

AS 2008 came to an end, growth forecasts for African and other emerging markets were revised downwards, as most developed markets collapsed and slipped into recession.

Speculation over the effects on Africa's economic landscape in the light of weaker global demand started to reflect a significant drop in gross domestic product growth rates, rapidly adjusting what had been a decade of phenomenal growth.

This became especially noteworthy when China's growth forecasts dropped to near 7% and as mining operations across the continent closed or were suspended on the back of a sharp drop in commodity prices.

As the New Year was ushered in, it was evident that despite talks of a "decoupling" from the developed world or "new coupling" with Asian economies such as China, Africa would not escape unscathed. In a globalised and integrated world economy, financial channels (banking systems, stock markets, and foreign direct investment) and real channels (trade, aid and workers' remittances) are bound to feed the effects of the global financial crisis into the developing world, including Africa.

The impact on economies will depend on the net effects of these channels. While oil-importing states might not have the policy space to respond to the crisis through fiscal spending, they benefit from a smaller oil import bill and a diversified economy. Resource exporting countries should be able to implement

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Hannah Edinger says African governments and policymakers need to position themselves towards more investor-friendly policy environments to attract foreign funds

contingency measures to boost economic growth, depending on how commodity windfalls were managed.

While some countries will be better positioned than others to respond to the crisis, it is accepted that slower growth forecasts across the continent will be nowhere as sluggish as growth in traditional markets. On aggregate, global growth has been drastically revised downwards by the International Monetary Fund, to 2.2% in November, and more recently by the Economist Intelligence Unit in December to just 0.9%.

Iceland, Ireland and Britain are among the slowest performers. Not surprisingly, the top 10 fastest growing economies for 2009 include China (in 5th place) and seven sub-Saharan African economies: Malawi, Angola, Ethiopia, Republic of Congo, Djibouti, Tanzania and Gambia are all expected to expand in excess of 6%.

A common denominator to economic expansion in a number of the above-mentioned states will be the momentum of investments in the construction and infrastructure sectors. Money from China, India and the Gulf States is driving infrastructure rollouts across various African states. China has increased its infrastructure play in Africa over the last few years — China's commerce minister recently emphasised that development assistance to Africa had increase by 200% in value terms since 2006.

But speculation over China's financing commitments has cropped up, especially in the

infrastructure sector.

This is of concern as infrastructure rollouts are also affected by higher government budgets, due to lower commodity prices and resultant lower export earnings and government revenues, as well as cutbacks in development assistance. This could see an increase in Africa's already vast infrastructure deficit.

With an estimated infrastructure financing deficit of more than \$40bn a year, and with infrastructure being the backbone of economy activity, less government spending on both physical and social infrastructure will further hinder Africa's growth and development across all sectors.

Pressure to roll out infrastructure is increasing, as many states are experiencing rapidly urbanising and growing populations, placing increasing strain on infrastructure. This has been acknowledged by the governments of Kenya and Uganda, which revealed plans to finance a \$3.2bn new standard gauge railway line between Mombasa and key markets in Uganda, Kwarda, Burundi, the Congo and southern Sudan.

Participation of foreign investors in the positive growth story of the continent has also been seen in non-commodity sectors. Services such as tourism, financial and real estate have contributed to 50% of sub-Saharan Africa's growth, and increasing investment prospects in the services industry, focusing on information and communications technology (ICT), electricity and banking

present opportunities for foreign investors.

Despite the global slowdown, private equity inflows to, for example, ICT, have shown strong growth, promising higher returns and further investment potential compared to traditional economies. Yet the ability to raise funds for such investments from now cash-strapped markets with high costs of capital will affect the continent, given that more than 50% of private equity funds invested in Africa are raised in traditional markets.

But more time needs to pass to determine the severity of the impact of the crisis on Africa. The next six months will reveal the developmental challenges that governments will have to grapple with this year as budgetary pressures will result in cutbacks in sectors such as education, health and infrastructure, as well as the external debt positions of economies. This will translate into necessary revisions and adjustments of developmental goals and policy reforms to ensure social stability, presenting an opportunity to African governments and policymakers to position themselves towards more investor-friendly policy environments to attract foreign funds looking for a good return.

Hannah Edinger is senior manager, research at Frontier Advisory, a research and strategy company based in Johannesburg, and economist at the Centre for Chinese Studies, University of Stellenbosch. E-mail: hedinger@frontier-advisory.com