

THE AFRICAN ECONOMIC OUTLOOK IN 2007

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David Hale

ABSTRACT

The African economy appears poised for another year of output growth close to 6% during 2007. Africa has been able to achieve higher growth rates since 2002 because of high commodity prices and improved political governance. The IMF is projecting that African exports will rise by \$69.5 billion to \$396 billion this year while imports will be \$287.4 billion. In 2005, African FDI rose to \$31 billion from \$18 billion during the two previous years. The investment was heavily concentrated in the oil and the mining sectors but Barclays Bank also made a \$5 billion investment in South African banking. The world economy should create benign conditions for Africa's major exports this year. The U.S. economy will slow but avoid a recession. The growth rates of Europe and Japan have improved from the depressed levels of two years ago. China's economy is expanding at double digit rates. Most developing countries are benefiting from high commodity prices and steady gains in world trade. China is playing a major role boosting African growth through expanded trade, investment, and soft loans. The U.S. has significantly boosted its foreign aid for Africa while the G-7 countries have been offering debt reduction and more aid. Africa will have more labor force growth during the next few decades than any other region of the world. The challenge for Africa will be to create employment opportunities for these people by reducing the cost of doing business and promoting further engagement with the global economy.

The African economy is now entering its fourth year of growth in the 5-6% range. The improved performance of Africa has resulted from both domestic and external factors. The major domestic factor has been an improvement in the quality of political governance. More African countries have become democratic and the number of civil conflicts plaguing the continent has declined. The dominant external factor has been high commodity prices. There has been a significant upturn in Africa's terms of trade since 2002. Higher prices for oil, copper, gold, platinum, and other metals have produced large gains in the export revenue of many African countries.

The commodity price rally since 2003 has had a major impact on financial markets. It has encouraged a significant appreciation in the exchange rates of commodity producing countries such as Australia, South Africa, Canada and Zambia. It has led to a major re-rating of the equities of resource producing companies. In 2000, the entire stock capitalization of the global mining industry was less than \$200 billion while Microsoft had a market cap of \$600 billion and the U.S. technology sector had a market cap of \$4.7 trillion. In 2006, the mining industry had a market capitalization of \$766 billion while Microsoft's market cap had shrunk to \$260 billion and the technology sector's had declined to \$2.2 trillion. The market capitalization of the global petroleum industry has also increased from \$971 billion in 2000 to \$2.3 trillion last year.

It appears that global economic conditions will remain benign for Africa during 2007. The U.S. economy is slowing down but it appears likely to avoid a hard landing. The growth rates of Europe and Japan have improved from the low levels which prevailed before 2005. The Chinese economy is still enjoying robust growth. The economies of most developing countries are enjoying healthy rates of growth because of high commodity prices and steady gains in world trade.

The U.S. economy is the most high risk because it is in the midst of a housing slump after five years of large gains in real estate prices. Many economists are concerned that eroding house prices could produce widespread weakness in consumer spending by depressing the value of mortgage equity withdrawals. The housing slump began nine months ago but so far it has shown few signs of producing significant consumer weakness. The households sector has instead benefited from falling gasoline prices and further modest gains in employment. The corporate sector is very resilient because corporate profit margins are at a fifty year high. The new consensus is that the U.S. should be able to achieve a growth rate just under 3% this year compared to widespread forecasts six months ago that the U.S. growth rate might dip to levels as low as 2%.

The Chinese economy also poses unique risks because of the sheer scope of the recent boom in capital spending and exports. There is little doubt that the Chinese government is concerned about the economy overheating. The central bank has raised interest rates twice in the past six months and increased reserve requirements four times. The government has also increased taxes on real estate developers and announced numerous administrative measures to restrict investment. The odds are therefore high that China's growth rate will slow from the 10-11% range during the past few years to 9-10% during 2007. But there is little danger that the authorities will allow the economy to experience a major slowdown. The Communist Party will hold its seventeenth Congress this autumn and the Olympics will occur in Beijing during 2008. Both of these events will put great pressure on the government to sustain a high growth rate. The resilience of the global economy will also allow China to sustain a high growth rate for exports. If there is going to be a slowdown in the Chinese economy, it is more likely to occur after 2008.

There will be a slump in Beijing construction after Olympics. Government officials may be more cautious about capital spending after the Party Congress is over.

As a result of the strength of the global economy, central banks are still moving in a generally restrictive direction. The European Central Bank is widely expected to raise interest rates again in March. The Bank of Japan has delayed monetary tightening during recent months but most Tokyo analysts believe it will raise interest rates during February or March. The Bank of England just raised interest rates and will remain hawkish unless it sees more signs of inflation decelerating. The Federal Reserve is likely to be on hold for several months but it will reserve the right to tighten late this year if the U.S. slowdown does not reduce the core inflation rate. The U.S. has a low unemployment rate, so the economy is vulnerable to both upward pressure on wages and slower productivity growth.

There are political constraints on monetary policy everywhere. France will hold a presidential election in May and its leading candidates have been critical of the European Central Bank. Mr. Trichet will not want to tighten during the French election campaign. The Japanese Central Bank is very vulnerable to political pressure because Mr. Fukui was caught up in a scandal last summer which placed great pressure on him to resign. He was a shareholder in an investment fund run by Mr. Murakami which was caught up in an insider trading scandal. The Abe government is very concerned about its slump in the opinion polls during the run up to the elections for the upper house of the Japanese diet this July. It will therefore lobby the BOJ to go slow on monetary tightening. In the U.S., Mr. Bernanke will now have to deal with a Democratic Congress which could be more critical of monetary policy than were the Republicans. He will take actions he considers appropriate but he could be subject to more criticism at congressional hearings.

The caution of central banks everywhere suggests that currencies are likely to remain in a trading range rather than break out to new levels. There are many market participants who remain deeply bearish about the dollar because of the large U.S. current account deficit. The deficit is now equal to 6.5% of GDP, so the U.S. has to import nearly \$800 billion per annum. But the U.S. has so far been able to attract a large amount of private capital, so it is unclear if the current account will pose a fundamental financing problem. Foreign investors own only about 16% of the U.S. equity market compared to 42% for the U.K. and 30% of Japan, so there is no shortage of securities to sell foreign investors.

The exchange rates of the commodity producing countries have come under selling pressure because of falling prices for their exports. The Canadian dollar has slumped 6% from its 2006 peak because of falling prices for oil. The South African rand has fallen nearly 25% from its peak but it will enjoy some support from the decision of the Reserve Bank to raise interest rates. The Australian dollar has been more steady than the Canadian dollar because Australia has a different mix of exports. It depends more upon exports of iron ore, uranium, LNG and commodities which have been subject to less price pressure than oil. Japanese interest rates will have an important influence on the commodity producing countries because they have been supported by a global carry trade in which hedge funds borrow cheap funds in Japan to buy higher yielding currencies. The slower Japan moves to raise interest rates the more sustained this carry trade will be for the Australian dollar and South African rand.

There is one currency which is likely to experience a major gain against the dollar this year, the Chinese renminbi. China announced in July, 2005 that it was going to abandon its long term peg to the dollar exchange rate and allow the renminbi to fluctuate more widely. Since that time it has appreciated by nearly 6% against the U.S. dollar. Chinese central bank officials say privately that they favor allowing the renminbi to appreciate by 4-5% per annum for the next five years. But there are two factors which could cause them to let the currency rise more sharply this year.

First, China is currently experiencing a current account surplus of \$160-180 billion or 6-7% of GDP. This surplus is swelling the growth of China's foreign exchange reserves (now at \$1.1 trillion) and is creating problems for monetary policy. The central bank has issued sterilization bonds equal to about 40% of the reserves but it has also had to raise interest rates and reserve requirements. The central bank could lessen the growth of reserves and improve monetary control by allowing the exchange rate to appreciate more sharply. Secondly, the Democratic takeover of the U.S. Congress has increased the risk of protectionist trade policy. Many of the Democrats are hostile to China and will use the threat of trade retaliation if the Chinese currency does not appreciate more rapidly.

The outlook for the world economy suggests that any commodity price correction this year is likely to be modest rather than severe. The growth rate of final demand for raw materials will moderate but it will not decline sharply. The stability of the dollar is also likely to lessen the potential for large swings in the gold price. The major risk in the commodity markets is the role of hedge funds and other new institutional investors who have entered the commodity markets for the first time since 2003. It is now estimated that hedge funds and other institutional investors have \$200-300 billion of capital in various commodity assets. The arrival of so much money in the market helped to bolster prices during 2005 and 2006. The hedge funds played a decisive role driving up natural gas prices during late 2005 and have large positions today in aluminum, palladium and copper. There have been two crises in the hedge fund sector during the past five months. In September, Amaranth went bust because of large trading losses in natural gas. Despite the size of the losses (\$6 billion), there were no spillover effects on other markets. In January, another high flying fund called Red Kite experienced losses in the metals market after enjoying big gains last year. The management informed its shareholders that it wanted to extend the fund's redemption period from 15 days to 45 days. Such announcement was a red flag to Wall Street about the fund's vulnerability to trading losses and potentially large redemptions. The fact that two funds have had major problems in only five months could provoke more caution among investors about investing in hedge funds heavily focused on the commodity markets. If such funds now suffer redemptions, the role of the hedge funds in the commodity markets could decline and set the stage for larger commodity price declines than have occurred so far. The trading losses at Red Kite are so recent there is no way to predict exactly how they will affect investment flows into the hedge fund sector and commodity markets. But there can be little doubt that the hedge funds now loom as a major risk for commodity prices during 2007.

High commodity prices have had a very positive impact on Africa. They have encouraged a rise in oil output and produced large current account surpluses for Nigeria, Angola and Equatorial Guinea. Copper output in Zambia has increased from 300,000 tonnes a few years ago to a potential 700,000 tonnes next year. Copper output in the DRC has increased from 30,000 tonnes to a potential 250,000 tonnes in 2008. There has been major increase in exploration activity and gold output in Mali, Ghana, Tanzania, and other countries.

Africa is becoming a more important player in the world oil market. The Gulf of Guinea is likely to add nearly 3 million barrels per day of global oil production by 2012. While the region accounts for only 5% of proven global oil reserves, it has accounted for 20% of recent discoveries. Nigeria has suffered production losses this year because of an insurgency in the Niger delta region but it is experiencing gains in deepwater production which are less vulnerable to such attacks. Exxon Mobil and Chevron have added new fields producing 835,000 barrels per day. Angola's oil production averaged 1.4 million barrels per day in 2006 and should rise to 2 million barrels by 2008. There will also be new drilling in Cabinda next year for the first time in thirty years. Equatorial Guinea is producing 335,000 barrels per day and more acreage is being opened for exploration this year. Gabon's production has declined by one third since 1997 but there are hopes that oil companies could find new deepwater deposits. The Congo is producing 227,000 barrels per day

and output could rise in the future because of new discoveries. Chad is producing only 154,000 barrels per day compared to pipeline capacity of 250,000 barrels. Exxon is planning to add 20 new wells this year despite a recent conflict with the government over taxes.

The IMF is projecting that African exports will rise by \$69.5 billion to \$396 billion this year while imports will be \$287.4 billion. The trade surplus of \$108.6 billion coupled with capital inflows of \$55 billion during recent years could cause foreign exchange reserves to expand by 32% to \$306 billion.

Africa stock markets have also enjoyed large gains during the past two years. The Zambian market has more than doubled. There have been significant rallies in Kenya and Nigeria. Stocks have even emerged as an inflation hedge in Zimbabwe. Africa's FDI rose to \$31 billion during 2005 from \$18 billion during 2004 and 2003. South Africa enjoyed the largest inflow, \$6.4 billion, because of the Barclays takeover of a local bank. The other big gainers were Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, the DRC, Algeria, Tunisia, and Chad. Three countries accounted for \$3 billion each while eight received over \$1 billion. The capital flows were heavily concentrated in commodity producing sectors, especially oil and mining. Nearly half of all investment flowed to six oil producing countries. FDI flows to 34 countries were below \$100 million each. Africa's challenge in the future will be to attract more non-mineral investment as well as to broaden the range of countries capable of receiving FDI.

China's demand for raw materials played a major role in driving up commodity prices and China's need for commodities has greatly boosted her role in Africa. Trade between China and Africa rose to \$55 billion last year from \$40 billion during 2005 and \$10 billion during 2000. China has increased its African investment to \$6.7 billion from only a few hundred millions dollars three years ago. China is now committed to large infrastructure investments in Nigeria and Angola. Chinese firms are active in sectors as diverse as telecoms, forestry, pharmaceuticals and construction all over the African continent. China hosted a major conference in Beijing three months ago for heads of government from 48 African countries. At the conference, China announced plans to increase its lending and trade credits for Africa by several billion dollars. President Hu Jintao toured Africa last week for the second time in eleven months. His prime minister and foreign minister visited Africa last year.

There is great concern in Washington and London about China's sudden emergence as a great new power on the African continent. The World Bank is concerned that China could re-leverage countries which only recently qualified for debt relief. There is concern about China's role propping up the Sudanese government at a time when it appears to be tolerating genocide in its southern provinces. There is also alarm about China's willingness to engage with President Mugabe at a time when most western countries have sanctions on Zimbabwe because of its widespread human rights violations. China counters that its goals in Africa are strictly economic and that it does not interfere in the local politics of countries where its firms do business. The problem for China is that it is becoming such a major force on the African continent that it is impossible to avoid generating political controversy. In the recent Zambian presidential election, a populist candidate criticized Chinese mining companies in the copper belt and threatened to take action against them if he won the election. He lost and so China did not suffer any major reprisals but the fact that this candidate carried the copper belt suggests that the issue could reemerge in the future.

There will be many important elections in Africa this year. Senegal has a presidential election in February. The 80 year old incumbent is seeking re-election. Mauritania will have an election in March after many years of dictatorship by a military officer who was ousted two years ago. Nigeria will hold a presidential election in April. This election is of critical importance because the

country returned to civilian rule only in 1998. The incumbent cannot seek re-election, so will be the first elected leader in modern Nigerian history to turn over power to another elected leader. The odds favor the ruling party retaining power but there will be intense competition at a time when Nigeria has many regional and sectarian divisions. Sierra Leone will have a presidential election in July. There will be at least three major candidates for the office at a time when people are dissatisfied over the government's effectiveness at restoring public services. Kenya will have a presidential election in December. The political scene in Kenya is chaotic because of divisions among the reformers who ousted the long ruling KANU party in 2002.

South Africa is not holding any major elections this year, but the ANC is scheduled to elect its new leader in December. This election is of critical importance because in the past the ANC leader has become the president of South Africa. The ANC does not hold primaries to elect its leader. The competition occurs largely behind the scenes and candidates seldom show overt signs of seeking the office. There are many potential candidates, including the deputy president, the defence minister, the foreign minister, the secretary general of the ANC, and senior corporate leaders who were previously cabinet ministers. The great concern in the financial markets is about the candidacy of Jacob Zuma. He is a former deputy president who had to resign last year because of corruption allegations. Those charges still linger but he has been actively promoting his candidacy with the trade unions, the ANC youth league, and other groups perceived to be to the left of the current government. The markets would react in shock if the ANC were to select him as the new leader. The Rand would plummet. The stock market would fall. South Africa would be vulnerable to capital flight by both domestic and foreign investors. President Mbeki knows the risks posed by Mr. Zuma, so he is likely to take strong actions to prevent him from emerging as the new ANC leader. At present, Mr. Mbeki appears to be seeking re-election as the president of the ANC. If he wins, his victory will break the traditional link between the presidency of the ANC and the leadership of the country. He could then use his presidency of the ANC to influence the selection of the party's candidate for the presidency of the country in 2009. Most journalists believe that he favors nominating his current deputy president, but there is no guarantee that she will be the front runner in two years.

There are other countries which will not hold election this year but where politics will play a critical role. The Ivory Coast has had to defer plans for a presidential election because the country is still divided between Muslim military factions in the north and forces loyal to the president in the south. The United Nations has been extending the terms of the president but it is growing frustrated at his failure to hold elections. The President also faces a rival in the Prime Minister, Mr. Konan Banny. He enjoys great powers and could ultimately clash with the president over how to resolve the conflict with the north.

Zimbabwe's economy continues to implode because of the destructive policies of President Mugabe. Real GDP has contracted by 40% over the past six years, inflation exceeds 1600%, and three million people have fled the country. Many families now depend upon remittances from relatives living abroad rather than employment at home. The country's public services are being crippled by the hyper inflation. The hospitals have been on strike for several weeks. There are a growing number of desertions from both the military and the police because pay has lagged badly behind price increases. The situation has become so serious that there are signs that a political upheaval may occur in the near future. Mr. Mugabe is now proposing to extend his presidential term until 2010. He will ask parliament to approve such a change in April but it appears he may face opposition from a powerful figure who once ran the military and is the husband of the vice president, Mr. Salomon Majuru. According to sources in Harare, Mr. Majuru is now assembling a coalition of MP's to stop extension of Mr. Mugabe's term. If he succeeds, he will then attempt to sideline Mr. Mugabe by either having him resign or creating a new post of prime minister to manage the government. His potential new leaders for the country are the

central bank governor, Mr. Gideon Gono or Simba Makoni, a former finance minister who is considered to be a competent technocrat. The removal of Mr. Mugabe from effective power could have a dramatic impact on Zimbabwe's economy. It would bolster confidence immediately. It could help to re-open the doors to international assistance from the IMF, the World Bank, and OECD countries with aid programs for Africa. The situation in Zimbabwe is so precarious that there is no way of knowing whether it will be possible for anyone to challenge Mugabe in an effective way. But the collapse of the economy has gone so far it would be remarkable if senior figures in the ruling Zanu-PF Party did not want to change the country's direction. The reality is that they can start to revive the economy only by removing Mr. Mugabe from power.

The Congo held elections in 2006 from the first time since 1960 which retained Joseph Kabile as president. The challenge this year will be to see if he can work with the parliament and if the defeated candidates will oppose him through legal means rather than returning to sectarian warfare in the bush. There have been major strikes in Guinea during the past six weeks which are disrupting the country's bauxite production. The President is ill and the strikers perceive a potential power vacuum after a long period of authoritarian rule.

The quality of political leadership continues to be a critical factor for Africa because it has a huge need for effective policies to promote economic growth. Africa has a long legacy of public policies which have promoted economic isolation, discouraged investment, and increased the cost of operating a business. These policies have undermined the potential for economic improvement and produced widespread poverty. The World Bank publishes a report every year on "Doing Business" in countries all over the world. The report examines issues such as the time required to start a business, rigidity of employment conditions, access to credit, registering property, protecting investors, and paying taxes. Africa has traditionally performed very poorly in this survey. A few countries have good scores. South Africa ranks 29th out of 175 countries in the ease of doing business. The other good African scores are Mauritius (32), Namibia (42), Botswana (48), Swaziland (76), Tunisia (80), Kenya (83), Ethiopia (92) and Ghana (94). But many African countries have rankings in the 140-170 range. Nine of the countries with the ten worst scores are African. The DRC ranks last at 175th.

The good news is that some African countries are pursuing reforms to improve their scores. The African countries pursued 67 reforms last year compared to 89 for the countries of Eastern Europe and Central Asia, 83 for the OECD countries, 61 for the Middle East and North African countries, and 58 for Latin American nations. In 2006, two thirds of African countries enacted at least one reform, with Ghana and Tanzania ranking among the top ten reformers. Tanzania enacted four reforms while Ghana, Morocco, Nigeria, and Rwanda approved three reforms each. Kenya, Lesotho, Mali, Mauritius and Niger made two reforms each. The focus of the reforms in Africa were on improving the conditions for launching business start-ups, registering property, and reducing taxes.

South Africa has a good score in the cost of doing business survey but it has had other problems in promoting growth. The country developed far more labor market regulation and trade union power during the period of minority rule than other African countries. These regulations have increased costs and discouraged hiring. South Africa has also had great exchange rate volatility during the past ten years. The rand plunged at the start of the current decade and then rallied sharply. The exchange rate swings have squeezed corporate profit margins in the manufacturing sector. One of the great disappointments in South Africa's economy during the past decade has been the poor performance of manufacturing employment. It has declined from 1.6 million in 1990 to 1.2 million in 2004. The fall in semi and unskilled employment, from 1.0 million to 0.7 million, accounts for the bulk of the job losses. South Africa is currently enjoying

large gains in construction employment because of low interest rates and increased public spending on infrastructure. The country also needs a more effective strategy to improve its ability to compete in the manufacturing sector. It cannot allow trade union power and regulation to prevent it from enjoying the employment gains which have occurred in other developing countries during the modern era.

Another adverse microeconomic factor for business in Africa is the domination of the telecom sector by state monopolies. The introduction of cellular services has allowed 130 million people to escape from the poor service of the state monopolies, but broadband continues to be a problem. Monthly broadband charges in Sub-Saharan Africa are about \$2400 per month compared to \$1400 in East Asia, \$1000 in South Asia, and \$100 in Europe.

Labor Force Growth Rates						
(compound Annual Rate of Growth)	1950-1960	1960-1970	1970-1980	1980-1990	1990-2000	2000-2010
Africa	1.96	2.22	2.50	2.71	2.84	2.93
Latin America and Caribbean	2.10	2.57	3.14	3.03	2.39	1.95
Northern America	1.24	1.76	2.36	1.43	1.10	0.76
Europe	0.91	0.92	0.93	0.44	0.34	0.02
Oceania	1.95	2.45	2.10	2.28	1.63	1.34
Asia	1.32	2.05	2.37	2.22	1.77	1.50
Eastern Asia	1.00	2.14	2.35	2.15	1.12	0.72
China	0.88	21.6	2.50	2.24	1.13	0.78
South-central Asia	1.67	1.94	2.28	2.02	2.40	2.21
South-eastern Asia	1.54	2.04	2.68	2.78	2.26	1.90
Western Asia	1.91	1.83	2.45	2.96	2.82	2.52

Share of Labor Force Growth						
(percentage)	1950-1960	1960-1970	1970-1980	1980-1990	1990-2000	2000-2010
Africa	13.16	11.21	11.20	13.82	18.53	24.61
Latin America and Caribbean	8.13	7.66	8.69	10.02	10.07	9.85
Northern America	5.61	5.64	6.47	4.18	3.58	2.61
Europe	14.11	9.59	7.38	3.34	2.63	0.14
Oceania	0.67	0.64	0.48	0.58	0.49	0.45
Asia	58.32	65.26	65.79	68.07	64.71	62.35
Eastern Asia	22.51	34.30	32.97	33.25	19.88	13.53
China	17.03	29.55	30.17	30.05	17.47	12.89
South-central Asia	24.85	21.09	21.38	20.70	29.80	33.26
South-eastern Asia	8.21	7.93	9.20	11.00	11.18	11.24
Western Asia	2.75	1.94	2.25	3.12	3.85	4.33

Source: UN, Credit Suisse

Africa's major competitive advantage during the 21st century could be its ability to provide a large supply of low cost labor. According to United Nations data, Africa will have the most rapidly growing labor force in the world during the first decade of the current century and probably for several decades to come. In the period 2000-2010, Africa's labor force growth is projected to be 2.93% per annum compared to 1.95% for Latin America, 0.72% for East Asia, 2.1% for south central Asia, and 2.52% for the Middle East. China's labor force growth is also slowing to only .78% from 2.5% during the 1970s and 2.24% during the 1980s. The labor force of Western Europe and Japan will decline while North America's growth will average about .76%. If we look out to the year 2050, Africa's population is projected to grow to nearly 2 billion people from about 900 million today. Africa's population will also be much younger than Europe's. Only about 10% will be older than 60 years of age compared to 36% for Western Europe. Africa will thus have a huge supply of young able workers available either for multinational business to employ in Africa or to import to countries with declining populations in Europe and Asia. Africa's goal should be to create a business environment which will make it possible to employ its people at home.

The Bush administration has been a strong supporter of Africa because of its focus on the war against terrorism. It has increased foreign aid for Africa to \$4.2 billion or a level nearly four times higher than prevailed in 2000. The African aid share of the U.S. budget is now higher than at any time since the days of the Johnson administration during the late 1960s. The African share of all U.S. foreign aid has climbed to 19% or a level unsurpassed by any previous president. During the 1980s and 1990s, Africa typically accounted for 8-10% of U.S. foreign aid. It is unclear how the Democratic takeover of the Congress will change the U.S. foreign aid budget but if they de-emphasize the war against terrorism Africa could be a casualty.

The large increase in U.S. aid for Africa has been part of a greater G-7 focus on the issue of Africa. At recent G-7 meetings, the major industrial nations have pledged to promote debt forgiveness and provide more financial assistance for Africa. The G-7 countries have been anxious to promote President Mbeki's NEPAD initiative to improve the quality of governance in Africa as well as to address humanitarian issues such as the spread of Aids. It is clear from history, though, that foreign aid, alone, cannot significantly bolster Africa's performance. Since 1960, the OECD countries have given Africa nearly \$650 billion while billions more have been provided by India, China, and the Gulf countries.

The challenge in Africa will continue to be creating an effective political framework for promoting economic growth. Africa will have to reduce the barriers to business formation, work aggressively to attract foreign investment, and promote integration with the global economy. The upturn since 2003 is a confirmation that Africa can benefit from a more benign global economy but it cannot rely on commodity prices, alone, to provide growth momentum. The commodity boom has been an important first step in promoting Africa's takeoff by bolstering export income and foreign exchange reserves as well as attracting more FDI to the resource producing sectors. But Africa must now capitalize on the boom by pursuing policies which promote the non-resource sectors of the economy and encourage more diversification of FDI inflows. The goal should be to sustain a real GDP growth rate of 5-6% when the global economy slows and commodity prices correct.

Table 1.1 The global outlook in summary

Percentage change from previous year, except interest rates and oil price

	1960-80	1980-2000	2004	2005	Estimate 2006	Forecast 2007	Forecast 2008	Forecast 2008-30
<i>Real GDP growth e</i>								
World	4.7	3.0	4.1	3.5	3.9	3.2	3.5	2.9
Memo item: World (PPP weights) f			5.2	4.7	5.1	4.5	4.6	
High-income	4.5	2.9	3.3	2.7	3.1	2.4	2.8	2.4
OECD countries			3.2	2.6	3.0	2.3	2.7	
Euro Area			1.7	1.4	2.4	1.9	1.9	
Japan			2.7	2.6	2.9	2.4	2.5	
United States			4.2	3.2	3.2	2.1	3.0	
Non-OECD countries			6.4	5.8	5.3	4.7	4.8	
Developing countries	6.2	3.4	7.2	6.6	7.0	6.4	6.1	4.0
East Asia and the Pacific	5.5	8.5	9.0	9.0	9.2	8.7	8.1	5.1
China			10.1	10.2	10.4	9.6	8.7	
Europe and Central Asia	10.7	0.6	7.2	6.0	6.4	5.7	5.5	2.7
Russian Federation			7.2	6.4	6.8	6.0	5.5	
Latin America and the Caribbean	5.5	2.2	6.0	4.5	5.0	4.2	4.0	3.0
Brazil			4.9	2.3	3.5	3.4	3.5	
Middle East and North Africa	5.9	4.0	4.8	4.4	4.9	4.9	4.8	3.6
South Asia	3.7	5.4	8.0	8.1	8.2	7.5	7.0	4.7
India			8.5	8.5	8.7	7.7	7.2	

Sub-Saharan Africa	4.4	2.2	5.2	5.5	5.3	5.3	5.4	3.3
Nigeria			6.5	6.2	4.8	5.1	5.4	
South Africa			4.5	4.9	4.6	3.9	4.3	
Memorandum items								
Developing countries								
Excluding transition countries	5.1	4.2	7.3	6.8	7.0	6.4	6.1	
Excluding China and India	6.6	2.3	6.1	5.1	5.5	4.9	4.9	

Source: World Bank

Note: PPP = purchasing power parity

e. GDP in 2000 constant dollars; 2000 prices and market exchange rates.

f. GDP measured at 2000 PPP weights.

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