brush-strewn field in Marikana, South Africa, on Aug. 16 isn't entirely clear. In the end, though, the clash between about 3,000 South African police and a similar number of striking platinum miners left 44 people dead, including 34 miners.

Video of the confrontation showed police opening fire with automatic rifles after tear gas failed to disperse the crowd, some of whom were armed with clubs and spears. Police said they came under fire first and initially charged 270 strikers with murder. [1]

The charges were dropped after a public outcry, and the government has opened an official inquiry into the incident. Whatever the outcome, the clash exposed deep divisions in South Africa and frustration with a democracy that has allowed wide disparities in income to persist 18 years after the end of the country's hated apartheid government.

"Nothing, nothing, nothing has changed," a Marikana man told the BBC after the bloodshed. "Democracy is just a word like a bird flying up in the sky."

South Africa is the largest economy in sub-Saharan Africa but has one of the most unequal distributions of income anywhere in the world. The top 10 percent of the population accounts for 58 percent of income, while the bottom 50 percent earns just 8 percent.

The legacy of apartheid is seen as a major reason for the inequity, because blacks were largely denied the opportunity to gain education, land and capital. Economic growth has averaged 3.2 percent annually since 1995, a modest rate for a middle-income country. [2] And it has not been rapid enough to resolve inequalities or quell discontent among a growing population, where unemployment stands at 25.2 percent.

The strike, which ended after the mine operator, U.K.-based Lonmin, agreed to raise wages by up to 22 percent, has served as a catalyst for other labor actions. By early October an estimated 70,000 miners were on strike around the country, nearly a quarter of the total and a figure that included iron, gold and coal miners. An additional 28,000 truck drivers also went on strike seeking better pay and conditions. [3]

"Down with monkey salaries — down," said Buti Manamela, president of the Young Communist League, during a march near the offices of global mining giant AngloGold Ashanti in Orkney. "Divided we fall, united we stand. . . . We can never achieve Nelson Mandela's rainbow nation if we are unequal in terms of wages." [4]

The actions have led some mining companies to threaten to close mines and lay off workers, dampening the outlook for an economy hit by the eurozone crisis and slowing growth in China. [5] In late September, the Moody's credit rating agency downgraded South African debt, citing the government's "reduced capacity to handle the current political and economic situation and to implement effective strategies that could place the economy on a path to faster and more inclusive growth." [6]

The move reflects doubts about President Jacob Zuma's leadership and that of his ruling African National Congress (ANC), which has run the country since its transition to democracy in 1994 under President Mandela. The country's major unions have

employment rate for the continent is 9 percent, only 28 percent of Africa's labor force is in formal, wage-paying jobs, according to McKinsey. The remainder are in subsistence farming or informal trades such as hawking wares on the street — jobs the consulting firm describes as "vulnerable employment." [12]

"A lot of people in the West are so impressed with our growth, but in Sierra Leone a lot of the growth has come from the exploitation of iron ore," says Omotunde Johnson, Sierra Leone country director for the London-based International Growth Centre, a think tank. "The miners are all foreigners, so that is going to create a new set of problems when these African youth who are not trained and educated are not getting work."

As analysts examine Africa's economic expansion, here are some of the questions they are asking:

Can African economies diversify away from natural resource production?

Africa's recent growth has been driven largely by production of oil, gas and minerals. The so-called extractive industries account for more than 25 percent of exports in about half of the sub-Saharan countries, and in some cases the share is much higher. [13] In Equatorial Guinea, oil production brings in 98 percent of export earnings; in the Democratic Republic of Congo more than 90 percent of export income comes from diamonds, minerals and oil. In petroleum-rich Gabon, oil exports account for 60 percent of export earnings. [14]

The gushing revenues are due to both increased exploitation of resources and higher world prices. Between 2000 and 2009, oil production in Africa rose 24 percent. The continent now has about 10 percent of the world's oil reserves and 8 percent of its gas. [15]

Meanwhile, world oil prices shot from around $20 per barrel in the 1990s to around $100 this year — after having reached as high as $148 per barrel in 2008. African commodity exports such as gold, copper and coltan (a critical component in manufacturing electronics) saw similar increases.

"Technology is changing rapidly, and there will be more natural resource discoveries in Africa going forward," says long been key allies of the ANC, but this year's strikes have largely been wildcat labor actions undertaken without the support of union leadership — and reflect the popular perception that ANC leaders are more focused on their own enrichment than improving the lives of the poor.

That perception has been buttressed by reports that the government is paying for $27 million in improvements to Zuma's private home, ostensibly to improve security. "In 1994 there were massive problems, but there was also a massive amount of hope," William Gumede, a political analyst, told *The New York Times.* [7] "Now people feel hopeless. People have lost confidence in all of these institutions they trusted will make a difference, like the unions and the ANC. The new institutions of democracy — Parliament, the courts — people have also lost confidence that those can protect them and help them."

— Jason McLure

AFP/Getty Images/Alexander Joe

Striking gold miners in Carletonville, South Africa, demand better pay and working conditions on Oct. 18, 2012. The placards read "We demand 18,500 rands — silicosis the cause of death in mines" and "Don't let police get away with murder."

[1] "South Africa's Lonmin Marikana Mine Clashes Killed 34," BBC News, Aug. 17, 2012, www.bbc.co.uk/news/world-africa-19292909. See also, Faith Karimi and Nkepile Mabusi, "South African Commission Probing Miners' Deaths Starts Proceedings," CNN, Oct. 1, 2012, www.cnn.com/2012/10/01/world/africa/south-africa-mine-unrest/index.html.

[2] "South Africa Economic Update: Focus on Inequality of Opportunity," World Bank, July 2012, p. vii, http://documents.worldbank.org/curated/en/2012/01/16561374/south-africa-economic-update-focus-inequality-opportunity.

[3] Devon Maylie, "South Africa's Labor Woes Worsen," *The Wall Street Journal*, Oct. 3, 2012, http://online.wsj.com/article/SB10000872396390443768804578034271819419406.html.

[4] Rodney Muhumuza, "Facing Pressure to End Strikes, South African Miners Find Strength in Numbers, Tough Words," The Associated Press, Oct. 4, 2012, *Calgary Herald*, www.calgaryherald.com/business/facing+pressure+strikes+SAfrican+miners+find+strength+crowd+numbers/7344234/story.html.

[5] For background, see Christopher Hack, "Euro Crisis," *CQ Researcher*, Oct. 5, 2012, pp. 841-864.

[6] "Moody's Downgrades South Africa's Government Bond Rating to Baa1; Outlook Remains Negative," Moody's Investors Service, Sept. 27, 2012, www.moodys.com/research/Moodys-downgrades-South-Africas-government-bond-rating-to-Baa1-outlook--PR_256159.

[7] Lydia Polgreen, "Upheaval Grips South Africa as Hopes for Its Workers Fade," *The New York Times*, Oct. 13, 2012, www.nytimes.com/2012/10/14/world/africa/unfulfilled-promises-are-replacing-prospects-of-a-better-life-in-south-africa.html?pagewanted=all.

Ramachandran, of the Center for Global Development. "Almost all of Africa will be an oil or mineral exporter. The question is how will they manage this?"

In the past, rising natural resource earnings have not been used to lift large numbers of people out of poverty. Paradoxically, developing countries rich in natural resources generally do not perform as well economically as countries without oil, gas or mineral wealth — a phenomenon known in economic circles as the "resource curse." [16]

"They have grown more slowly, and with greater inequality — just the opposite of what one would expect," Joseph Stiglitz, a Nobel Prize-winning economist, wrote recently in Britain's *The Guardian*.

"After all," he continued, "countries whose major source of revenue is natural resources can use them to finance education, health care, development and redistribution." [17]

The "resource curse" is blamed on several factors, including:

• Rapidly rising energy and mineral earnings tend to boost the value of the exporting country's currency, making foreign imported goods cheaper for the local population but making it harder for local exports of commodities or manufactured goods to compete with countries that have cheaper currencies.

• Governance may suffer as political leaders focus on capturing ballooning export revenues rather than taxing citizens for public services. Corruption abounds when a relatively small number of government officials control access to lucrative extraction licenses and contracts.

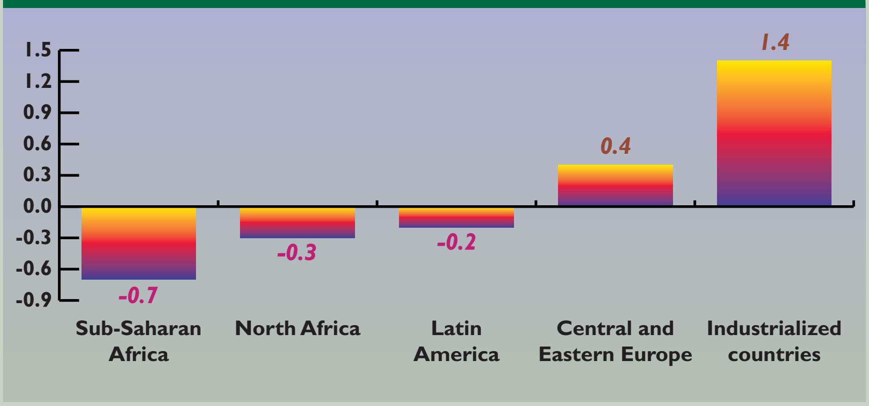
• Booms caused by high world prices often spur high levels of government spending and borrowing, which can lead to busts and debt crises when commodity prices tumble, as happened in the early 1980s in many African countries.

To enable continued growth and boost employment and productivity, African nations must expand their manufacturing and farming sectors, say analysts. But building internationally competitive industries will be a major challenge for many African nations, given their small size and lack of roads, electricity and other infrastructure. In fact, Africa's manufacturing sector has declined as a share of the continent's gross domestic product,

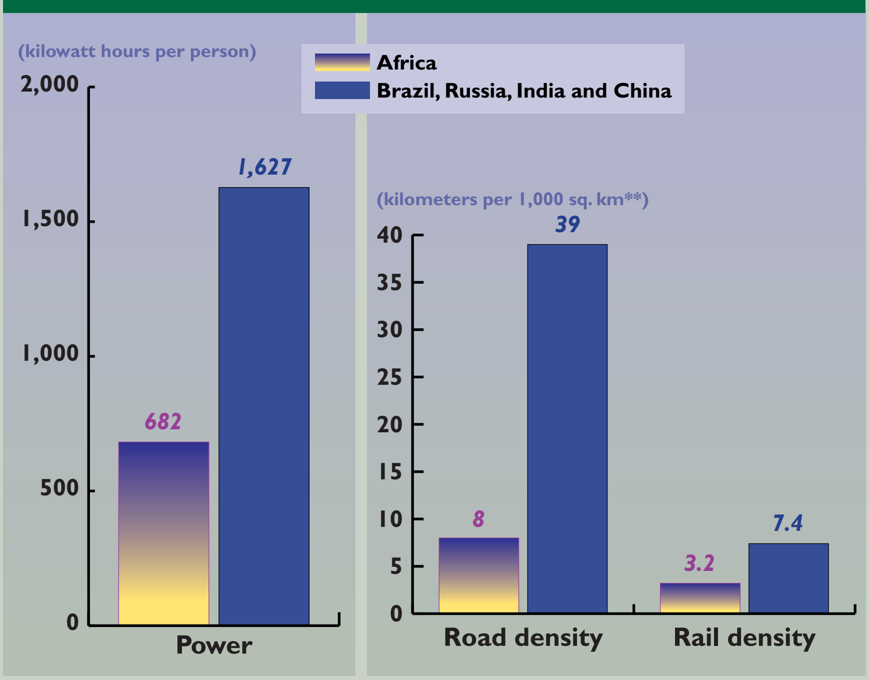
Poor Governance Hinders Africa's Progress

Some foreign investors are wary of investing in sub-Saharan Africa's industrialization, largely because of corruption and the lack of infrastructure. The region is the most poorly governed in the world (top) and trails the emerging BRICs (Brazil, Russia, India and China) in the development of infrastructure (bottom).

World Bank Governance Ratings by Region, 2011
(-2.5 to 2.5 scale, with 2.5 being best)*



Comparing Africa's Infrastructure with the BRICs, 2012



* *Based on government accountability, stability and effectiveness; regulatory and legal systems and corruption levels*

** *A kilometer is about six-tenths of a mile. A square kilometer is 0.39 of a square mile.*

Sources: "Is Africa About to Take Off?" Societe Generale, *May 2011; and David Fine,* et al., *"Africa at Work: Job Creation and Inclusive Growth," McKinsey Global Institute, August 2012, p. 43*

falling from 15.3 percent of GDP in 1990 to 10.5 percent in 2008. [18]

"Manufacturing has started on a small scale, but that has to pick up," says Johnson, the Sierra Leonean economist. "Education and training are not there. And there is a general inefficiency in investment," he says, referring to poor investment returns due to systemic problems such as low productivity, corruption and lack of infrastructure that are "keeping a lot of investors out."

African economies are not well integrated, part of the continent's colonial legacy. Many countries on the arbitrarily divided continent are so small they cannot generate economies of scale large enough to compete globally, as China and India have been able to do, with their billion-person domestic markets. Landlocked Burkina Faso, for instance, has a population of 17 million — slightly smaller than Florida — and few roads to connect it to neighboring economies.

And larger African nations must compete with Chinese and other highly efficient Asian manufacturers. [19] In Ethiopia, a large, landlocked country with 91 million people, it is cheaper to buy a wooden chair made in China than one made domestically, even after transportation costs are factored in. That's because Ethiopian workers manufacture 0.3 pieces per day, compared to 4.9 in China. [20]

Even South Africa has trouble competing with Asia, despite having a highly developed infrastructure and established access to export markets in Europe and elsewhere. Willie Van Straaten, a chief executive officer of South Africa's Inventec, a company that designs exercise equipment and games, says his products are made in China because the scale of its integrated manufacturing sector makes it difficult for South Africa to compete.

"A lot of your Chinese factories have got very good vendor networks around them, so they may manufacture just one-third of the product, but two-thirds will come from the vendor network around them, and those vendors specialize in just one item," he recently told the television station African Business News. "So in South Africa you have to go and manufacture almost every item at low volume which makes it very, very expensive." [21]

Some analysts say Africa's growth is not all due to rising commodity export earnings. Steve Radelet, chief economist at the U.S. Agency for International Development, wrote that although rising commodity prices "have helped in some cases, the turnaround in the emerging countries is not solely the result of favorable commodity prices." [22] He found that between 1980 and 2006, with the exception of nine oil-exporting countries, the ratio of the cost of imported food and other goods rose as fast or faster than income from exports. In other words, higher prices for African exports cannot explain Africa's growth because the prices consumers paid for imports also rose.

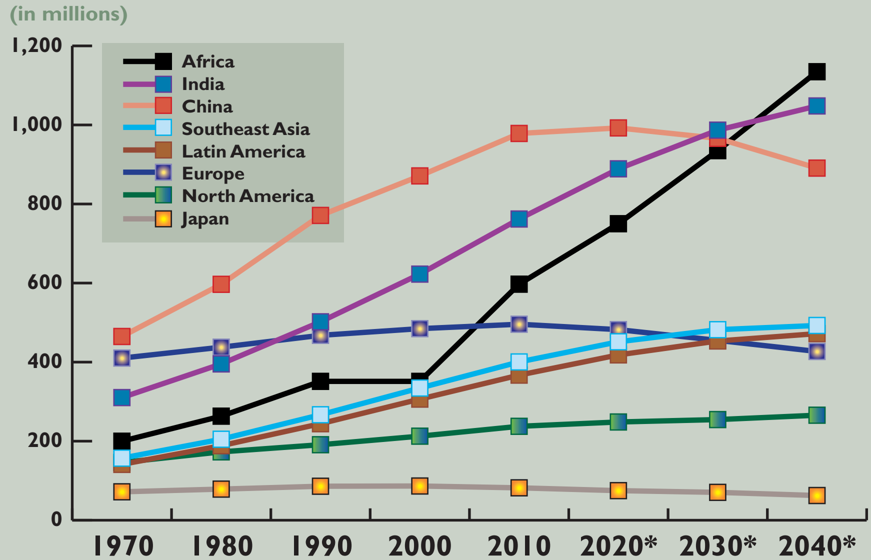
Others say Africa has an opportunity to develop labor-intensive industries — such as horticulture, leather-working and textiles — especially once labor costs in China and other Asian manufacturing countries begin to rise. In Lesotho about 40,000 people now work in the garment industry for companies that export textiles to the United States under the African Growth and Opportunity Act, which allows duty-free access to the U.S. market. [23]

"It's not quite as dire as you might think," says Lund, of the McKinsey Global Institute. "We think the dynamics might be changing. There are two opportunities: the changing wage dynamics and higher transport costs (because of oil prices) both work against production in China."

African Workforce to Surpass All Others

Africa's working-age population is expected to exceed 1 billion by 2040, giving the continent a larger labor force than any country or region, including China or India. Experts say the burgeoning labor force will attract outside investors because of the growing consumer market they represent, but others warn that all those workers will need jobs.

Size of the Working-Age Population (ages 15 to 64), 1970-2040



* projected

Source: David Fine, et al., "Africa at Work: Job Creation and Inclusive Growth," McKinsey Global Institute, August 2012, p. 13, www.mckinsey.com/insights/mgi/research/africa_europe_middle_east/africa_at_work

Can Africa provide enough jobs for its fast-growing population?

Sisay Asrat, a 27-year-old from the Ethiopian town of Debre Zeit, is happy to have a job at one of the dozens of flower farms that have sprung up in her country over the past decade. Even though she is only earning a little over a dollar a day, working in the farm's cold room packing roses to be shipped to Europe is better than having no job at all.

"There are no alternatives for those of us who don't have an education," she says. "I was dependent on my family. Now I cover my children's food, clothing and school fees."

Generating jobs for burgeoning populations is one of the most vexing challenges facing sub-Saharan economies. The continent's 9 percent official unemployment rate belies the fact that only 28 percent of the labor force has stable, wage-paying employment. Although that figure is up from 24 percent in 2000, 63 percent of the workforce is still in "vulnerable employment" — a category that includes subsistence farming or other informal sector jobs such as selling goods from market stalls and working as day-laborers. [24]

"The key thing is, are people getting wage-paying employment?" says Lund, of the McKinsey Global Institute. "Are they getting out of subsistence agriculture and street-hawking?"

Analysts say agricultural productivity could be boosted to make farming a more stable long-term job for millions. Expanding large-scale commercial

AFP/Getty Images/Issouf Sanogo

Getty Images/Per-Anders Pettersson

Changing Economies

Generating jobs for burgeoning populations is one of the most vexing challenges facing sub-Saharan governments, since only 28 percent of the region's labor force has stable, wage-paying jobs. Given the strong worldwide demand for Africa's natural resources and commodities — such as the cocoa beans being sorted by a farm worker in Côte d'Ivoire (top) — African governments want more of the continent's raw goods to be processed before they're exported, creating more domestic jobs. In Gaborone, Botswana, for instance, raw diamonds now are being sorted and polished before export (bottom).

farming on uncultivated land and moving from low-value grain production to labor-intensive crops such as flower farming could add up to 14 million stable jobs in the region by 2020, according to McKinsey.

Given the strong demand for African natural resources, employment and income could be boosted by processing more of those raw goods before exporting them, analysts say. "If you add more value to the resource, then you can generate more jobs," says Ramachandran, of the Center for Global Development.

For instance, Ghana and Côte d'Ivoire (Ivory Coast) together produce 69 percent of the world's cocoa, which can only be grown in tropical and subtropical climates. [25] Yet, Switzerland and Belgium are famous for making expensive chocolates from that African cocoa. Starbucks Corp. pays Ethiopian coffee farmers as little as $1.42 per pound, and sells some specialty beans — which the company roasts, grinds and markets — for as much as $26 per pound. [26] And Africa's largest crude oil exporter, Nigeria, imports gasoline because it lacks refining capacity. [27]

African manufacturers are on pace to generate 8 million new jobs by 2020, and could add an additional 7 million over that period, if governments improve infrastructure, cut unnecessary regulation and ease access to finance. The retail sector could add up to 14 million more jobs; currently Nigeria has only six shopping malls for 19.5 million people who live in its four largest cities, according to McKinsey. In total, the consulting firm forecasts that the continent will add 54 million stable jobs by 2020.

Yet, expanding employment comes with costs. For instance, a wave of new, large commercial farms has displaced many existing smallholders. In 2009 alone, 77 million acres of African farmland were transferred to commercial investors — many of them foreigners. Often, the land was sold out from underneath small farmers who lacked clear title to the land that their families had been tilling for generations. [28]

"All we want before they break our houses and take our fields is for them to show us the new houses where we will live, and the new fields where we will work," said Sekou Traoré, a 69-year-old villager in Mali, about plans to transfer land farmed by his family to Libyan investors. [29]

"They have to modernize agriculture, but when you modernize agriculture it's a double-edged sword because you kick out a lot of people from the agriculture sector," says Johnson, the Sierra Leonean economist.

Others say that despite Africa's recent growth, the rate of job growth is far too slow for the continent's growing workforce. While 54 million stable jobs may be added by 2020, the number of people in vulnerable employment is expected to grow by 67 million — and at current trends, the absolute number of people in "vulnerable" work will not decline until 2080.

Thus, at current rates, many African nations will have large numbers of underemployed young people, which can lead to political instability.

"The crisis of unemployment is a ticking time bomb, and if we are not careful in dealing with it we will see another Egypt and Tunisia," said Buti Manamela, secretary of South Africa's Young Communist League, referring to the legions of young people who took to the streets in 2011 and toppled Arab governments. [30]

Is Africa about to undergo an East Asia-style boom?

During the early 2000s, many sub-Saharan African governments adopted economic reforms, such as curbing deficits, privatizing banks, freeing exchange rates and slowing inflation. The private sector expanded rapidly, fueling support for additional reforms. Growth averaged 5 percent a year during the decade before the 2007-08 financial crisis but actually accelerated to 6 percent between 2006 and 2008. The growth wasn't solely attributable to oil: 22 non-oil exporters enjoyed 4 percent or higher annual growth during the decade.

"Then the global economic crisis hit, and everyone including myself panicked," says Shanta Devarajan, the Sri Lankan-born chief economist for Africa at the World Bank, "because now the payoffs for the reforms have disappeared."

In the United States and Europe, some countries took measures to stave off depression, such as nationalizing banks and expanding deficits to as high as 10 percent of gross domestic product (GDP). With the global economy in free fall and Western governments intervening to prop up ailing financial and industrial firms, it would have been understandable if African governments had run-up large budget deficits and incurred foreign debts. Instead, sub-Saharan budget deficits widened by only 2 percent of GDP in 2009, and economies continued to grow by an average of 2.8 percent, even as European and North American economies were shrinking.

By 2010 economic growth in the region had rebounded to 5.3 percent. The resilience in the face of the financial crisis indicates that even stronger growth lies ahead, says Devarajan. He predicts that the region, with the exception of fragile or failed states such as Somalia, are on the brink of a sustained economic takeoff, with annual growth rates of more than 7 percent. Since the 1980s such growth rates have been commonly associated with China, and from the 1960s to the 1990s with the East Asian "tiger" economies of South Korea, Taiwan, Hong Kong and Singapore.

Better economic governance is not the only thing Africa shares with the East Asian tigers prior to their takeoff. Like the tigers, Africa's growth will be propelled in the coming decades by a "demographic dividend," according to some analysts.

The median age on the continent is 18, and there are 70 million more people under age 14 than there were a decade ago. The latter figure will rise by 76 million over the next decade. [31] Meanwhile, by 2035 the number of retirees and children that each worker supports, a figure known as the "dependency ratio," will fall from the highest in the world to about the same level as that in Western countries. As a result, each worker will have more disposable income to invest or spend on non-essential items. [32]

"The crisis of unemployment is a ticking time bomb, and if we are not careful in dealing with it we will see another Egypt and Tunisia."

— Buti Manamela
Secretary
South Africa's Young Communist League

"This is what happened in East Asia in the 1970s and '80s, and if we can manage it right Africa has the demographic characteristics to experience the dividend," says Devarajan.

But others are more pessimistic about the prospects for a sustained boom, because corruption and unpredictable legal systems discourage foreign investment. "Africa is still not very good at things like corruption and efficiency of government," says Johnson, the Sierra Leonean economist. "Even some of the so-called diaspora [Africans working overseas] who might have $100,000 here and $200,000 there and together can come up with a million, even they are reluctant to go back and invest. The legal systems are awful. There are delays, there is corruption."

High transportation costs, which can be up to six times those in southern or eastern Asia, also block industrial growth in Africa. A 2009 World Bank study blamed monopolies and anti-competitive practices by trucking companies, which operate with high profit margins at the expense of other industries.[33] Reforms to prevent such problems may be adopted over time, but in the interim they are slowing growth.

"I'm not saying they'll stand still over the next 20 years; there will be progress," says Johnson. "But when you look at the population growth, that progress will be too slow."

Others see growth being dampened in the near future by the European debt crisis and a weakening of Chinese demand for African exports like oil, copper and coal.


Getty Images/Per-Anders Pettersson

Chinese workers construct a new railway near Luanda, Angola. Chinese companies have invested heavily in African mines and oil wells and have provided concessional loans to African governments to build roads, railways and electricity plants. Thousands of Chinese workers have come to Africa in recent years to build infrastructure projects.

Isabella Massa, a France-based researcher for the Overseas Development Institute, an international development think tank in the United Kingdom, says Europe's debt crisis will slow foreign direct investment and aid from Europe to Africa. Remittances to Nigeria from expatriate Nigerians fell by more than half in 2011, and Kenya's tourism and horticulture industries, which depend on European markets, also declined. Businesses in countries such as Angola, Rwanda and Cameroon are receiving fewer loans from European banks as well, she adds.

"The escalation of the Eurozone crisis and the fact that growth rates in the emerging BRIC [Brazil, Russia, India and China] economies, which have been the engine of the global recovery after the financial crisis, are now slowing down make the current situation particularly worrying for African countries," says Massa. ■

BACKGROUND

Colonialism

Beginning in the 15th century, contact with Europeans had a profound impact on the economy of Africans. The Portuguese, English, French and Dutch initially sought to extract gold and ivory from the continent, but by the 17th century they had shifted their interest to a more lucrative trade: human beings.[34] Between 1600 and 1870 as many as 11.5 million Africans — mostly from Africa's western coastal states — were brought to work as slaves in North and South America.[35]

The impact of the slave trade on the region varied. The area near today's West African nations of Senegal and Gambia provided many of the slaves in the early years of the trade.[36] In the 1700s civil wars in the area around modern-day Nigeria provided a large number of slaves, who were shipped out via ports in Benin and from British slave forts in Ghana. After the Portuguese banned the slave trade north of the equator in 1815, the trade shifted further south toward Angola and the Democratic Republic of Congo.

Bans on the slave trade in the early 19th century fueled European exploration of Africa's interior. By the late 19th century the major colonial powers — Britain, France, Belgium, Portugal and Germany — were in a "scramble

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Chronology

1400s-1700s

Europeans begin trading with Africa, eventually shifting from buying gold and ivory to slaves, taking an estimated 11.5 million people from Africa and undermining local economies.

1800s ***Europeans begin colonizing Africa.***

1807
Slave trade is banned in the British Empire, but not slavery.

November 1884-January 1885
European powers meet in Berlin to establish rules for colonizing Africa; "scramble for Africa" begins.

1950s-1970s

Era of independence begins. Optimism turns to stagnation.

1956
Substantial oil reserves are discovered in southern Nigeria.

1957
Britain grants independence to Ghana. Most British colonies become independent by 1965, including Nigeria, Uganda, Kenya, Zambia, Malawi and Gambia.

1958
Guinea becomes independent. Most French African colonies gain independence by 1960, including Mauritania, Nigeria, Senegal, Gabon, Republic of Congo, Central African Republic, Chad, Niger, Benin, Mali, Cameroon, Togo and Ivory Coast (now called Côte d'Ivoire).

1960
Mineral-rich Katanga province secedes from newly independent Democratic Republic of Congo with Belgium's support, sparking six years of political crisis and civil war.

1973-1979
Skyrocketing oil prices hit oil-importing African countries hard; World Bank counsels spending cuts by African governments, fueling poverty. Oil producers such as Gabon and Nigeria see revenues jump.

1980s-1990s

Heavy borrowing and economic mismanagement lead to high rates of debt; end of Cold War spurs reforms.

1981
World Bank economists warn that many of its loans to poor countries cannot be repaid and should be canceled.

1991
Collapse of Soviet Union heralds end of Cold War and diminishing superpower support for African dictators.

1994
End of apartheid in South Africa ends international isolation of continent's largest economy.

1995
Foreign debt owed by sub-Saharan governments tops $340 billion, up from $11 billion in 1970.

1996
Chinese President Jiang Zemin visits six African countries promising aid "without political strings." . . . IMF and World Bank launch debt relief program for heavily-indebted poor countries.

2000s-Present

Improved economic governance along with spread of democracy and new communications technology spur growth.

2000
United States passes African Growth and Opportunity Act, eliminating tariffs on hundreds of African products.

2005
International debt relief is expanded, freeing African governments to spend more on economic development.

2006
Forty-eight African nations attend meeting on cooperation with China in Beijing. President Hu Jintao promises to increase Sino-African trade to $100 billion by 2010.

2009
Global financial crisis slows growth in Africa but continent avoids recessions experienced in United States and Europe. Relative isolation of African banks helps them avoid global financial contagion; continuing Chinese demand for African commodity exports helps fuel growth.

2010
Number of Africans with mobile phones tops 500 million as Internet and mobile technology spread.

2011
Oil-producer South Sudan gains independence from Sudan. African oil production tops 417 million barrels per day, up from 328 million in 1991.

2012
More than 40 South African miners and police are killed during unrest over wages and benefits; anger over income inequality grows in Africa's biggest economy.

The High Cost of Nigeria's Fuel Subsidy

Love of low-cost fuel costs government dearly.

Most mornings, enterprising young Africans along Togo's coastal border with Benin harvest a surprising catch: jerry cans full of fuel. Wooden boats carry the contraband gasoline on a 13-hour trip from Nigeria through the Gulf of Guinea. Then, when they are close to the coast, young men swim out with empty jerry cans and fill them with gasoline and then haul them back to shore.

The fuel is then poured into large blue barrels and distributed as far as Ghana, Mali and Burkina Faso, where it is often sold on the street in liter liquor bottles at a steep discount from the price charged by licensed filling stations. The smuggling is profitable because fuel is heavily subsidized in Nigeria, selling for just 97 naira ($.62) per liter, or about $2.33 per gallon. [1]

Such subsidies are roundly criticized for a variety of reasons. Not only have price supports fueled the smuggling boom to other West African nations, but a disproportionate share of the subsidy benefits the wealthy and upper-middle-class Nigerians who can afford to own cars.

Moreover, the subsidy has discouraged local companies from building refineries, which has forced Africa's largest exporter of crude oil to import much of its gasoline and diesel from refineries overseas. The subsidy system also is hugely expensive and riddled with corruption. In 2011, the fuel subsidy accounted for 30 percent of government spending. In a country where more than half the population lives in poverty, the government spent $8 billion on fuel subsidies compared with $2 billion on education. [2]

Long-associated with misrule and public corruption, Nigeria in recent years has won praise from the International Monetary Fund and others for its economic management. High crude prices have helped the economy grow more than 7 percent for the past three years, and oil revenue helped cushion the economy during the 2008 global crisis. President Goodluck Jonathan's government has launched efforts to build electricity generation plants and increase lending to small businesses and agriculture to generate employment.

The government is well aware of the costs to the economy

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for Africa," competing for huge tracts of land to secure access to natural resources such as gold and timber. In the process, they sent Christian missionaries, established large administrative bureaucracies and built railroads and other infrastructure — primarily to facilitate the export of raw materials. In the process, millions of Africans died from disease, starvation, overwork and war. [37]

In November 1884, Africa's main European colonizers sought to formalize their conflicting commercial, missionary and diplomatic efforts at a conference in Berlin. [38] At the time, the moral justification for the conquest of Africa was underpinned by pseudo-scientific ideas of European racial superiority, a desire to "civilize" technologically primitive African societies and the hope that Europe might gain from utilizing Africa's raw materials while selling manufactured goods to its inhabitants. [39]

On the eve of World War I, Europeans ruled virtually all of sub-Saharan Africa except Ethiopia. [40] In the late 1800s up to 10,000 independent African political and ethnic groups had been consolidated into 40 European colonies, often with scant regard to ethnic and language groups. The French colonial empire alone claimed 3.75 million square miles of African territory, an area more than 12 times the size of France. [41]

The colonial powers met with armed resistance virtually everywhere and maintained authority only by possessing superior arms and forming strategic alliances with traditional rulers. Financial self-sufficiency was the main goal of European colonial governments; public services such as education, sanitation and healthcare were largely left to missionaries. European-owned companies controlled most commerce and focused on producing cash crops such as coffee, cocoa and rubber or raw materials like minerals and timber. The legacy of that commodity-based economic model still exists in much of Africa today.

World War II had a profound, long-term impact on Africa. Nearly 400,000 Africans joined the British army, and African units helped defeat the Italians in Ethiopia and restore the rule of Emperor Haile Selassie. Africans fighting overseas also witnessed the independence movements in other colonies such as India and Burma, which had won pledges of self-governance from the British Crown. [42]

The war also crippled European economies and led to the rise of the United States and Soviet Union — emerging superpowers that opposed colonialism. Under the 1941 Atlantic Charter between President Franklin D. Roosevelt and British Prime Minister Winston Churchill, Britain and the United States vowed to "respect the right of all peoples to choose the form of government under which they would live." [43] Anti-colonialism was also a key facet of Soviet communism, which of the subsidies. But there's a major hurdle to reducing or eliminating them: Nigerians love low-priced fuel, and for many it's the only government benefit they see. When Jonathan attempted to end the subsidies in January, unions called a nationwide strike, and thousands of people poured into the streets of Lagos, Kano and other cities to protest.

"The doctors are going on strike, the lawyers are not going to court, teachers are on strike, everybody is joining this because the only aspect where we feel government is in the area of subsidy," a protester told the Al Jazeera news network. "If you remove it, then the government can as well resign." [3]

Two weeks after eliminating the subsidies Jonathan partially restored them, citing a "near-breakdown of law and order in certain parts of the country."

— Jason McLure

AFP/Getty Images/Pius Utomi Ekpei

Protesters in Lagos, Nigeria, demonstrate during a nationwide strike after the government tried to abolish decades-old fuel subsidies in January. President Goodluck Jonathan partially restored the subsidies two weeks later, citing a "near-breakdown of law and order" in parts of the country.

[1] Jaime Grant, "On the Road With West Africa's Fuel Smugglers," ThinkAfricaPress, March 20, 2012, http://thinkafricapress.com/economy/road-west-africa-fuel-smugglers-inevitable-spread-nigeria-fuel-crisis.

[2] Vera Songwe, "Removal of Fuel Subsidies in Nigeria: An Economic Necessity and a Political Dilemma," Brookings Institution, Jan. 10, 2012, www.brookings.edu/research/opinions/2012/01/10-fuel-subsidies-nigeria-songwe.

[3] "Nigerian Fuel Protests Turn Deadly," Al Jazeera, Jan. 10, 2012, www.aljazeera.com/news/africa/2012/01/201219132749562385.html.

sought to replace colonial governments in Africa with pro-communist nationalist ones.

Independence and Stagnation

Reform efforts by colonial administrations — ending slave labor, investing in infrastructure and social services and offering Africans a larger governance role — were made grudgingly. Independence came to the region first in 1957, in Ghana, which had a relatively well-educated elite and plentiful cocoa, timber and gold. By 1960 France had granted independence to most of its colonies in West and Central Africa, and by the mid-1960s Belgium had exited its territories.

In 1963, some 32 independent African states (including those of North Africa) gathered in Ethiopia to form the Organization of African Unity (OAU), with a mandate to support the freedom of Africa's remaining colonies and foster continental political and economic integration.

Many of the newly independent countries faced enormous challenges: Some were landlocked, most had largely illiterate and uneducated populations and lacked basic infrastructure. Independence would come later in southern Africa, where colonial or white-dominated governments ruled in Mozambique and Angola until 1975, in Zimbabwe until 1980, in Namibia until 1990 and in South Africa until 1994.

Still, economic optimism ruled in the 1960s. A leading development textbook at the time foresaw Africa as having greater growth potential than East Asia, and the World Bank's top economist ranked seven African countries with potential to top 7 percent annual growth rates. [44] Yet efforts at economic integration were abortive — with consequences for the continent's long-term development.

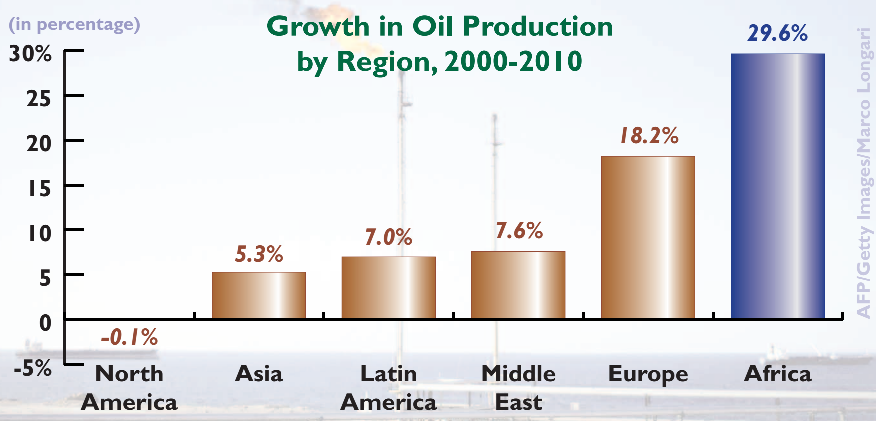
For example, Côte d'Ivoire — France's wealthiest former West African colony — rejected a plan to unify with the seven other Francophone states in the region. As a result, the Ivoirians did not have to share their lucrative coffee and cocoa revenues with their poorer neighbors. The region remained divided into many small, weak states susceptible to foreign economic domination. [45]

The region's economies also were hampered by the legacy of colonial economic management. Between 1945-1960, as Western Europe practiced full-blown capitalism, Britain, France and other powers shackled their colonies with wage and price controls, agricultural marketing boards, state-owned industrial companies and other trappings of centrally planned economies. [46]

The Soviet Union influenced many post-independence African leaders in an effort to export communist ideology to the developing world. Some

Rapid Oil Exploitation Fuels Africa's Boom

African oil production rose by about 30 percent between 2000 and 2010, faster than in any other region. The increase is due to higher global demand for oil and a surge in oil exports from Africa, which has about 10 percent of the world's reserves.



Source: "Oil Production," BP Statistical Review, 2012, www.bp.com/sectiongenericarticle800.do?categoryId=9037169&contentId=7068608

African leaders saw the relatively stable communist economies of 1950s Eastern Europe as good models for development. In the three decades after Ghana's independence, at least 16 countries in sub-Saharan Africa would adopt socialist policies or mold their economic systems along socialist lines, according to World Bank economist John Nellis. Yet the Soviet Union was hardly the only force pushing Africa's newly independent states away from the free market. In many countries, government ownership of resources was seen as a way to prevent an elite few from dominating the economy.

Additionally, without capital markets to finance large businesses or educated business classes to run them, African leaders as well as Western donors saw a need for governments to fill the gap. In some cases, resentment of colonial domination led to nationalization of some foreign-owned companies. Revenues from state-owned companies were considered a source of funds for building infrastructure and other parts of the economy. [47]

Foreign business interests often fueled resentment because their economic practices were viewed by some as neo-colonialist. After the Democratic Republic of Congo gained independence in 1960, the copper-rich Katanga region, backed by Belgian troops and European business interests, tried to secede from the new state. [48] After two years of fighting, the effort failed, however, and the United Nations sent troops to fight on the side of the Congolese government.

In fact, conflict and bad governance played no small role in stifling economic growth. And the two problems were exacerbated by ethnic tensions and Cold War rivalry. The United States and the Soviet Union often backed rival armed factions in sub-Saharan Africa, which helped to extend civil wars. It also led to support for authoritarian "Big Men," such as Zaire's [now the Democratic Republic of Congo (DRC)] Mobutu Sese Seko, who relied on foreign aid and support to buttress his corrupt rule rather than good governance and democracy. During the period between independence and the fall of the Berlin Wall, many of Africa's large countries experienced horrific civil wars or interstate conflicts, including Mozambique, Angola, Nigeria, DRC, Zimbabwe, Chad, Sudan, Ethiopia, Somalia, Uganda and Tanzania. These protracted conflicts stifled investment and infrastructure development and kept living standards low.

By the 1980s, bad governance and ongoing conflicts had fueled massive external borrowing by governments and state-owned companies. Foreign debt in sub-Saharan Africa had increased from around $11 billion in 1970 to $340 billion in 1995. Many countries had borrowed heavily during a period of high interest rates in the 1970s, much of it from multilateral institutions such as the African Development Bank and IMF, but when commodity prices plummeted in the 1980s the fall undermined their ability to repay the loans.

Often, the borrowed money was diverted for private use. For instance, the Mobutu regime in Zaire may have stashed up to $18 billion in foreign banks, a significant portion of which likely came from external loans to the government. [49] Other borrowing was used for consumption or white elephant development projects, such as the administrative capital city of Yamoussoukro, built by Côte d'Ivoire's late President Félix Houphouët-Boigny in his birthplace — complete with a $300 million Catholic basilica.

As a result, many countries found themselves in a "debt trap," in which they could not even pay the interest on their foreign debts, causing them to spiral ever higher. In oil-exporting Nigeria, for example, a disastrous four-year period of borrowing in the 1980s during a period of low world oil prices has haunted the country for more than 20 years. As late as 2003, its external debt was equivalent to 71 percent of its gross domestic product, and interest payments on government debt alone were equivalent to 7 percent of the country's entire economic output. [50]

The combined effects of corruption, conflict, poor economic policies, over-borrowing and unfair trade practices by wealthy nations — which subsidize their domestic farming and light-manufacturing industries — left sub-Saharan economies in tatters by the early 1990s.

From 1965 to 1987, as Asia's economies were growing annually by 4 percent and Latin America's by 2.1 percent, African per capita GDP grew by only 0.6 percent. The differences in growth rates had dramatic effects over time. For instance in 1965, Zambia's per-capita income was higher than that of South Korea. But by 1998 South Korea's was more than 17 times larger. [51]

A host of other statistics detailed the stagnation. Food production in the 1980s was 20 percent lower than in 1970, even as population soared. Per capita incomes fell by almost 2 percent a year. Primary school enrollment declined from 79 percent to 67 percent.

By the 1990s, widespread pessimism about sub-Saharan Africa's prospects abounded. "The economic failure is undercutting a drive for political liberalization, raising ethnic rivalries to a dangerous level and forcing countries to impose politically inflammatory austerity programs, often under the dictates of Western financial institutions," John Darnton, a foreign correspondent, wrote in *The New York Times* in June 1994, as Rwanda was convulsed by a genocide that left at least 800,000 dead.

African "Renaissance"

Such gloomy assessments didn't give a full picture of some of the changes underway in sub-Saharan Africa.

After the collapse of the Soviet Union in 1991, the continent embraced economic reforms — particularly in 17 countries now classified as "emerging Africa" by Radelet, the chief USAID economist. Countries slashed regulations and tariffs and cut the costs of starting a business. [52]

Democratic reforms slowly advanced as well. After decades of struggle, South Africa's apartheid government permitted multiracial elections in 1994. And in a "second liberation," long-serving autocrats such as Benin's Mathieu Kérékou, Zambia's Kenneth Kaunda and Malawi's "Life President" Hastings Banda were voted out of office. The number of African leaders leaving office due to coups, assassination or other violent means declined sharply.

By the late 1990s, reforms in Radelet's 17 emerging countries — a group that excludes oil exporters — had begun to pay off. Per capita income began to rise at more than 2 percent per year, an important threshold for sustained growth. Farm productivity in the emerging countries rose 50 percent between 1996 and 2006, and investment and trade nearly tripled. [53] Meanwhile, a series of debt-relief measures by Western banks and governments in the 1990s and early 2000s freed up cash for education, health and infrastructure.

The political and economic gains of the late 1990s and early 2000s weren't universal. The Democratic Republic of Congo, Sudan, Sierra Leone and Liberia spent parts of that period embroiled in horrific civil wars. Life expectancy in parts of southern Africa declined during the period amid an AIDS epidemic. A number of countries, such as Somalia, the Central African Republic and Eritrea remained fragile states with limited growth prospects. Others, such as Angola, the Republic of Congo and Equatorial Guinea enjoyed rapid increases in their GDP, fueled by oil exports and rising global petroleum prices — but the gains were not shared by the majority of the population.

Despite these setbacks, by the late 1990s South Africa's then-Deputy President Thabo Mbeki had heralded the dawn of an "African Renaissance" built on popular government, economic growth and poverty alleviation. [54] By 2009 the idea had gained such currency that Senegal began work on a "Monument to the African Renaissance," a 170-foot sculpture (taller than the Statue of Liberty) of a man, woman and child meant to symbolize Africa's rise. [55] ■

Current Situation

Hope and Change

With 49 countries in sub-Saharan Africa as diverse as South Africa and Somalia, it is difficult to make generalizations about the vast region. Here are overviews of African economies by sub-region:

East Africa

Cars are banned on the cobblestoned streets of Lamu, a medieval stone city on Kenya's Indian Ocean coast. The town, a UNESCO World Heritage Site where tourists mingle with load-bearing donkeys and souvenir salesmen, may soon lose some of its tranquil atmosphere.

Construction began this year on a $23 billion port project and oil refinery — the jewel of a new transport corridor meant to link landlocked South Sudan and Ethiopia to the sea via Kenya. "I am proud to say this is one of the biggest projects that we are carrying out in Africa," Steven Ikuwa, a manager of the project, told the BBC. [56]

A power plant rises near Libreville, Gabon, on Oct. 11, 2012, part of a $20 billion infrastructure plan financed in part by the country's abundant oil revenues. But critics complain that much of the country's oil wealth has been diverted to the family of President Ali Bongo, who owns dozens of houses around the world. By one estimate, the Bongo family has stolen up to 25 percent of the country's gross domestic product during its four-decade rule.

With economic growth of more than 7 percent from 2003 to 2008, East Africa was one of the world's fastest-growing regions prior to the global financial crisis. Growth dipped in 2009, partly due to post-election violence in 2007-08 in Kenya — the region's business and transport hub — and the effects of the global slowdown. But since then growth has bounced back, and the region is expected to grow by 5.1 percent this year and 5.6 percent in 2013. [57]

However, East Africa is marked by political instability and wide disparities in development among countries. The skyscrapers and landscaped office buildings of Kenya's capital, Nairobi, house the local offices of multinational firms such as Google, Samsung and Pfizer. In Rwanda, the economy is roaring ahead, 18 years after genocide left 800,000 people dead. Economic growth lifted more than 1 million people — nearly 10 percent of the population — out of poverty between 2006 and 2011, while Kenya's investments in an advanced fiber optics network has attracted such companies as Visa, along with top-flight educational institutions like Carnegie Mellon University.

Meanwhile, much of Somalia has not had a stable central government since 1991, and investment has been deterred by an Islamist insurgency. Nevertheless, the economy has managed to stave off collapse — nine mobile phone companies compete for business, and demand in neighboring Kenya is strong for Somali exports such as meat and the widely used narcotic leaf khat, which is chewed. [58] In September, the economy's long-term prospects brightened after African Union peacekeepers and Kenyan soldiers captured Kismayo, the last city held by al-Shabaab, a radical Islamist militia. [59]

South Sudan, which gained independence from Sudan in 2011, has only 100 miles of paved roads in an area larger than France. [60] Ethnic conflict and sporadic cross-border clashes with Sudanese soldiers have left South Sudan as one of the world's least-developed countries. Yet the new port in Kenya — and a pipeline that will connect South Sudan's oilfields to it — is cause for hope. The project will ease South Sudan's dependence on export pipelines through Sudan, with which it fought two destructive wars.

Central Africa

Gabonese President Ali Bongo doesn't lack for places to sleep. The president, who took power in 2009 after the death of his father Omar, owns dozens of houses around the world, including three in Beverly Hills, one on the French Riviera, and a $120 million, 14-bedroom mansion in Paris. By one estimate, the Bongo family has siphoned off as much as 25 percent of the oil exporter's gross domestic product during the family's four-decade rule.

"There's absolutely no shame," said Jack Blum, a United Nations' consultant and expert on offshore banking. "The people running the country are guilty of grand theft nation." [61]

Indeed, oil has been a blessing for the leaders of Central African nations such as Gabon, Equatorial Guinea and Chad. But, for ordinary people, it has brought fewer benefits. Wealth began flowing into Equatorial Guinea in the late 1990s as it expanded offshore oil production. Today the country is the eleventh most corrupt in the world, according to Transparency International. Just 0.7 percent of its GDP is spent

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At Issue:

Is Africa poised for an East Asia-style economic boom?

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When I visited Ghana in June, I met dozens of former U.K. residents — well-educated offspring of Ghanaian immigrants to Britain — who'd recently returned to their ancestral home in West Africa in pursuit of better opportunities. With Britain's economy contracting and Ghana's expanding, thousands from the African diaspora are now working in Africa, in jobs and companies that need their professional skills.

What an historic reversal. Throughout much of sub-Saharan Africa, economic conditions are better than at any time in more than 50 years and have been excellent since the beginning of the 21st century. The obsession of the U.S. media and foreign-aid lobby with disaster, disease and mayhem in Africa has long distorted the continent's image. But with commodity prices high, low levels of debt by global standards, expanding domestic markets and near-record levels of foreign investment, Africa's economic strength is impossible to dismiss.

From 2000 to 2010, six of the world's 10 fastest-growing countries were in sub-Saharan Africa: Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda. In eight of the past 10 years, sub-Saharan Africa has grown faster than Asia. While many of the region's growth stars rely in part on oil exports, Ethiopia — which has no oil — saw its economy grow 7.5 percent in 2011. In 2012, the International Monetary Fund expects Africa to grow at 6 percent — about the same as Asia.

And Africa's boom is benefiting a broad swath of African society — reversing the continent's brain drain, reducing rural poverty, enabling governments to broaden access to free education and improving Africans' technological sophistication.

Will the boom continue? With robust commodity prices, tangible productivity gains due to the mobile communications revolution and the fledgling expansion of African agriculture, the answer is surely yes. Meanwhile, an astonishing 50 percent of Africa's under-25 population is fueling household formation and growth in personal consumption unmatched in the world.

The problems aren't those touted by Afro-pessimists: That Africa remains dependent on imported goods, corruption flourishes and women are unempowered. While these concerns are considerable, they co-exist with an Africa that's generating wealth at an unprecedented rate. The challenge for African leaders is no longer coping with the scourge of scarcity, but rather managing prosperity by reducing inequality and expanding opportunity, especially for women. The big political question is how to ensure that all Africans benefit from the boom.

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If Africa is to embark on an East Asian-style economic take-off, it needs drastic improvement in economic governance and management. This in turn requires much better leadership and cooperation than exists at the present time. The prospect of this happening in the near future is not good.

African countries now face three overarching policy challenges: raising investment, boosting the efficiency of investment and increasing technological change and innovation. To do that, African citizens must be willing and able to design and implement appropriate economic policies.

As everyone knows, investment — in equipment, research and development and education and training — is good for growth. Such investment, relative to domestic product, is currently low in Africa, on average, compared to what Asian countries were able to attain during their years of rapid growth, as well as today.

The efficiency of investment in Africa is low by world standards — a symptom of underlying factors, such as government inefficiency, low education and training, poor operation of markets, weak institutions (rules), corruption and political instability.

The policy failings in Africa come mainly from weaknesses in governance arrangements (rules, processes and organization) which in turn come from weaknesses in leadership and cooperation. The role of institutions in the development process has come to be greatly appreciated over several decades now. Institutions are rules governing behavior in human interaction. But institutions are themselves outcomes of cooperation. In other words, they are elements of the order that cooperation brings about. Hence, countries succeed in the development process when they are able to cooperate to bring about appropriate political, legal and social institutions that favor economic development and growth.

To embark on an East Asian-style economic take-off, African countries need more cooperation. Trust and self-interest will play major roles in bringing that about. Leadership is also crucial. The vast majority of African countries can benefit from transforming leadership at all levels: political, civil society and business.

In building institutions, legitimation processes matter. Indeed, one of the operational requirements for institutions to be effective is legitimacy. Institutions that are not legitimated by the populace at large will not be willingly obeyed and promoted by the people; there will be no sense of loyalty to the institutions.

Continued from p. 538

on education, compared to the average elsewhere in Africa of 3.9 percent, and more than half the population lacks access to basic services such as clean water and electricity. [62]

Still there is cause for hope. The Democratic Republic of Congo, central Africa's most populous nation, is gradually recovering from two wars, the last of which officially ended in 2003. Though conflict simmers in the eastern Kivu region, the DRC's economy will grow by more than 7 percent this year and 8.2 percent in 2013, according to the IMF. [63] Foreign direct investment increased more than fourfold from 2010 to 2011, fueled by telecom companies seeking to expand mobile communications in the heavily populated country. [64]

Southern Africa

In August the De Beers diamond consortium announced it had begun sorting rough diamonds in Botswana's capital, Gaborone, a process it had previously done in London. The move to Botswana, the world's largest producer of diamonds, will transform the southern African nation into a major gem-trading hub, with about $6 billion in gems handled annually. [65]

The shift is emblematic of Botswana's rise from being one of the world's poorest nations at independence to a middle-income nation today, with per capita income of $14,560. Experts attribute the rise to political harmony and wise management of the country's diamond reserves.

Botswana and other southern African nations comprise sub-Saharan Africa's wealthiest region. They also are the most economically integrated, through the 15-nation free-trade bloc known as the Southern African Development Community. Their economies are closely linked with that of South Africa, the regional giant.

Oil exporter Angola grew by an average of more than 14 percent per year in 2003-2008. Yachts in the harbor of the capital, Luanda, must steer through garbage and debris as they come and go. A one-bedroom apartment in the center of Luanda rents for $12,000 a month, leading one British tabloid to declare it "the most expensive city in the world."

However, integration can also have disadvantages. South Africa's advanced economy is heavily reliant on exports to Europe. The European Union is South Africa's largest trading partner and buys one-third of its manufacturing exports — making South Africa vulnerable to the eurozone crisis, as Europe's slowing economies buy fewer South African goods. [66]

Fortunately, strong demand from Asia has helped counteract some of the slowing demand in Europe. South African exports to China alone were worth $12.4 billion last year, although the South African goods China buys are different from those exported to the European Union.

"While South Africa's export profile to Europe is fairly balanced, the same cannot be said for China and other large emerging market partners," said Simon Freemantle, an economist with Johannesburg-based Standard Bank. [67] In 2011, 90 percent of South Africa's exports to China were made up of commodities, he says.

Strong demand for commodities has fueled growth elsewhere in southern Africa. New oil exporter Angola grew by more than 14 percent per year on average between 2003 and 2008. Its economy slowed during the downturn, when oil prices fell but is expected to grow again by 8.2 percent this year and 7.1 percent next year. [68] The rest of the country's economy has struggled to keep up with the tide of petrodollars pouring in. Yachts in Luanda's harbor must steer through garbage and debris as they come and go. A one-bedroom apartment in the center of the capital rents for $12,000 a month, leading one British tabloid to declare it "the most expensive city in the world." [69]

Meanwhile, Zimbabwe's economy is slowly recovering from a spectacular swoon, when it shrank by half between 1998 and 2008 after President Robert Mugabe began seizing land mainly from white farmers and held onto power through violence-riddled elections. The United States and Europe responded with sanctions, further crippling the economy.

After a national unity government was forged in 2009 between Mugabe's ruling party and the opposition, the economy began slowly growing. Zimbabwe dropped its devalued currency and replaced it with the dollar. But growth has been stunted by a government directive last year that all foreign-owned companies cede 51 percent ownership to black Zimbabweans. [70] This year the economy is projected to grow 4.4 percent, according to the African Development Bank, rising to 5.5 percent next year.

The 88-year-old Mugabe remains president, though he is in frail health, and the country is slated to hold elections next year.

West Africa

Niger is among the world's poorest countries, ranking 186th of 187 nations on the U.N.'s Human Development Index. One in eight children dies before age 5, and 60 percent of the population lives in poverty, according to the World Bank.

Yet shoots of hope are sprouting. The country's economy may expand as much as 15 percent this year on higher production of uranium from the country's mines and the beginning of its first oil production. Foreign aid and government efforts have helped increase life expectancy from 42 in 1992 to 54 in 2010, while the percentage of children in primary school has doubled to 71 percent over the last decade. [71]

Niger's growth is emblematic of a transformation underway in West Africa. The region is expected to grow by 6.9 percent this year and 6.4 percent next year, led by strong growth in regional powers Nigeria and Ghana and a rebound in Côte d'Ivoire following a decade of political instability and civil war. (*See sidebar, p. 534.*) Oil discoveries in the Gulf of Guinea, which stretches from Ghana to Sierra Leone, also have boosted growth expectations. Nigeria had been the region's only major oil exporter until 2007, when U.K.-based Tullow Oil made a large discovery in Ghana.

"What you've had since then was an increasing number of finds showing that there are oil systems in the region," British oil analyst John Marks told a reporter, after the announcement of discoveries off Sierra Leone and Liberia. "Announcements like this will only raise the excitement." [72]

Political instability continues to pose risks for growth, however. In Mali, soldiers ousted the democratically elected president in March, and radical Islamists have taken control of the northern part of the country, where they have instituted Islamic law. [73] In October, the United Nations' Security Council declared its "readiness" to aid the government in a military effort to dislodge the Islamists. "There is no alternative," Jack Christofides, an official in the U.N.'s Department of Peacekeeping Operations, told *The New York Times*. "It's going to take military force. [74]

In addition, a decade-long political crisis that divided Côte d'Ivoire between north and south ended in a brief civil war last year after disputed elections. Once one of Africa's wealthiest countries, Côte d'Ivoire has seen foreign investors flee and development of its all-important cocoa sector stall. The economy shrank by 5.9 percent in 2011, as forces loyal to President Alassane Ouattara battled those of former President Laurent Gbagbo. Projected economic growth of 8.2 percent this year and 6.2 percent next year could be hindered by further unrest when members of Gbagbo's government are put on trial for alleged atrocities committed during the civil war. In September the government briefly closed its borders with Ghana after attacks by Gbagbo loyalists based in Ghana left at least 10 dead. [75] ■

OUTLOOK

Chinese Challenges

As sub-Saharan African countries strive for an East Asian-style transformation in the coming decades, much will depend on their relationship with the world's most important emerging economy: China. Africa's trade with China has risen from $10 billion in 2000 to $160 billion in 2011. This year China is expected to become the continent's largest export destination. [76]

In addition, Chinese companies have invested heavily in African mines and oil wells and have provided concessional loans to African governments to build roads, railways and electricity plants. "Their investment ideas are backed by finance," says Ifediora Amobi, director of the Nigeria-based African Institute for Applied Economics. "Even when the Chinese say we'll come build it and put it together, it still is a good model for most countries."

Chinese companies have provided African governments with an alternative to foreign aid and multinational corporations. The competition has allowed African governments to strike better deals than they otherwise would have obtained, say some experts.

"You're finding the big Chinese state-owned companies competing very aggressively on the continent," said Maree, of South Africa's Standard Bank, which is 20 percent owned by a Chinese state bank. "Our view is that generally China has been a huge force for good and for growth and development in Africa." [77]

Others see the relationship as carrying risks as well as reward. Even on concessional terms, African governments could risk being overburdened by debt. In addition, China's authoritarian government's willingness to do business with unsavory regimes such as Zimbabwe and Sudan can undermine needed governance reforms, says Massa, the France-based economist for the Overseas Development Institute.

The Chinese economic juggernaut is a challenge for Africa as its economies seek lift-off in a more competitive global economy than other emerging countries faced in previous decades. "The East Asian countries didn't have to face competition from China," says the World Bank's Devarajan. "China didn't have a China to compete with in global markets."

Others worry that China will continue to dominate manufacturing — discouraging the development of African manufacturing — and that Africans aren't benefiting enough from the commodities-for-infrastructure deals with Chinese firms. "The stream of cheap Chinese exports to Africa may reduce incentives for African firms to build productive capacity or make their products less competitive in foreign markets," says Massa. "Finally, there is a risk that African countries endowed with natural resources are seeing their resources drain slowly away without profiting enough from Chinese deals."

The lack of strong growth in high-employment industries such as manufacturing will lead to deepening political tensions and instability in countries with growing numbers of underemployed and "vulnerable" employed people, says Johnson, the Sierra Leonean economist. Such instability will make it difficult for many countries to enjoy the sustained period of growth needed to improve living standards.

"What will change is the nature of the conflict," he adds. "Right now a lot of conflict is for control of the state. The fight [in the future] will be over jobs and income."

Africa's wealthiest economies may be able to avoid such an outcome, says Lund, of McKinsey. "For the most diversified economies you are seeing this tipping point," she says. "But then for the rest of the African countries, they're in the opposite situation, where the number of vulnerable [people] employed will continue to grow."

Others see the challenges to industrialization for African nations — small size, lack of regional integration and poor infrastructure — as major stumbling blocks. Natural resource wealth may also prove a hindrance if revenue management does not improve. As Chinese labor costs rise, rival developing nations, such as India, could emerge as the next low-cost center of manufacturing.

"I would find it hard to envision" an East Asia-style takeoff for Africa, says Ramachandran, of the Center for Global Development. "The Asian cost advantage will still be significant. Ten years from now I can see better management of resources that could translate into more service [jobs] and back-office operations."

The fact that hundreds of millions of workers in sub-Saharan Africa will still be doing subsistence agriculture or other vulnerable types of work in the decades to come does not necessarily mean their economies will not attain annual rates of 8 percent growth or more, says Devarajan.

"We have to accept the fact that even under the best of circumstances, a large number are going to go into the informal sector," he says. "So we have to acknowledge that rather than fight it. Informal is normal, at least for the next 20 years. Then we should ask the question about how we can improve their productivity."

Devarajan predicts that by 2025 all of sub-Saharan Africa, except fragile states such as the DRC, Somalia and South Sudan, will be middle-income countries with per capita income above $5,000. Development will no longer be measured by the percentage of children completing primary school but secondary education and college. Some sub-Saharan countries, in his view, may even become "manufacturing powerhouses."

"In 2025 it will look like what East Asia looks like today," he says. ■

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McKinsey Global Institute, 1200 19th St., N.W., Suite 1000, Washington, DC 20036; 202-662-3100; www.mckinsey.com/insights/mgi. International economics research arm of the McKinsey consulting firm.

Overseas Development Institute, 203 Blackfriars Road, London SE1 8NJ, United Kingdom; +44 20 7922 0300; www.odi.org.uk. A leading think tank that seeks to shape policy on economic development and poverty alleviation in the developing world.

South African Institute of International Affairs, P.O. Box 31596, Braamfontein 2017, South Africa; +27 11 339 2154, www.saiia.org. Think tank that studies African governance, parliamentary performance and natural resources governance.

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Voices From Abroad:

BEN SEAGER-SCOTT
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Economic potential

"The continent sits on huge natural resources and has a young and growing population, which can drive demand as economic development progresses. Major problems remain over governmental integrity and political interventions, as well as the lack of infrastructure, both of which are vital for supporting economic growth."

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MTHULI NCUBE
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"The continent is experiencing jobless growth. That is an unacceptable reality on a continent with such an impressive pool of youth, talent and creativity."

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KATHRIN TRUMPELMANN
Executive manager, DAV Professional Placement Group, South Africa

The search continues

"African companies are battling to find suitably qualified people who are the cream of the crop in their chosen fields. They are actively recruiting these skills internationally — and that includes South Africa."

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CLIFFORD SACKS
CEO, Renaissance Capital, South Africa

The next success story

"The emerging markets, and Africa in particular, are attracting unprecedented attention as capital shifts from developed to growth markets. With the highest concentration of fast-growing economies, Africa will be the investment success story of the next decade."

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RICHARD JENKINS
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Questions remain

"The big question is if I'm going to invest in South Africa and deal with some of the economic and political issues there, and I'm going to buy a gold mining stock, why wouldn't I own one in Australia or Canada instead?"

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NOEL DE VILLIERS
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Unleashing potential

"We don't just need new jobs. We need new kinds of jobs in new niches innate to the indigenous potential of South Africa's people and assets. . . . New niches for new products in new markets have to be found, and these should be aligned with our indigenous skills and strengths. We have to invent new Africa-sourced products, and fast."

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PETER ESELE
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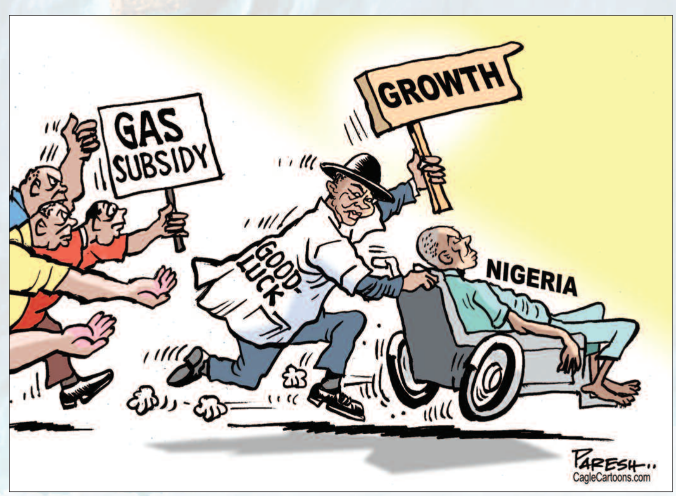

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