Commerzbank study: Crisis-resistance of sub-Saharan Africa further increased

- Improvement in infrastructure key challenge for development of the region
- Risk of external shocks not averted

With an economic growth of 6 per cent forecast for 2014, sub-Saharan Africa continues to defy the weak global economy. “The international financial crisis has scarcely affected the region,” is the conclusion reached in a new study by Commerzbank. On the one hand, this was due to the somewhat low dependency on exports, which amounted to just less than 20 per cent, to the ailing European countries. On the other hand, the countries in the region rich in raw materials were benefitting from the ongoing high prices for raw materials, and were increasingly developing into lucrative growth markets arousing international interest. Even though there were still deficits in terms of the democratisation and efficiency of the political institutions in individual countries, political and economic stability had increased.

There are many reasons for the improved crisis-resistance: Debt relief on the part of the World Bank and the IMF has contributed to this, as has the increasing democratisation of countries, which also encompasses minorities, thus promoting stability and growth. “An important key to the long-term increase in economic dynamism and the export earnings of sub-Saharan Africa is the development and improvement of infrastructure,” said Rainer Schäfer, head of Commerzbank’s Country Risk Analysis. To date the infrastructure had essentially geared to the transport of mineral resources and agricultural products. Despite the progress attained with the number of ports, many land-locked states only had limited access to cost-favourable transport by sea.

Yet the latecomer position in the global development carousel of the region also offers opportunities such as technological “leapfrogging”, the skipping of individual development stages, states the study. It was possible to tackle electricity bottlenecks, triggered by growing demand for energy in the wake of robust economic growth, from the very outset thanks to environmentally-friendly, cheap, and effective technologies. “A great deal of appropriate opportunities open up to foreign investors with the corresponding know-how in the field of renewable energies such as solar technology, wind power, and biogas from biomass,” explained Florian Witt, regional head Africa department at Commerzbank’s Financial Institutions. Ethiopia, Malawi, und Mozambique were already focusing on biodiesel from the jatropha plant, which thrived on low-yield soils.
As a result of its wealth of raw materials sub-Saharan Africa is heavily dependent on the global economy. The key sectors produce for export, which generates hard currency for vital imports. For this reason, in its study Commerzbank analyses how resistant sub-Saharan Africa is to external shocks: Ongoing weak global economic growth had to date only affected sub-Saharan Africa to a minor degree. Discoveries of oil fields, like in Angola for example, had placed the national economies on a new footing. The economic catching-up process was in full swing and a weak global economy would not stop this. A further factor was the strategic significance which above all China attached to sub-Saharan Africa so as to safeguard its supply of raw materials, and which had prompted it to make further investment in the region.

“Even if the risk of external shocks cannot be fully excluded, we believe that the probability of a disaster hitting the countries of sub-Saharan Africa and severely affecting further economic development is, on the whole, low,” is the conclusion reached by Rainer Schäfer and Florian Witt.

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The study can be downloaded at: https://www.commerzbank.de/media/en/research/economic_research/sonderstudien/afrika_studie_d.PDF

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