

# THE TROUBLE WITH AFRICA

April 18th, 2013



**The trouble with Africa is that ... Africa is no longer in trouble (well, not as bad as it used to be).**

The Africa of the past is simply that ... long gone. In its place is a new, vibrant, on the verge of explosive economic growth that could be very interesting to watch over the next few years.

When pundits such as [Prof. Edward Miguel](#) (University of California, Berkeley – Department of Economics and CEGA) asks if “Africa (or parts of it) are on track to join China and India as the next economic development “miracle?” then answers with a positive, the rest of the (listening) world sits up and takes notice.

[The Ernst & Young 2012 ‘Attractiveness’ survey findings](#) have also been tremendously positive about Africa’s future prospects, finding that:

- The number of Foreign Direct Investment (FDI) projects in Africa grew 27% from 2010 to 2011, and have grown at a compound rate of close to 20% since 2007.

- Despite this growth, there remain lingering negative perceptions of the continent — but only among those who are not yet doing business in Africa.
- The story of Africa’s progress, not just in economic but also in socio-political terms, needs to be told more confidently and consistently.
- This broad-based progress is underscored by a substantial shift in mindset and activities among Africans themselves, with increasing self-confidence and continued strong growth in intra-African FDI (which has expanded by 42% since 2007).

In 2000, Africa was just coming off the back of a terrible quarter century when African per capita incomes fell 20% during 1975-2000 and Africans battled HIV/AIDS, civil war, genocide and the wounds of dictatorship.

Ten years later the turnaround has been nothing short of a miracle. Speaking at the World Affairs Council in late February on the Economic Emergence of Africa, Professor Miguel stated African economic growth hit historical highs during 2000-2011 running parallel to when democracy took root in many countries.

Kenya illustrates the turnaround: since 2000 it has experienced its fastest economic growth since the 1970s. Its stable macroeconomic policy, rising foreign investment and the success of industry sectors such as tea, coffee, tourism, flowers (same-day exports to Europe), telecommunications, call centers, as well as becoming established as a regional manufacturing hub.

Economic progress hasn’t just been restricted to Nairobi. I traveled to Kenya in January 2012, and found many district villages and towns were no longer the dusty outposts I’d seen five to six years back; they were now bustling with schools, new businesses, markets, banking and trading, fueled by easy access to electricity grids, mobile networks and political openness.

There are various reasons for the turnaround:

## **1. Education**

Most African countries made great strides in education during the others “lost” decades of the 1970s and 1980s, including for women. As well, elected leaders, ministers, and technocrats are much better educated today than in the 1970s and 1980s, and they’ve pursued better public policies (e.g., education, telecommunications). Education then naturally creates the foundation for a functioning democracy where the people feel empowered to question government and actively if not sometimes violently express their views (e.g. the 2007/8 Kenya elections).

## **2. Africa’s democratic era**

By 2010, most African countries had held competitive elections and had free private media outlets. From 1990 to 2010, the average African “Freedom House” score increased a lot, from 6 to 4 (on a 7 point scale, 1=best). The result is that due to the freedoms and open market policies, African democracies have enjoyed faster economic growth since the early 1990s.

### 3. Africa's Renaissance: Made in China?

Let's be real. The China-Africa trade has been responsible for a large percentage of economic growth in the Sub Saharan region – with over \$100billion worth of Sino-Afro deals made annually in the last 3-5 years. Booming Asian demand has pushed up commodity prices and major Chinese investment in energy, mining sectors (over US\$1billion/yr), as well as in transportation and telecommunications has led to a mini-boom.

In Q2 2011 the three leading source countries for FDI in Africa were in Asia (China, India, Taiwan – US fourth).

However, the news isn't being received all that well in certain western circles. At the World Affairs Council, Professor Miguel was quick to note that USA's global leadership is being challenged by the fact a growing share of Sino-African trade is settled in yuan (rather than USD). More 'sinister' implications could be neglected worker safety in Zambian mines, diplomatically supported human rights abusers (Sudan, Chad), and the potential for corruption.

It's not news that China rarely mixes diplomacy and trading i.e. they shy away from imposing democratic or moral sanctions on the partners they trade with. Western nations fear that this approach might breed weak rule of law, bribery, or poor infrastructure (which completely ignores the fact Africans themselves have the ability to judge what's best for themselves ... \*sigh\*)

Western governments are also concerned that China influence is weakening that of the US and Europe. In Professor Miguel's view the inevitable increasingly wealthy, democratic and confident African countries will eventually become less reliant on US/EU in any case – especially in the wake of the 2010-12 global recession.

**The bottom line:** Africa's rapid economic and population growth and political opening make it an increasingly attractive investment destination in some labor intensive sectors – especially as ballooning wages and aging populations in East Asia make it less competitive.

E&Y recommend regional integration, saying they believe it's a critical factor to accelerated and sustainable growth. Creating larger markets with greater critical mass will not only enhance the African investment proposition, it is also the only way for Africa to compete effectively in the global economy.

They also believe bridging the infrastructure gap will be a key enabler of regional integration, growth and development. It also remains a key challenge and opportunity for investors.

So while sub-Saharan Africa (SSA) is the world's poorest and least developed continent along many dimensions, it clearly has the greatest "potential" for future economic growth. Perhaps less well-known: it is also poised to become the world's most populous region, rising to nearly a quarter of humanity in the next half century. With education and access to resources like never before, the millions of future Africans will be well poised to kick some great economic ass in years to come.