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Africa from the Inside:

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Spotlight on Africa's Growth Model

The Global Economy in 2016 and the Consequences for Africa

What a start it was to 2016. Stock market volatility in China, downward global equity markets, sinking commodity prices, contracting global trade, capital flight out of developing economies, declining values of emerging market currencies, ongoing conflict, collapsing states and the resultant refugee crisis in the Middle East, and the list goes on.

There has been a heightened sense of pessimism and systemic risk in the global economy in the first few weeks of the year. From a developed world view, the global recovery may be stalling. From an emerging markets one, it appears that we are descending back into crisis, this time not so much from a financial shock as a slow-motion structural decline.

What then lies ahead for the global economy in 2016?

In the **US**, the economy appears to be strong, and most analysts expect solid if unexceptional growth to continue. Moreover, although the Federal Reserve has begun tightening monetary policy, it is not expected to have a deleterious effect on growth, at least not this year. Most indicators are in good shape, with unemployment low, inflation low, consumer demand strong, and government finances in robust shape. But the US' relatively robust growth outlook is characterised by rising income inequality. This not only the case in the US but also in Western Europe. It has much to do with where economic growth is taking place. As was often true in the past, growth in the US is coming from industries on the leading edge of technology. This time, it has entailed an increased demand for highly skilled workers, and a declining demand for those without substantial skills. This has put upward pressure on compensation for the skilled, and downward pressure on compensation for the unskilled.

In **Europe**, the situation bears some resemblance to that of the US. That is, growth is taking place, but many people are being left behind. In Europe, growth remains slow in several countries, restrained by troubled bank balance sheets, onerous regulations, and a poor Eurozone architecture. How the politics unfolds in the year ahead will play a significant role in determining Europe's economic path. In the UK, a possible referendum on EU membership could also determine the economic path not only of the UK, but of Europe as well.

Japan managed to avoid recession in 2015 and will continue to sputter along in 2016. Pessimism about Japan, however, may be misplaced if one considers the country's unique demographics. Japan's population is getting old faster than any other country, and its working age population is declining rapidly. Per capita GDP is actually growing at a moderate pace. Several of the country's global companies, among the most innovative in the world, are boosting their productivity, and are expanding globally, including in Africa.

If one believes the reporting on **China**, it appears that the Chinese economy is in crisis and is about to suffer a “hard landing”. This is exaggerated. The supercharged days of double-digit growth in China are over but the economy is “rebalancing” from one driven by over-investment toward a consumer and services driven economy. Traditionally, the government has heavily skewed its spending on hard infrastructure rather than social welfare. This is now slowly beginning to change.

Despite the bursting of China’s short-lived stock market bubble – the market has always been divorced from the real growth story anyway – China’s economic fundamentals remain pretty much intact. Going forward, balancing the forces of protection, state-ownership, market reform and productivity will be incredibly difficult for Beijing, if not impossible. As China’s growth recalibrates and its resource-intensive growth model subsides, the implications for resource-exporting economies are being dramatically felt this year and will continue to be over the medium term.

The slowdown in China, the blistering oil production in Saudi Arabia, Iran rejoining the global economy and the impact of shale gas in the US, has led to a rapid drop in the price of oil. While this has suppressed inflationary pressures in the developed world, it has hurt economic growth in oil-propelled emerging countries. Russia, Brazil, Nigeria and Angola for example, are all experiencing very challenging economic times.

This year growth will be stymied elsewhere with Turkey, South Africa and Indonesia at risk. Moreover, a huge pile of corporate debt in emerging countries risks creating greater financial market stress.

In **India**, declining oil prices have given the central bank room to ease monetary policy, thus boosting growth. India’s growth has now surpassed China’s and is approaching double digits. Incremental reform coupled with the “Modi-effect” – a confidence inspiring political shift – has boosted confidence in the India growth story.

In **Africa**, 2016 promises to be another year of economic readjustment for most African economies whose terms of trade have turned negative following the end of the so-called commodity super-cycle. Economic headwinds are often compounded by lethargic governments who are unwilling to carry out overdue structural reforms. But we are beginning to see numerous countries turn the corner led by public sector reforms.

For example, post-election Tanzania was the real surprise in 2015. While it is still early days for the new administration, moves to counter corruption and government lethargy are very promising indeed. Kenya, too, can turn a corner if its leadership shows greater commitment to fighting corruption. Oil propelled economies in western Africa arguably face the greatest reform difficulties.

Economies such as Nigeria and Angola are overly dependent on a single commodity (oil) and are now undergoing severe corrections impacting upon their growth outlooks. Rapid decelerating growth in many such economies make it abundantly clear that Africa cannot continue to rely on commodities for growth and (often insufficient) "trickle down” development. This tired model is overdue for a change. New contributors to growth that will be more inclusive in nature are required. Manufacturing and services are the only options to pursue toward diversification.

Key takeaway

Perhaps 2016 will be the year that African states shake off tired ideologies, invest in human capital and begin pragmatic reform paths, which emulate their Asian counterpart economies three decades ago. The route to inclusive growth is one that pursues diversification and benefits entire populations. Commodity-driven economies can no longer rely on cycles for growth spurts. In a post China-driven commodity super-cycle, sustainable and consistent growth can only come from economies which are driven by ideas rather than resources. This will increasingly be the differentiator for those economies that are truly emerging from this year.

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