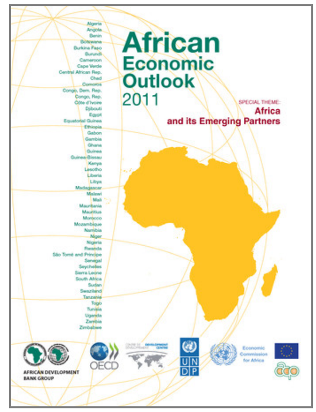
OECD *Multilingual Summaries*

African Economic Outlook 2011: Africa and its Emerging Partners

Summary in English



- Africa's economies have weathered the global economic and financial crisis relatively well and have rebounded in 2010. The continent is expected to continue on its path of recovery although serious headwinds weigh on the momentum for expansion in 2011, notably the political events in North Africa and the high fuel and food prices. The dismal situation in Libya and Côte d´Ivoire shows once again how citizens suffer and economies are brought to a halt when political transitions are not pursued in a peaceful way.
- This year's *African Economic Outlook* examines how the African continent, its regions and countries, have fared during the global crisis and forecasts economic developments in 2011 and 2012. Its thematic chapter explores the relationship between Africa and its emerging partners and casts new light on the impacts for Africa´s development.

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Africa’s Performance and Prospects

Africa´s economies have rebounded from the slump which had been caused by the global recession. In 2010, Africa´s average rate of growth amounted to 4.9%, up from 3.1% in 2009. The political events in North Africa are likely to depress the continent’s growth to 3.7% in 2011. However, this forecast is surrounded by considerable uncertainty. Risks are related to the global economy, notably the impact of the earthquake and nuclear crisis in Japan, and to Africa, in particular the development in Libya and Côte d´Ivoire and how this affects neighbouring countries. With the assumption that economic normality returns in these countries, Africa´s average growth is expected to accelerate to5.8% in 2012.

North Africa is expected to be the only region with lower growth in 2011 compared to the previous year (less than 1% after 4.6% in 2010). Under the assumption of a return to normal economic life, growth of the region is expected to rebound again in 2012. *East Africa* is likely to continue on its growth path of above 6% during the projection period, while growth in West Africa is expected to decelerate to below 6% due to the events in Côte d´Ivoire. In Southern Africa and in Central Africa growth is projected to accelerate, but remain lower than in East and West Africa.

Monetary policies are expected to gradually tighten to respond to inflation concerns related to higher food and energy prices. But, as in most countries, underlying inflationary pressures are expected to remain subdued; there is no need for vigorous tightening. Policies should focus more on core inflation and inflation expectations rather than on the temporary increase of headline inflation.

Africa´s average *fiscal deficit* is expected to increase in 2011 to below 4% of GDP but decline again to slightly above 3% in 2012. But the average masks large differences across countries. However, if disbursements of ODA fall short of expectations as donor countries are facing fiscal problems, and if African governments introduce food and fuel subsidies to protect households from high prices, deficits could be significantly larger. Furthermore, the large number of national elections on the continent this year also bears the risk that office holders will raise spending to get political support from voters, and such “election-cycle politics” would also undermine fiscal consolidation.

After the deterioration in 2009, which had been caused by the fall in commodity prices and export volumes, *external positions* improved as commodity prices and export volumes recovered. But current account positions have generally not regained the levels prior to the global crisis and in some oil-importing countries imbalances are widening.

The current economic recovery in Africa is likely to reduce the cyclical component of unemployment, but structural unemployment remains high in many countries. In North Africa, where economic activity has been disrupted by the political upheavals, unemployment is likely to further increase in 2011. *Youth unemployment* has long been a major problem in North Africa (but also in many other African countries) and contributed to the political unrest which led to the overthrow of governments in Tunisia and Egypt. Labour markets have not been flexible enough to absorb the growing supply of young workers. Given Africa´s rapidly growing population, the demographic pressure on labour markets will continue in many African countries. But in North Africa and Southern Africa the demographic pressure on labour markets will ease as the youth population is projected to remain close to current levels.

A comprehensive approach is needed to address the problem of unemployment in general and of youth unemployment in particular. Improvements are needed both on the supply and the demand side of labour markets. More needs to be done to improve the quality of labour supply so that it better matches the skills required by employers. This also refers to university graduates who are vulnerable to unemployment if their skills do not match job requirements. At the same time labour demand needs tube boosted by further improving framework conditions for economic growth in general and for private sector activity in particular, including through the creation of new firms.

African policy makers must be aware of several sources of global and domestic risks. Economic and social stability needs to be sustained – or where it is disrupted – be quickly restored. Policy requirements are to pursue prudent macro policies and at the same time implement appropriate measures to cope with higher commodity prices. In resource-rich countries, part of the windfall profits could, for example, be put into sovereign wealth funds in order to prepare for the time when prices fall again or resources will be depleted. Given the currently high food prices, governments, which have the necessary resources, might consider protecting vulnerable groups from hunger by providing targeted subsidies, while refraining from costly food and fuel subsidies to the general public. Furthermore, framework conditions for farmers should be further improved so that they are able to increase investment and productivity in response to higher agricultural prices.

The first quarter of 2011 has been among the most turbulent in Africa's history. Peaceful popular uprisings toppled long-standing authoritarian regimes in Tunisia and Egypt. Neighbouring Libya descended into a civil war in which the international community intervened with military force. The future development in Libya and the repercussions on its neighbours are difficult to predict.

In 2011, the continent will experience a record number of 28 national-level elections in 20 countries. An outstanding electoral event has been Southern Sudan's peaceful January referendum in favour of separation from Northern Sudan. This will come into force in July 2011.

In 2010, 13 countries held largely peaceful elections. The presidential election in Guinea that put an end to the institutional crisis generated by the coup d'état in 2008 and the peaceful constitutional referendum in Kenya were significant milestones after the post-election violence in 2008. The crisis and widespread violence in Côte d'Ivoire after a contested presidential election in November marked the low point.

Africa and its Emerging Partners

The 2011 edition of this *Outlook*'s thematic chapter investigates the rise of Africa's emerging partners. It analyses policy options for African policy-makers to make the best out of Africa's rapid integration into the global economy. The decade that began at the onset of the new century saw emerging partners swiftly rise from a relatively marginal position to one of fully fledged partners. Africa's trade volumes with its emerging partners have doubled in nominal value over the decade and now amount to 37% of Africa´s total trade. While China represents Africa's leading emerging partner, having surpassed the United States in volume, the continent's trade with its other emerging partners, taken together, is even larger than its trade with China alone. China represents more than a third of Africa's trade with emerging partners.

The EU and the US remain the most important sources of Foreign Direct Investment (FDI) for African countries. When it comes to Official Development Assistance (ODA), traditional partners also dominate, although the share of emerging partners is growing fast. However, those are only the tip of the iceberg: emerging partners provide Africa with a range of alternative finance modalities that defy FDI and ODA definitions. They tend to adopt a more holistic approach to promoting their exports, supporting direct investment, and offering development assistance.

Africa's business relations with emerging partners are often complementary to those with traditional partners. Because of their diversity, emerging partners offer African countries new opportunities to exchange goods, technology and development models. They make mass consumption goods affordable to the nascent African middle-class and supply production goods adapted to the productive conditions of developing countries. These goods have the potential to help African firms increase their productivity and move up global value chains.

The co-operation activities of emerging partners are also typically complementary to those of traditional partners. The latter have focused their assistance, mostly through ODA, on poverty reduction, health, education and governance. Emerging partners, not only China, are more focused on removing infrastructural bottlenecks.

African manufactured exports have roughly doubled over the last 10 years, mostly driven by the demand of emerging partners. Fears that the intensifying co-operation with emerging partners is boosting Africa´s indebtedness are not supported by available evidence. However, a risk of re-indebtment persists, particularly for the weakest African states. Similarly, existing aggregate governance indicators show no sign of a worsening of corruption. Policy autonomy is affected differently for different groups of African countries: the resource-abundant ones stand to widen their policy space more than others.

However, these general benign trends do not guarantee economic diversification and, thus, policy has a role to play. African countries have to frame their engagement with their emerging partners within a home-grown strategy of national development, particularly with respect to longer-term industrial and agricultural policy. Where absorption capacity is low, large infrastructure investments need to be accompanied by proper budgeting of maintenance costs and consistency with the country's development strategy.

Most African countries still need to enhance their bargaining position vis-à-vis traditional and emerging partners to ensure that these partnerships are actually mutually beneficial and African countries get their fair share of the benefits. Policy options include leveraging the rise in commodity prices to negotiate the supply of infrastructure for diversification, industrialisation and economic development, and holding traditional partners to account on their aid promises.

Faster progress in regional integration is imperative, so that African countries do not engage in "incentive wars", trying to outbid each other for FDI and aid. Better co-ordination means more bargaining power. Besides, from a financing perspective, regional, larger-scale projects would attract more consideration from emerging partners, especially those using Sovereign Wealth Funds (SWFs).

To promote regional integration, African countries can leverage complementarities between partners: traditional partners have the mechanisms to support the Regional Economic Communities (RECs) secretariats, while emerging partners can give additional impetus to build cross-border infrastructure. They would thereby help to boost intra-regional trade, in turn contributing to a virtuous circle of deeper economic integration that would bring closer together the visions of regional actors.