Recent Trends in the World Economy: A Case Study of Africa

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1. INTRODUCTION

Growth in the world economy remains dominated by the Asian economies, which continue to grow at more than 8 per cent per annum. For instance, spectacular growth in China and India has pushed the number of people around the world living on less than a dollar a day below the 1 billion level, but masks entrenched poverty in Africa and Latin America. According to the World Bank Report in 2007, an 80-million drop in extreme poverty in the two years to 2004, it said this was entirely due to the rapid expansion in Asia's two most populous countries. It said that since 1990, there had been a 260-million drop in the number of people living on less than a dollar a day, but this was more than accounted for by the 300 million taken out of extreme poverty in China. In sub-Saharan Africa, extreme poverty had risen by 60 million, the Bank said. "The Millennium Development Goal of halving the proportion of poor people is still within reach at the worldwide level, with a projected decline from 29 per cent to 10 per cent between 1990 and 2015." The Bank's data

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further show that the number of people in extreme poverty has fallen from 1.489 billion in 1981 to 986 million in 2004. Excluding China, however, there has been no improvement: the total rose from 855 million in 1981 to 857 million in 2004. Latin America and sub-Saharan Africa both have more people living on less than a dollar a day than they did at the start of the 1980s (World Bank Report, 2007).

In contrast, growth in advanced economies remains modest and is yet to reach the pre-2001 level. For example, Italy's economy, already the most sluggish in Europe, slowed down further. According to data released recently by the country's National Institute for Statistics, gross domestic product rose by merely 0.1 per cent in the 2007 April-June quarter — an 18-month low. There are fears that the troubles of Europe's fourth largest economy, valued at $1.8 trillion, could affect the fortunes of its main trading partners within the European Union. Analysts point out that Italy has lagged behind its euro region partners for the last 11 years. Italy's national debt stands at 107 per cent of GDP. Several factors have contributed to the poor economic performance, among them rising interest rates and fuel prices and the relentless strengthening of the euro against the dollar and the yen. Since mid-January 2007, oil prices have gone up by 41 per cent. The euro rose 17 per cent to reach $1.38 even as the European Central Bank, which has doubled its benchmark rate since the end of 2005 to a six-year high of 4 per cent, warned of yet another increase in September 2007. The strong euro has hit exports and slowed down industrial output (The Hindu, 2007). Key constraints to growth include the massive global macroeconomic imbalances along with tight macroeconomic stances in advanced economies, which prevent demand-led recovery. High oil prices also undermine growth in both advanced and developing countries through high production costs.

It is important to note that developments in the world economy have important implications for African economies through various channels, including demand for African export commodities, the impact on the trade balance and the cost of external borrowing (via world interest rates). These

developments are influenced by monetary, fiscal and trade policies adopted by major industrialized countries as well as by exogenous events such as oil price shocks. Despite the recent oil price hikes, global inflation has remained low and stable, partly due to restrictions to wage increases, a tight macroeconomic policy stance in both advanced and developing countries, and the supply of cheap manufactures from China. In general, there is little concern about overheating in most economies.

Some positive developments in the world economy are likely to sustain growth in African countries. These include high export prices for export commodities due to high demand especially from Asia, delivery of promised aid and debt relief, and rising inflows of foreign direct investment (FDI) with an increasing share coming from China and India, and higher inflows of workers' remittances. However, these developments need to be supported by adequate domestic pro-growth policies to maximize the gains from increased external resources.

Objective and Method

This article provides the recent economic growth performance of the world in general and African continent in particular. The paper further examines recent economic performance at the continental and sub-regional levels in Africa. It discusses disparities in growth performance and the factors behind the observed disparities across countries and sub-regions. The data has been analysed and presented with a conviction that it gives a better understanding to the researchers to make a further study in this area. It also provides some insights for the policy makers in Africa.

The article is based on secondary data collected from different sources enlisted in references. The data mainly collected from the reports of World Bank, IMF, United Nations Economic Commission on Africa, and other related

books and journals. The paper has been divided into four sections. Section two discusses about global economic performance. Section three provides a detailed account of economic performance of African economies and the final section highlights the concluding remarks of the study.

2. GLOBAL ECONOMIC PERFORMANCE

The projections reveal that the world growth is moderate and is likely to slow down in 2007. In 2006, world economic growth improved slightly to 3.8 per cent from 3.5 per cent in 2005. Globally, growth rates were highest in South-east Europe and Commonwealth of Independent States (CIS) countries as well as in East and South Asia. Growth in the least developed countries remained above 6 per cent since 2001 (United Nations 2007 and UNCTAD 2006a). High prices for oil and other inputs and a tendency towards more restrictive monetary policies in industrial countries combined with some turbulence in financial markets are likely to contribute to a slowdown in 2007 (UNCTAD 2006a; UN-DESA 2006).

Growth in the USA slowed slightly during the second half of 2006 and might loosen further in 2007 but is not likely to go into recession. The decline in house prices is expected to weaken consumer spending as well as import demand (UN-DESA 2006; United Nations 2007). Rising oil prices and increasing imbalances also constitute important downside risks for growth.

The Euro area grew by a modest 2.5 per cent in 2006, though it was the highest growth rate since 2000. This was driven by higher domestic demand, particularly investment expenditure, as well as strong export performance. In 2007, it is expected that external demand will be declined, and that stronger currencies will hamper exporters. Monetary and fiscal policies are also expected to tighten, which will reduce growth. Growth in Japan is attributable to buoyant domestic demand and employment growth, but it is expected to slow down in 2007 (UN-DESA 2006; United Nations 2007).

China and India are engines of trade

Growth in developing Asia was high in 2006, driven by China (10.2 per cent) and India (7.7 per cent), which are the engines of trade in manufacturing within the region. In addition, domestic demand has also recovered in most Asian countries. Growth in the region is expected to decline to a more sustainable yet still strong pace due to a slowdown in external demand for Asian products. Additional downside risks include protectionist trade policies in major export destination countries, further increase in the level and volatility of oil prices, the avian influenza, as well as political and geopolitical uncertainties, especially in the Islamic Republic of Iran, Nepal and Sri Lanka (United Nations 2007; UN-DESA 2006; UNCTAD 2006a). China is not only experiencing rapid growth but also rapid structural change driven by FDI and a rise in competitiveness. Despite strong growth in manufacturing wages (between 12 and 16 per cent in recent years), unit labour costs in manufacturing are falling due to growth of labour productivity by around 20 per cent per annum (UNCTAD 2006a).

Growth in Latin America has remained above 4 per cent for the past three years due to strong external and domestic demand. At the same time, growth in the region has become more broad-based. However, the external sector remains vulnerable and the region might suffer from higher interest rates in global capital markets as many countries have relatively high debts, which will slow down growth in 2007 and in subsequent years (UN-DESA 2006; United Nations 2007).

Since 2003, long-term interest rates in the advanced countries have increased from an average of 3.6 per cent to 4.3 per cent in mid-2006; the newly industrialized economies (NIEs) experienced the same trend. Concerns about expected higher inflation rates led monetary authorities in the USA and in the European Union (EU) to raise short-term rates as a pre-emptive measure, resulting in higher long-term interest rates. Most developing countries have also been tightening monetary policy through higher interest rates and reserve

requirements (UN-DESA 2006; IMF 2006a). Rising interest rates might contribute to retarding economic recovery by depressing domestic demand, especially private investment.

Fiscal balance in most regions

The fiscal balance has improved in most regions since 2003. In the advanced economies, the fiscal deficit declined from 3.1 per cent of GDP in 2003 to 2.1 per cent in 2006. Fiscal deficits have also declined in Asia and Latin America. The reduction in the budget deficit was particularly strong in China: from 3 per cent in 2002 to just over 1 per cent in 2006. This development was mainly driven by relatively high growth rates, which contributed to increased government revenues. It was also the result of continued adherence to a tight fiscal policy stance in both developed and developing countries. Oil and commodity exporters in developing countries have witnessed a significant improvement in their fiscal balance position due to high oil prices. In some Asian countries, fiscal policy continues to be expansionary due to increased social and development spending. To ensure fiscal sustainability, governments need to broaden the tax base so as to increase revenue (UN-DESA 2006; IMF 2006a; UNECA, 2005).

Generally, the currencies of many developing countries have appreciated against the dollar since 2006 and the similar trend continued till mid-2007. Energy and commodity exporters experienced 10-20 per cent exchange rate depreciation during the second quarter of 2006, but the trend towards appreciation has resumed since then. It is expected that the depreciation of the dollar will continue and the risk of a sudden depreciation due to worsening global macroeconomic imbalances persists (UN-DESA 2006).

World macroeconomic imbalances

Widening macroeconomic imbalances constitute a major concern for future growth prospects and economic stability. These imbalances cause uncertainty and increase the risk of financial instability, which have negative impacts on economic growth. Recently, equity markets and commodity and currency markets have become more volatile while short-term capital outflows from some emerging markets have increased. This development has raised fears of a new global financial crisis. However, the turbulence is limited to a number of countries with high current account deficits. Losses in stock markets occurred in Eastern European countries, but also in South Africa, which experienced a drop in the value of the rand (UNCTAD 2006a).

Imbalances in the current accounts widened between 2002 and 2005 but stabilized in 2006. In the advanced countries the deficit widened from 0.9 per cent of Gross Domestic Product (GDP) in 2002 to 1.4 per cent in 2005 and 1.6 per cent in 2006. This was mainly driven by the USA, whose deficit increased from 4.5 per cent of GDP in 2002 to 6.4 in 2005 and stabilized 6.6 per cent in 2006. The deficits of other developed countries such as Australia, Spain and the UK have also increased. In Japan, the current account surplus remained relatively constant around 3.5 per cent of GDP between 2003 and 2006. Both Asia and Latin America increased their current account surpluses between 2002 and 2005, which then slightly declined in 2006. China's surplus increased from 2.4 per cent of GDP in 2002 to 7.2 per cent in 2005 and 2006, making it the largest financier of the US deficit (UN-DESA 2006; IMF 2006a).

The recent stabilization in global imbalances is mainly driven by weaker domestic demand in the USA, acceleration of economic activity in Europe, continued recovery in Japan and growing domestic demand in developing countries. The reduction of growth in the USA together with the depreciation of the US dollar over recent years has contributed to a 13 per cent increase in exports in the first half of 2006, while imports grew much slower. The decline in oil prices in the second half of 2006 further improved the trade balance (World Bank 2006b).

The widening of global macroeconomic imbalances was partly due to the increases in the price of oil[2] and other commodities. In the USA, the growing current account deficit was associated with deterioration of the private savings rate, further threatening the sustainability of global imbalances. In 2007, global imbalances are expected to stabilize further as cooling of the US housing market and slower growth are expected to reduce imports, while depreciation of the dollar is expected to boost exports and reduce imports (UN-DESA 2006).

Over recent years, developing countries have pursued strategies to stabilize their exchange rates and accumulate large foreign exchange reserves to shield themselves from financial crises. However, accumulation of reserves comes at a cost as it freezes resources that would otherwise be invested in productive activities to boost growth. As a result, developing countries need to strike a balance between the goals of financial stability through reserves build up and growth through stimulation of private and public investment (UNCTAD 2006a).

3. PERFORMANCE OF AFRICAN ECONOMY

Africa Profile

Africa is a vast and exotic continent of about 900 million people in 54 independent countries. It has a total area of over 30 million sq. kms, about three and a half times the size of the United States and 10 times the size of India. It is the second largest continent in the world after Asia. It stretches from the shores of the Mediterranean in the north to the Cape of Good Hope in the south. Africa is rich in mineral and natural resources with large parts of its terrain teeming with wild life and magnificent plant life.

It possesses 99 percent of the world's chrome resources, 85 percent of its platinum, 70 percent of its tantalite, 68 percent of its cobalt and 54 percent

[2] The oil prices further increased to over USD 70 per Barrel in mid 2007.

of its gold, among others. It has significant oil and gas reserves. Nigeria and Libya are two of the leading oil producing countries in the world. Africa's enormous agricultural potential is vastly untapped. Africa's vast mineral wealth and strategic significance have encouraged foreign powers to intervene in African affairs. During the Cold War era, 1945-1990, there was increasing super power intervention in Africa. The United States and the Soviet Union were major players on the African scene (Rena, 2006).

African countries however, facing the critical challenge of raising the rate of GDP growth and sustaining high growth rates over an extended period in order to accelerate progress towards meeting the Millennium Development Goals (MDGs). While growth has recovered over the past few years, very few countries have achieved and maintained the growth rates necessary to reduce poverty. Africa still tails behind other regions in most measures of human development. The continent is plagued by shocks from the vagaries of international markets and climatic changes as well as the expansion of the HIV/AIDS pandemic. To improve the situation, it is clear that African countries need to become more innovative in terms of resource mobilization and in the design of pro-growth and pro-poor policies to tackle the problems of mass unemployment, persistent poverty, and pervasive inequality. Such innovative policies are critical for sustaining the current growth momentum on the continent (UNCEA and AU, 2007).

African economies continued to sustain the growth momentum of previous years, recording an overall real GDP growth rate of 5.7 per cent in 2006 compared to 5.3 per cent in 2005 and 5.2 per cent in 2004. For the second consecutive year, Africa’s growth rate remains higher than that of Latin America (4.8 per cent) but lower than that of developing Asia (8.7 per cent). As many as 28 countries recorded improvements in growth in 2006 relative to 2005. Only one country – Zimbabwe - recorded a negative growth rate in 2006(World Bank, 2007).

Africa's growth performance in 2006, as in previous years, was underpinned by improvement in macroeconomic management in many countries, and by strong global demand for key African export commodities, resulting in high export prices, especially for crude oil, metals and minerals. However, for most African countries, real growth rates remain low relative to their development goals. Table – 1 presents from 1998 to 2006, 25 per cent of African countries achieved a real GDP growth rate of less than 3 per cent per annum. Only 5 countries achieved an average real GDP growth rate of 7 per cent or more during this period. At this pace, few countries are positioned to achieve the MDGs by 2015. Hence, the continent faces the challenge of increasing growth rates and sustaining these high growth rates over an extended period. Besides sustaining reforms to maintain macroeconomic stability and further improve the domestic investment climate to promote private sector activity, a more strategic approach to growth policy is needed, to effectively address the binding constraints to growth.

Table-1 Summary of Growth Performance in Africa during the period 1998-2006.

GDP Growth Rate	No. of Countries	Share of Total (in Percentage)
Less than 3 %	13	25.0
Between 3% and 5%	25	48.1
Greater than 5% and less than 7%	9	17.3
7% or more	5	9.6
Total*	52	100.0

Source: Economic Intelligence Unit, January 2007.
Note: * Excluding Somalia due to lack of data.

Sub-regional growth performance

Growth performance exhibits substantial disparities across the five sub-regions in Africa. North Africa recorded the highest acceleration in GDP growth, from 5.2 per cent in 2005 to 6.6 per cent in 2006, followed by Southern Africa, from 5.6 to 5.9. There was a notable deceleration in growth momentum in West Africa, from 5.4 per cent in 2005 to 4.2 per cent in 2006 (UNCEA and AU, 2007). Heavy dependence on primary commodities remains a common feature of production, exports and growth in all subregions. This exposes the continent to external shocks and makes economic diversification a top priority for growth policies on the continent.

Stronger growth performance in North Africa was mainly the result of higher oil prices, especially for Algeria, Libya, Sudan, and Mauritania. Mauritania achieved the highest increase in GDP growth rate (from 5.4 per cent in 2005 to 19.4 per cent in 2006) owing to the start of commercial exploitation of crude oil in 2006 (UNCEA and AU, 2007). Also steady growth in secondary and tertiary sectors (especially tourism) continued to help economic performance in North Africa. Adequate management of oil revenue is needed for the subregion to sustain the growth momentum.

Growth in Southern Africa improved in 2006 largely because of economic recovery in Malawi and Lesotho and sustained good performance in most other countries of the subregion. With increased public spending and high FDI flows, South Africa maintained the same growth rate of 2005 through 2006 although private consumption declined due to higher oil prices. Notwithstanding the slowdown in oil production, Angola remains the fastest growing economy in Southern Africa (17.6 per cent) followed by Mozambique (7.9 per cent), Malawi (6.9 per cent) and Zambia (6 per cent). Zimbabwe, though still on the negative side (-4.4 per cent in 2006 from –7.1 per cent in 2005), and Malawi recorded the largest improvements in growth, thanks to

favourable weather conditions and commodity markets, although recovery from the 2005 drought is still incomplete(UNCEA and AU, 2007). Growth in Mauritius also improved considerably despite stiff competition from Asia in the textile market, thanks to increased investment and notable growth in the service sector. Growth in Lesotho picked up in 2006 as a result of increased investment in manufacturing and mining, resulting in higher textile and diamond exports. Swaziland continued to record a low growth rate (1.2 per cent), owing to drought and a decline in the textile industry (Rena, 2007).

Growth in Central Africa was underpinned by higher oil prices – Republic of Congo (7.5 per cent), Equatorial Guinea (5.4 per cent), Cameroon (3.8 per cent) and Chad (1.0 per cent). In spite of sustained increases in oil prices, Chad and Equatorial Guinea experienced the greatest decline in GDP growth in 2006, followed by the Republic of Congo, because of slowdown in crude oil production. Oil production declined in Chad in 2006 because of technical problems. Cameroon, Central African Republic, and São Tomé and Príncipe were the only two countries in the subregion with higher growth rates in 2006 than in 2005, thanks to the improved prices for such agricultural commodities as coffee and cocoa (up to 2nd Quarter of 2006) (UNCEA and AU, 2007; World Bank, 2007).

In East Africa, weather conditions as well as export commodity prices remained largely favourable despite sporadic drought in the Horn of Africa. East Africa was the best performing subregion in 2004 and 2005 but experienced a slight decline in growth rate in 2006. Higher oil prices were the main factor that prevented the subregion from achieving a higher growth rate as all the countries of East Africa are oil importers. Economic performance remained robust in Ethiopia (8.5 per cent), Kenya (5.5 per cent), Tanzania (5.8 per cent), and Uganda (5.0 per cent) owing to higher commodity prices, especially tea and coffee. The Democratic Republic of Congo (DRC), Burundi and Rwanda achieved higher growth rates in 2006 (7.0, 5.8, and 4.2 per cent, respectively), thanks to growth in construction, trade and manufacturing, as economic activity is benefiting from the gradual restoration of peace in the

region. The mining sector also contributed significantly to growth in DRC (IMF, 2006a; UNCEA and AU, 2007; World Bank, 2007).

Although improving, economic performance remains low in Comoros (2.2 per cent), due to low revenue from vanilla exports and a decline in the tourism sector. **Eritrea** also recorded low growth (2 per cent), owing to low investment and other adverse effects of border conflicts. Seychelles recorded a notable improvement in economic performance (from –1.5 per cent in 2005 to 1.0 per cent in 2006) owing to a gradual recovery from the adverse effects of the tsunami of 2005 and the decline in tourism and tuna exports in the previous two years (UNCEA and AU, 2007; Rena, 2007).

West Africa experienced the greatest decline in GDP growth in 2006 due to a decline in growth in Nigeria from (6.0 per cent in 2005 to 4.2 per cent in 2006) as a result of social unrest in the Niger delta. Growth remained low in Côte d'Ivoire (1.2 per cent) due to political instability, which disrupted agriculture and industry. Among non-oil economies, growth in Senegal (4.0 per cent), though still strong, slowed down because of weaker industrial performance as a consequence of high oil prices and failure to renew the country's fishing accord with the EU. Liberia sustained its strong post-conflict growth recovery. Gambia achieved 5.5 per cent growth rate in 2006 compared to 5 per cent in 2005 thanks to good rainfall and increased tourism activity. Growth in other countries in the subregion in 2006 was similar to that of 2005 (UNCEA and AU, 2007).

Higher growth in oil-rich African countries

The recent oil boom has attracted new foreign investments in oil exploration and production and more African countries (Chad and Mauritania) have joined the club of net oil exporters. Oil-exporting African countries as a group contributed 57.5 per cent of the continent's 5.7 per cent growth rate in 2006, compared to 53.4 per cent in 2005. Thus, the recent increase in oil prices has increased the dominance of oil producers in the continent's overall growth,

overshadowing the improvements observed among non-oil countries (from 4.6 per cent in 2005 to 5.2 per cent in 2006).

Non-oil GDP in the eight oil-exporting SSA countries increased at a higher rate in 2006 (6.5 per cent) relative to oil GDP (5.6 per cent), but its contribution to overall GDP growth is still small (IMF 2006b). This, together with the fact that many oil exporting African countries (e.g. Angola and Equatorial Guinea) are accumulating large, idle foreign currency reserves, is a manifestation of the need for these countries to use oil revenues more rapidly to enhance domestic investment and economic diversification. Efficient management of oil revenues for economic diversification is essential for oil-exporting African economies to reduce their vulnerability to oil price shocks, ensure that gains from oil revenue are broadly shared, and achieve sustainable growth.

In addition to increased aid flows and debt reduction, improved economic management and increases in non-oil commodity prices have more than offset the negative impact of high oil prices on the real GDP of African oil importers. On average, these countries maintained a positive and rising real GDP growth rate during 2004- 2006. The growth impact of higher oil prices was particularly moderate for non-oil and non-mineral-rich economies, where growth performance improved from 4.1 per cent in 2005 to 5.8 per cent in 2006, thanks to debt relief and increased aid flows, improved agricultural performance and high agricultural commodity prices. The growth rate in non-oil, mineral-rich African countries was virtually unchanged in 2006 relative to 2005, as the gains from the higher prices of minerals were dampened by the effects of rising oil prices.

Given that energy and oil intensity of GDP are expected to increase with per capita income over time (ESMAP, 2005), oil-importing African countries are likely to face large increases in energy and oil demand in the future as their incomes rise. Consequently, these countries need to reduce their dependence on oil by making use of alternative sources of energy, especially

hydropower, and by utilizing cost-effective technologies. However, alternative energy sources are unlikely to have a major role in energy supply in the short run since they require relatively large initial capital outlays and have a long gestation period. Thus, in the short run, these countries need to adopt strategies to rationalize the use of oil and improve the efficiency of their energy systems (Rena, 2007).

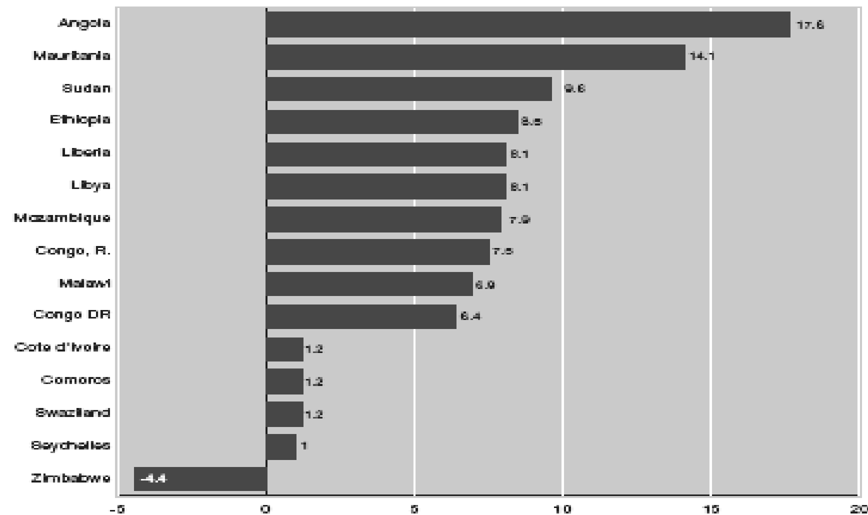
Oil-importing countries will suffer severe adverse effects if higher oil prices persist in the medium term. To minimize the effects of high oil prices on inflation and macroeconomic stability in general, governments should adopt consistent and prudent policies, and resist the temptation to increase domestic borrowing to finance oil-price-induced increases in budget deficits. Sustained prudential macroeconomic and financial policies consolidate macroeconomic policy credibility, which is critical for oil importers to attract more external capital flows to ease financial constraints. In the meantime, the international donor community and international financial institutions should provide special support to oil-importing, low-income African countries to mitigate the impact of higher oil prices. In particular, debt relief and additional non-debt-generating external financing of fiscal deficits are critically needed for assisting the oil-importing countries to sustain economic growth and achieve the MDGs (UNECA, 2005). In the absence of such support, the efforts of macroeconomic reforms over the last two decades and the opportunities created by the HIPC Initiative will be wasted.

High growers vs. least performers

Comparing performance in 2006 with that of the previous eight years shows stagnation at the bottom of the scale. Only three countries (Angola, Mozambique and Sudan) in the top ten performers in 2006 were among the top ten performers on the basis of average annual growth rates during 1998-2005 (UNECA 2006b). Half of the top ten performers are oil producers (Angola, Libya, Mauritania, Republic of Congo and Sudan). Of the remaining five top performers, two are mineral-rich countries (DRC and Mozambique) and one

(Liberia) is a post-conflict country. High oil and mineral prices were the main growth drivers for the best performing oil-and mineral-rich countries. Ethiopia continues to feature on the list of top performers in Africa because of generally good rainfall and high export prices for tea and coffee, the country's main export commodities. Strong economic performance in Malawi (from –3.0 in 2005 to 6.9 per cent in 2006) was the result of recovery in agriculture from the drought of 2005 (UNCEA and AU, 2007; Rena, 2007).

Five countries (Comoros, Côte d'Ivoire, Seychelles, Swaziland and Zimbabwe) have the lowest growth rates over 1998-2006. Swaziland's growth performance has been low and continuously weakening over the last five years due to increasing competition and falling prices in the textile export market and the reduced sugar price in the EU market. Heavily dependent on agriculture, Comoros continued to experience low growth due to low revenue from vanilla exports and a decline in the tourism sector, while political conflict and insecurity continue to deter investment and plague economic performance in Côte d'Ivoire. Economic performance in Zimbabwe remained negative in the last eight years owing mainly to political difficulties exacerbated by recurrent droughts. Foreign exchange constraints and the recent rises in oil prices adversely affected investment and capacity utilization in Seychelles, leading to nearly complete economic stagnation in the last eight years(UNCEA and AU, 2007; Rena, 2007).



Source: United Nations Economic Commission on Africa (UNECA), 2007, p. 39.

Globally, exports of goods and services are growing faster than GDP. However, not all regions benefit equally from this trend. The EU share in world exports remained around 40 per cent between 2001 and 2004, and declined to 38.4 per cent in 2005. Over the 1990s, it had declined significantly. In comparison, the shares of Japan and the USA declined between 2001 and 2005. The share of Latin America in world exports remained constant at 3 per cent, whereas that of Asia increased from 27 per cent in 2001 to 29 per cent in 2005. China's share in world trade increased from 4.3 to 7.3 per cent in only 4 years. The share of Africa declined from 3.1 per cent in 1990 to 2.2 per cent in 2002 and increased again to 2.9 per cent in 2005 due to increasing commodity prices (World Bank 2006b; Rena, 2007).

Capital flows are rising

Global FDI flows have again increased substantially, by 29 per cent in 2005, after an increase of 27 per cent in 2004. Trends for different regions are less clear for FDI than for trade. The EU's share in world FDI inflows increased to 46 per cent in 2005, the same level as in 2003. Besides, the important fact is that the European Union is already the world's largest donor of international assistance and currently provides 60 per cent of the world's official development assistance, the Commission alone providing over 7 billion euros every year. In contrast, the USA lost a significant share, while Japan's share remained low. The share of Latin America has fluctuated around 10 per cent over the past 5 years, while that of Asia has more than doubled, from 10 per cent in 2000 to 22 per cent in 2005. China alone now accounts for 8 per cent of world FDI inflows, which is half of its share in world GDP. The share of Africa in world investment has also increased, from 0.6 per cent in 2000 to 3.4 per cent in 2005. For both trade and FDI, China and India are becoming more important partners for Africa, a sign of the geographic diversification of trade and source of finance for the continent (UNCTAD 2006a; World Bank, 2007; Rena, 2007).

The rapid growth in both trade and FDI is mainly driven by the distribution of value chains over several countries according to their comparative advantage in particular stages of production. For example, some textiles are designed in Europe, while the fabric is produced in Asia, the cutting and sewing done in Madagascar, and the final product exported to the USA. This process is driven by lower transport and communication costs that enable the spread of different production stages all over the world. However, remoteness is becoming a bigger obstacle as the advantage of being close to major markets increases the chances of being included in these value chains.

International migration and remittances

Migration reduces human capital and labour productivity in developing countries As populations in advanced countries continue to age, shortage of labour in sectors such as health care continue to attract relatively cheap but

qualified labour from developing countries. At the same time, push factors such as poverty, conflict, human rights violations, political instability, lack of employment opportunities and reductions in migration costs continue to induce more migration from the South. The United Nations predicts that the net number of migrants from developing to developed countries will increase by 2.2 million annually, from 191 million or 3 per cent of the world population in 2005 (United Nations 2004).

The discrimination by Organization for Economic Co-operation and Development (OECD) countries in favour of educated workers contributes to brain drain from developing countries, which subsequently increases the shortage of skilled labour in these countries. The emigration of people with scarce skills, such as entrepreneurs, scientists, technicians and health professionals reduces both the stock of human capital and the overall labour productivity. However, if these highly skilled migrants return, they bring with them experience, knowledge contacts and capital, which have a positive impact on development. Thus, gains and losses from migration depend on whether it is temporary or permanent. There is also growing evidence that remittances reduce poverty (UNECA 2006a; UNU-WIDER 2006; Niimi and Özden 2006).

Specific measures to improve remittances

At the High-Level Dialogue on International Migration and Development in New York in September 2006, it was reaffirmed that international migration could be a positive force for development provided that it is supported by the right set of policies (United Nations General Assembly 2006, para.7). The development potential of remittances could be increased by facilitating the transfer of funds and improving access to banking services for migrants (United Nations General Assembly 2006, para 12). Although most of the remittances originate from industrial countries (83 per cent), a significant share of remittances is also transferred among developing countries. Remittances worldwide more than doubled between 2000 and 2006, with the highest increases observed in East Asia and Latin America (165 per cent each),

while Sub-Saharan Africa (SSA) experienced a much lower increase – 40 per cent (World Bank 2006c).

To increase the contribution of migrants to development of their countries of origin, several countries have taken measures to strengthen their ties with their nationals abroad and to encourage highly skilled workers in the direction of return and circular migration. Migrant entrepreneurs could transfer know-how, skills, technology, expertise and linkages to markets (United Nations General Assembly 2006, para.13). To minimize the negative consequences of highly skilled emigration from developing countries, particularly in the fields of health and education, codes of conduct governing recruitment in health and education as well as mechanisms for compensation need to be discussed between the advanced and developing countries (United Nations General Assembly 2006, para.14). These codes will need to be accompanied by appropriate enforcement mechanisms to ensure their effectiveness.

4. CONCLUSION

Overall, the medium-term outlook for the world economy remains modest. In addition, global imbalances remain large and weigh heavily on growth prospects. However, there remain some risks for African countries arising from competition from Asia and the weakening of housing markets in advanced economies which could reduce demand and weaken commodity prices. Thus, African countries need to observe these international developments carefully. Measures to reduce vulnerability to external shocks, to increase diversification and to strengthen domestic demand are crucial to sustaining the recent growth recovery in Africa.

Despite notable economic recovery in Africa since the turn of the 21st century, the continent still faces important challenges in attaining its development goals. Being highly commodity dependent, growth remains volatile and too low for achieving the MDGs, while pressure from oil prices

threatens price stability in oil-importing countries. Macroeconomic balances are driven by developments in the resource sector and continue to worsen for oil-importing African countries. Moreover, external debt remains high and private capital flows insufficient to bridge the gap between domestic savings and necessary investment for Africa to meet the MDGs. In order to accelerate and sustain growth over a long period of time, Africa needs to create a policy space and embark on innovative growth strategies. In particular, it should address the factors contributing to low and volatile growth through: improved macroeconomic management; increased domestic investment, which requires mobilization of internal and external resources; improved infrastructure (especially transport and energy supply), and diversification away from resource sectors.

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