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What's driving Africa's growth

The rate of return on foreign investment is higher in Africa than in any other developing region. Global executives and investors must pay heed.

June 2010 | by Acha Leke, Susan Lund, Charles Roxburgh, and Arend van Wamelen

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Africa's economic pulse has quickened, infusing the continent with a new commercial vibrancy. Real GDP rose by 4.9 percent a year from 2000 through 2008, more than twice its pace in the 1980s and '90s. Telecommunications, banking, and retailing are flourishing. Construction is booming. Private-investment inflows are surging.

To be sure, many of Africa's 50-plus individual economies face serious challenges, including poverty, disease, and high infant mortality. Yet Africa's collective GDP, at $1.6 trillion in 2008, is now roughly equal to Brazil's or Russia's, and the continent is among the world's most rapidly growing economic regions. This acceleration is a sign of hard-earned progress and promise.

While Africa's increased economic momentum is widely recognized, its sources and likely staying power are less understood. Soaring prices for oil, minerals, and other commodities have helped lift GDP since 2000. Research from the McKinsey Global Institute (MGI) shows that resources accounted for only about a third of the newfound growth.[1] The rest resulted from internal structural changes that have spurred the broader domestic economy. Wars, natural disasters, or poor government policies could halt or even reverse these gains in any individual country. But in the long term, internal and external trends indicate that Africa's economic prospects are strong.

Each African country will follow its own growth path. We have developed a framework for understanding how the opportunities and challenges differ by classifying countries according to levels of economic diversification and exports per capita. This approach can help guide executives as they devise business strategies and may also provide new insights for policy makers.

More than a resource boom

To be sure, Africa has benefited from the surge in commodity prices over the past decade. Oil rose from less than $20 a barrel in 1999 to more than $145 in 2008. Prices for minerals, grain, and other raw materials also soared on rising global demand.

Yet the commodity boom explains only part of Africa's broader growth story. Natural resources, and the related government spending they financed, generated just 32 percent of Africa's GDP growth from 2000 through 2008.[2] The remaining two-thirds came from other sectors, including wholesale and retail, transportation, telecommunications, and manufacturing (Exhibit 1). Economic growth accelerated across the continent, in 27 of its 30 largest economies. Indeed, countries with and without significant resource exports had similar GDP growth rates.

Exhibit 1

Widespread growth

Africa's growth was widespread across sectors from 2002 to 2007.

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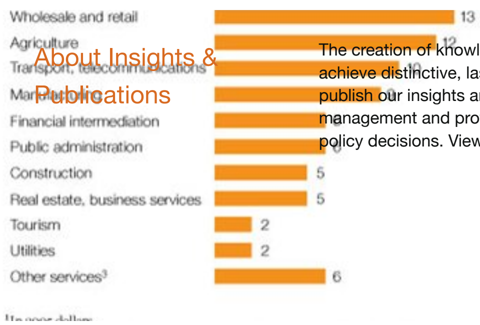

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