

AFRICA: SITUATION OF ECONOMY

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Abstract

Economic development of Africa, namely its Sub-Saharan part, contrasted in the 1990s with the political instability, economic stagnation or decrease with the previous two decades. After the “lost decade” of the 1980s, there was obvious, notwithstanding the ongoing economic crisis at the beginning of the 1990s, a certain positive turn in developing tendencies. Economic development in the Sub-Saharan Africa of the first half of the 1990s could be characterised as a period of the echoing crisis and the starting phase of renewal, and the second half of the 1990s as the transition into a new phase characterized by considerably more stable macro-economic conditions and a more balanced economic growth. The indicators of the first years of the 21st century indicate the continuation of the development started on the late 1990s, even if the regional conflicts and the political non-stability in many African countries still strongly endanger the fragile economic growth.

Key words: Africa, situation of economy, Sub-Saharan Africa, trade balance, external indebtedness, foreign investments

INTRODUCTION

Developing Africa consists of two main, but quite different according to their economic as well as non-economic characteristics, sub-regions – North Africa and Sub-Saharan Africa. These two regions share the surface of the continent approximately in the rate 30 : 70, their shares in the population are approximately $\frac{1}{4}$: $\frac{3}{4}$. The difference between the two sub-regions is obvious namely regarding the economic level – per capita GDP for Africa as a whole was 894 USD in 2004, at that North Africa 1530 USD and Sub-Saharan Africa only 724 USD. The thesis about Sub-Saharan Africa lagging behind after the other developing regions is supported also by the fact that approximately 34 African economies are, with regard to their generally low economic level, included by UNCTAD among the LCD.

METHODS

In the case of the African region, it is possible to regard as more important factors of this relatively successful, even if lagging behind development mainly the internal factors, namely the decrease of the number of armed conflicts and the different level of success in the implementation of measures in the frame of the economic reforms, so-called Structural Adjustment Programmes (SAPs), aimed at macro-economic stability and other elements

of market oriented reforms. These reforms were started at the recommendation of the World Bank and the IMF in many Sub-Saharan countries from the mid-1980s as a tool of solving the critical economic situation of the whole region, namely for strengthening of the market economy structure and mechanisms and for reaching and sustaining of the macro-economic balance. It is not possible to omit also the favourable climatic conditions which helped to increase the production of agricultural commodities. From the external positive factors, it is also necessary to mention the increasing inflow of finances in the form of the official development assistance (ODA), but also private foreign investments, then also the rather favourable development of the world raw materials prices (with the exception of the drop in 1996) and the development of the (sub)regional economic cooperation, resp. integration (CRAFT, 2005). The methodology is based on the Table 1.

From the macro-economic indicators viewpoint, visible results of the positive shift arrived only at the mid-90s, but Africa as a whole had recorded the turn of the unfavourable development tendencies already from 1993, and from that time on, it showed a rather stable average GDP growth of about 3%. It decreased slightly around 1999, when the growth rate decreased to the value of 2.8% (compared to 5.7% reached by developing countries as a whole and 3.8% of developed market economies). The reason was mainly the fluctuation of the European economy. In the following years, the GDP

Table 1: Macro-economic indicators of Africa in the period 1996–2005

Indicator	1996–2005	2001	2002	2003	2004	2005	2006	2007	2008
GDP (in %)	1.9	4.0	3.6	4.6	5.1	5.0	6.1	6.2	5.2
Inflation rate (in %)	27.4	12.1	9.8	10.6	7.7	7.7	6.3	6.3	10.1
Foreign investments (bill. USD)	–	5.5	7.6	12.2	13.0	15.0	23.4	32.1	32.4
External indebtedness (bill. USD)	–	256	263	283	281	283	238.1	265.8	268.0
Debt/GDP (in %)	–	58.4	56.8	50.5	41.5	36.7	24.9	24.1	21.0
Export volume growth rate (in %)	5.1	0.5	1.3	6.6	6.9	7.4	2.6	6.4	–1.0
Export value growth rate (in %)	9.0	–7.0	2.8	25.5	28.6	19.0	18.8	18.9	24.6
Import volume growth rate (in %)	–	5.7	7.5	6.6	9.6	7.4	10.7	19.8	11.0
Import value growth rate (in %)	–	1.8	8.7	21.5	26.5	14.2	16.8	25.1	23.8
Trade balance/GDP (in %)	–0.3	–0.3	–1.7	–0.3	0.2	0.8	3.6	1.0	1.0

Source: World Economic Outlook, IMF, Washington, 2009

growth was strengthened again and reached even 5.1% in 2004. As a very positive phenomenon, we can stress the per capita GDP development. In the same period, it started growing after more than a decade of the continual decrease, in the period 1994–1997 it even grew by 1.2% per year. The 2004 development indicates a further positive development – per capita GDP reached the value of 1.3%. At the still high population growth (2.5%), this development has to be evaluated as singularly positive (Hardi et al., 2005).

It was already mentioned that as one of the reasons of the positive growth tendencies in Africa in the second half of the 1990s and in the following years, we can regard, among other things, also the structural economic reforms. In the individual states, the effort at the macro-economic environment stabilisation and more consequential economic policies, namely the fiscal and monetary policies, was continued. This reflected namely in the ongoing decrease of the budget deficit, which in 1996 was –2.6% of GDP, while in 2003 already only –1.8%. This was also considerably supported by the dampening of inflation and slowing down of the monetary supply growth. In the period 1996–2003 the average inflation was 27.4%, in 2002 it was for the first time successfully lowered to a one-digit number (9.8%) and in 2004 to 7.7%. In the case of Sub-Saharan Africa, the indicators were rather worse. The average inflation rate for the period 1996–2005 was 32.4%, it managed to get under the 10% level only in 2004 (9.1%). This development can be, however, also evaluated as positive, as it approaches the stable African regions, resp. its Sub-Saharan part (Heston, 2006).

As another positive factor influencing economic development, we can regard, as has also been already mentioned, the inflow of external finances, and that not

only in the form of the increased ODA, but also foreign investments. Regarding foreign investments, Africa, namely its Sub-Saharan part, had remained at the outskirts of the foreign investors interests for a long time. Foreign investments flew into Africa primarily into the sphere of energy and mining industry. Their inflow had begun in the 1990s; however, it fluctuated considerably during the following period. The peak was reached in 1999 and 2004, when their total value reached 11 bill. USD, resp. 13 bill. USD. The increase of foreign investments during the last years was conditioned mainly by the big investment projects in mining industry (oil in Angola, Chad, Nigeria, gold in Ghana, aluminium in Mozambique), and partially also by the support of small projects in the frame of the New Economic Partnership for African development (NEPAD), which is aimed at the aid to small African countries.

The problem of Africa still is its external indebtedness. Africa had begun to fall into debts in the 80s, and this tendency continued in 1990s in connection not only with the higher oil prices (as were the case of Latin America), but also in connection with the excessive indebtedness in the frame of the SAPs. In absolute numbers, the external indebtedness of the region grew continually. The exception were the years 1999–2002, when its value decreased by approx. 20 bill. USD. The total volume of the external debt reached 281 bill. USD in 2004. However, different development tendencies can be seen regarding the relative indebtedness. Compared to 2000, when the share of external debt in the value of export was 170%, it decreased by 2004 to 116%. Also the rate of external debt to GDP decreased – it was still 61% in 2000, but only 41.5% in 2004. Nevertheless, Africa is still regarded as one of the developing regions with the highest indebtedness. The considerable decrease of the debt during the

last years is helped mainly by the world initiative HIPC, but also by the macro-economic improvement of some economies. The short-term debt decreases to the detriment of the long-term debt. The trend of the relative indebtedness burden can be regarded as positive, however, it is necessary to stress, that the process of debts alleviation is not quick enough and indebtedness still hinders African states, mostly in Sub-Saharan Africa in a more accelerated economic development (Davies and Quinlivan, 2006).

Among other positive factors of the GDP growth in Africa, we can include also the slightly growing export. In mid-90s, it reached an average growth rate of 4.3%, in 1995 even 9.5%. In the following period, the important milestones were the years 2000 and 2004, when export in value increased by 28.2% and 28.6%, in volume by 11.1% and 6.9%, respectively. The African foreign trade development was influenced by several important facts. Above all, it was the oil and some metals (copper, zinc, cobalt) prices increase and also the increase of some agricultural commodities prices (cotton, cocoa).

However, the increase of income from these commodities export was not sufficient to cover the steep drop of the other commodities prices. The trade balance level was therefore influenced by a relatively small increase of the export volume compared to the higher increase rates of import. The worst year was 1998, when the trade balance deficit reached 19.5 bill. USD, representing 4.5% of the whole Africa GDP. On the other hand, a positive development, even if for one year only, was recorded in 2000, when the trade balance was positive for the first time, and that at the level of 5.4 bill. USD.

This fluctuation of trade balance certifies the still high dependence of African export on the external factors (namely on the prices of the exported primary raw materials). Another positive effect on the African export, even if not sufficient was the influence of two new trade agreements signed during the last years. These were the agreements Everything But Arms signed between the EU and LDCs, which enables these countries to perform a custom-free and unlimited access to the EU markets for all commodities with the exception of arms and ammunition, and also the legal act called African Growth and Opportunity Act (AGOA) passed by the USA, which also enlarges the preferential access of the selected goods and products from Africa to the American market. Notwithstanding these efforts, the share of Africa in the world trade is still further decreasing. In 2005, it was only 2.3%, in the developing world then 7.8% (Marrewijk, 2002).

Finally, the last, even if very important on the increasing African export was that of the activating tendencies of the regional economic integration. Many integration

groupings (namely in the West and Central Africa) revived their integration activities started in 1960s and 1970s (The Arab Maghreb Union, ECOWAS etc.). In the 1990s, new groups originated, other intensified their activities or moved up to a higher integration phase (COMESA, SADC etc.). The interregional African trade begun to increase gradually since the mid 1990s.

RESULTS AND DISCUSSION

The economic development of the African region looked rather more optimistic in the followed period, compared to the 1980s. However, it is necessary to consider that African economies are, owing to their generally low economic level – 34 countries are included by the UNCTAD among the total 49 LDCs – very fragile and sensitive to the international economic environment development. It has been proved e.g. by the development drop in 1995/1996 caused by commodity price development in the international markets, or further the decrease in 1997/1998, caused most probably by the impact of the Asian financial crisis, still further worsened in 1998 by the negative climatic conditions. Notwithstanding some positive data, economic situation in Africa still remains serious. Economic diversification is not sufficient and the investment rate very low. The prevailing part of the population still depends on the incomes from informal sectors and economic growth issues from the primary raw materials price development in the world markets, the demands of the developed market economies, climatic conditions and, last but not least, it also depends on the political situation (Ranis, 2004).

Both international as well as regional organisations paid attention to the critical situation in Africa already in the 80s and there were elaborated many documents on the highest (UNO) as well as regional level (U.N. Economic Committee for Africa – ECA).

The included recommendations were, however, not singularly successful. Since the mid-1990, the Africans themselves were looking for ways how to solve their unfavourable situation. Since the end of the 1990s, two main areas usually appear in the documents, on which it is necessary to concentrate attention as well as own and foreign resources: human factor development and the regional economic integration development. The basic precondition for sustaining a long-term and stable economic growth and development in Africa is creating of the conditions for improvement of the human factor quality, increasing labour productivity and decreasing unemployment. All this should be accompanied by increased volume of finances flowing into the African countries in the frame of the ODA or foreign investments, better ac-

Table 2: Developing regions and sub-regions: Population, area, population density, total and per capita GDP

Region	Population			Area km ²	Population density inhab./km ² (2005)	GDP (2008)	
	total ths. inhab. (2008)	yearly average growth rate				total mill. USD	per capita USD
		1985– 1990	2005– 2010				
Developing countries	5 430 830	2.1	1.4	80 828 540	64	9 758 438	1 797
America	570 940	1.9	1.1	22 754 694	27	2 098 102	3 675
Caribbean	36 688	1.5	0.9	269 541	173	107 669	2 935
Central America	149 580	2.0	1.2	2 496 330	58	513 396	3 432
South America	384 672	1.9	1.1	17 864 926	21	1 477 037	3 840
Africa	986 275	2.8	2.3	30 250 107	30	950 149	964
Eastern	309 753	3.0	2.6	6 384 904	45	112 243	363
Middle	122 501	3.1	2.6	6 613 253	17	78 284	639
Northern	205 814	2.5	1.7	8 533 021	23	396 714	1 932
Southern	56 936	2.3	1.0	2 693 418	39	201 692	3 542
Western	291 270	2.7	2.5	6 144 013	44	161 217	554
Asia	3 863 982	2.0	1.2	27 271 445	123	6 692 538	1 732
Eastern Asia	1 419 532	1.6	0.6	11 839 074	129	3 580 566	2 522
Southern Asia	1 668 746	2.3	1.5	4 465 679	153	1 441 790	864
South-East Asia	575 626	2.0	1.2	4 957 112	123	871 659	1 514
Western Asia	200 077	2.7	2.1	6 252 684	44	798 524	3 991

Source: UNCTAD Handbook of Statistics, 2009, N.Y., U.N. 2009; UNSD Demographic Statistics, 2009, U.N. 2009

cess to the developed market economies markets for African products and commodities and removing of other obstacles to the African export growth.

In the developing world, still Asia is best equipped with human potential, with more than 70% of the developing world population, of which, however, almost 70% is formed by the population of two world most populated economies – China and India. Africa with almost 18% and Latin America with 11% are not too far from each other regarding population. In absolute numbers, at present there live in total 5.1 billion people in the developing world, 3.7 billion of which live in Asia, 880 million in Africa and 530 million in Latin America (McKinley, 2006) – Table 2.

At the beginning of 21st century, Africa still remains the poorest region in the developing world. More than 45% of the African population lives from the income lower than 1 USD per day. Poverty is not regionally evenly spread in Africa (in some countries, the share of absolutely poor people does not reach even 10%); most poor people are among women (70% of all poor people in Africa) and children as well as in the rural areas (80% of the poor people in Africa). The poverty problem can be discerned also from other indicators, as the life ex-

pectancy (52 years with a decreasing tendency because of the low level of health care and the HIV/AIDS pandemic), infant (81 babies of 1000 live born) and maternal death rate (698 out of 100 ths of live born), school attendance rate (79% primary school, 33% secondary school education) and the adult population illiteracy (Lucas, 2004).

CONCLUSION

The effort at decreasing poverty is just the most important problem the solution of which is aimed at by both the African states themselves and the whole international community. Only presupposing the united efforts at the solution of this problem, the Development Goals of the Millennium could be fulfilled and thus the economic and social situation in Africa will be improved.

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