NANYANG TECHNOLOGICAL UNIVERSITY
Nanyang Business School

# Friday@Noon

**A weekly electronic African news briefing for the Southeast Asian community**
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## African Union

- **Africa:** Africa's informal markets represent an enormous part of its trade and development. However, the region is not tapping into the huge opportunities they offer.

  Africa's informal markets represent an enormous part of its trade and employment: 41% of SSA's GDP and 72% of total employment, which means they cannot be ignored. However, as they are essentially hidden, the region is not tapping into the huge opportunities they offer. They represent a huge community-based value chain with enormous potential for investment. Key areas that need exploring are agribusiness, textiles, timber and forestry. Few companies see the informal sector as a potential partner for their business operations. Companies could, for example, increase their procurement from the informal sector, which would bring these smallholders into the formal mix. Ways should be explored to enable local and international retailers to buy legally from suppliers in the informal sector. Informal markets are still under-served, as common logic suggests that serving them is not profitable, or not as profitable as serving formal markets. There is also a lack of information, which masks the potential of informal markets. A major issue is that a large investment is required to reach critical mass (and break–even) in informal markets as it is a volumes-based business with low margins. For more information, read: http://bit.ly/2tLejP8.

  CAS View: It is always interesting to note articles on the size of the informal market. They do note that the informal market is "essentially hidden," yet then indicates statistics that make them less hidden. Be that as it may, the informal market does represent business opportunities – both as a source of resource procurement and as a potential market. Buying from the informal market will draw these informal vendors into the formal sector. There are various speculations on the losses associated with these players not paying taxes. Not only will procuring from them stimulate the bottom of the pyramid (growing the number of job opportunities, and increasing the revenues of the entrepreneurs), but will it increase government revenues from this sector as well. As an example, an entrepreneur from Singapore recently attempted to mobilise the informal sector in Kenya to provide products in volume for large groups such as Tesco. It required redesigning the value chain of the product and developing the respective elements thereof to develop the skills amongst the villagers, supporting their value chain to scale the production of good quality products, and transporting the product to wherever appropriate for shipping to Europe and elsewhere. It also required creating a market with scale, to make it a viable and attractive business. The bottom line is that there is a lot of opportunity available in the informal sector for the entrepreneur with enough creativity to see these opportunities. With the right business model, it will also not necessarily require large investments for this entrepreneur to reach critical mass and break-even.

- **Africa:** China is Africa's largest economic partner and its involvement is bigger and more multifaceted than previously suggested.

  China is Africa's largest economic partner and its involvement is bigger and more multifaceted than previously suggested. There are over 10,000 Chinese firms operating in Africa; about 90% of these are private firms, with about 33% in manufacturing. China's financial flows to Africa are 15% larger than official figures suggest when non-traditional flows are included. China is also a large and fast-growing source of aid and the largest source of infrastructure financing. Chinese firms handle 12% of Africa's industrial production. In infrastructure, Chinese firms have cornered about 50% market share of Africa's international engineering, procurement and construction (EPC) market. About 25% of the firms covered their initial investment within a year. 33% recorded profit margins of over 20%. They focus primarily on the needs of Africa's fast-growing markets rather than on exports. There are three main economic benefits to Africa from Chinese investment: 1) Job creation and skills development; 2) Transfer of knowledge and new technology; and 3) Financing and development of infrastructure. Areas that need significant improvement: 1) Local sourcing; 2) Local managers; and 3) Pain points for both sides: for Chinese firms: personal safety and corruption; for African leaders, language and cultural barriers. Two key recommendations: African governments should have a China strategy and the Chinese government should open financing and provide guidance to Chinese firms. For more information, read: http://bit.ly/2tL7pJT.

  CAS View: China's involvement in Africa will always be the subject of scrutiny, with charges of neo-colonisation running thick and fast. While there may be cases where this is true, to level this as a blanket charge is unfair. This research indicates that there are more than 10 000 firms from China operating in Africa, of which 9 000 are private sector companies. Without a doubt, these companies do have the support of the Chinese government, but they have a profit imperative and must provide services that will entice the consumer to buy from them. The non-financial benefits of China's involvement cannot be denied. It is amazing to note the margins these companies achieve, reinforcing the notion that Africa is a good place for business. The article also clearly indicates that China is the largest source of infrastructure financing. I must agree that this kind of exposure to China does create a certain kind of dependency, which can create a vulnerability that can be unhealthy to Africa. We are seeing other players remaining in the market, with new players entering stronger than before. The USA remains a large provider of aid. Germany is looking at developing its "Marshall Plan" for Africa. India and Japan have indicated that they will be focusing on Africa as well. They have recently launched the Asia-Africa Growth Corridor (AAGC) to counter China's Belt and Road Initiative (BRI). It remains to be seen to what extent the AAGC will be able to steal ground from the BRI. China's bilateral relations will in all probability be strong enough to counter the AAGC. The foreseeable future for Africa looks very interesting though!

- **Africa:** The TFTA, a building block for the CFTA, seems to be developing momentum.

  Twenty-six African countries are rapidly moving towards finalising the Tripartite Free Trade Area (TFTA), which would facilitate regional integration in Africa. Once the tariff negotiations are finalised, the TFTA will offer exporters preferential or zero tariffs into the markets of member countries, thereby providing better terms of trade than are currently enjoyed. Member states will be able to increase their exports and advance a developmental integration agenda and the development of regional value chains. Currently, intra-regional trade in Africa is about 15%. Some commentators saw the TFTA as providing huge opportunities for South African businesses if implemented, particularly as the SADC was largely dysfunctional in terms of the implementation of tariff agreements. At this stage, the TFTA agreement consists only of the legal framework with detailed negotiations on tariffs for the different products still to be finalised. Non-tariff barriers and infrastructural blockages will be addressed at a later stage. The TFTA is seen as a building block for the CFTA. SA is the 19th country to sign the agreement, which will enter into force once 14 member countries have ratified it. Egypt recently became the first country to do so. For more information, read: http://bit.ly/2uhNh2l.

  CAS View: Much has been said about the TFTA and as its role as the precursor or building block of the CFTA. In an earlier Friday@Noon, I noted that the EAC had postponed the ratification of the TFTA from March to December 2017, after failing to agree on the contentious rules of origin and tariffs. The EAC is negotiating the TFTA as a bloc, while COMESA and the SADC are pushing for individual countries' agenda. Given that there is still work to be done on rules of origin and tariff offers that are still outstanding, the EAC agreed to extend the deadline to December 2017. With South Africa having signed the TFTA, an important step has been taken. However, with only Egypt ratifying the TFTA, we now have 1 of the member states having ratified the agreement. Also, there are still 7 countries that need to sign the TFTA. It is unlikely that it will be up and running by the end of the year. Given the massive benefits the TFTA can create for Africa, it is a pity. Regional integration will boost intra-African trade, with all its concomitant benefits. With a faltering TFTA, it is even more unlikely that the CFTA will be up and running within the envisaged timelines.

## East Africa

- **Ethiopia:** Tourism is playing a major role in the economies of East African countries.

  Ethiopia, Tanzania, and Djibouti are the African countries among the 10 fastest growing economies globally in 2017. They are expected to experience the highest GDP growth in 2017, with a growth of 8.3%, 7.1%, and 7.0% respectively against a projected global average GDP growth of 2.7%. The growth acceleration in Djibouti has been driven mainly by port-related activities and transport. Ethiopia and Tanzania have been significantly supported by the recovery of agricultural production, their rising service sectors, and increased infrastructure investments. Travel & Tourism directly contributed 4.1% of Ethiopia's GDP in 2015 with US$ 2.26 billion. It is forecast to rise by 5% by 2026 to US$ 3.7 billion. This largely reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services, restaurant, and leisure industries. The Ethiopian hospitality industry has grown quickly over the last few years, and there remains a lot of untapped potential. Exploiting these opportunities with the help of new technologies, and accommodation service providers will support its initiative to become one of Africa's top five destinations in the coming 4 years. For more information, read: http://bit.ly/2uluLav.

CAS View: These 3 countries are some of my favourites in Africa. They represent strong growth countries, with successful attempts to industrialise and grow their manufacturing sectors. Tourism is another sector that clearly plays a strong role in stimulating economic growth. This would be the case for both Ethiopia and Tanzania. According to a recent report, Ethiopia has overtaken Kenya as the largest economy of East Africa. I would expect that Kenya will also face strong competition from Tanzania for the honours of second largest economy of East Africa, should the report be correct. Both Ethiopia and Tanzania seem to be run by "somewhat" autocratic governments, but are generally deemed to be strong on corruption. The same could be said for Rwanda. It does not take much to ascertain that the following seems to be valid requirements for success at country level: strong and directive political leadership; clear economic guidelines, with a focus on a diversified economic base; and no corruption. For this to be sustainable, countries must grow and develop its people, educating them appropriately.

## Southern Africa

- **Mozambique:** Mozambique must grow and develop is export base, diversifying its export porducts.

  The World Bank has noted that only 3% of Mozambican companies are exporters, and that their weak export capacity and limited diversification of export products (far below the world average) are some of the main challenges. In the 2016 Global Innovation Index, Mozambique ranked only 84th (out of 124 countries), and 100th in terms of Use of Information and Communication Technologies (ICT) and Creation of Business Models. Between 2010 and 2014, about 40% of Mozambique's GDP was produced by the informal sector. Between 70% and 80% of the workforce is in the informal sector, which tends to be less productive. 70% of revenue, employment and value-added was created by only 7% of all companies. To reverse this scenario, it would be necessary to invest in infrastructure and skills, create greater access to finance, and reduce bureaucracy. By 2014, only 21% of the population had access to electricity. Rural transport is lagging, even by African standards. Irrigation coverage is low. The quality of education remains a concern. Banks were reluctant to lend and bank loans are currently in the region of 29%. For more information, read: http://bit.ly/2vfpLAy.

  CAS View: I have in previous newsletters addressed the potential of Mozambique as an investment destination, and I have been quite bullish on the merits of the country. This article clearly shows upon the challenges the country is facing. And they are by no means minor. However, the potential of the country with its gas and coal deposits is not trivial at all. The optimal development of this potential will be delayed somewhat until such time that Mozambique's government sorts out its debt problems and the corruption surrounding the tuna boat scandal. Foreign aid, which significantly supports the Mozambican budget, and investment will be less likely to flow until such time that this has been dealt with in a satisfactorily manner. The World Bank has shown that Mozambique's economic growth rate has slowed down to 3.3% in 2016, and has adjusted the expected growth for 2017 from 5.1% to 4.8%. However, there is an expectation that the country could up this rate back to 5.1% for the period 2018 to 2021 (Economist Intelligence Unit). For this to happen, though, Mozambique needs to develop its gas and coal sectors and the concomitant infrastructure in a meaningful way, as well as industrialise its agricultural sector. Tourism can also play a meaningful role. Underlying all is the need for political stability, creating an environment safe for foreign investment. In spite of a bit of volatility in this regard, it seems that Frelimo and Renamo are making progress. They have no choice; they must stick together for the sake of the country. As I have said before, either they stick together, or they hang separately!

- **South Africa:** South Africa is going through a very rough patch.

  The IMF has warned SA its economy is extremely vulnerable to external shocks and funding shortfalls. Policy uncertainty linked to political turbulence would weigh on business and consumer confidence. South Africa's economy entered recession in the first quarter and is suffering from an unemployment rate of close to 28%. Bitter divisions inside the ruling ANC have also raised investor fears that policy to revive growth would take a backseat. Growth is projected to increase to 1.2% in 2018. Investor confidence has been subdued by political uncertainty following the axing of respected finance minister Pravin Gordhan in March, the subsequent credit downgrade to sub-investment, worries over the central bank's future independence, and by plans for the redistribution of land. External and domestic contexts could result in significant shocks, especially if accompanied by further downgrades of local currency sovereign credit ratings to below investment grade. The government's balance sheet is also exposed to sizable contingent liabilities from state-owned enterprises. Finance Minister Malusi Gigaba said SA may be forced to seek outside financial assistance if the economy kept sinking. This week he announced another R2.3 billion bailout of state-owned SAA, one of a clutch of state firms heavily dependent on government guarantees. For more information, read: http://bit.ly/2vffUdL.

CAS View: South Africa has become a source of concern for foreign investors. Its political leadership is falling apart. Its president is generally viewed as one of the most corrupt in the world. According to political commentator Moeletsi Mbeki, brother of the previous president, the ANC's consumption drive has led to the present high levels of unemployment (27.7%), in contrast to China that has adopted an investment drive, with a 4% unemployment rate. PSG Wealth, a local investment house, has indicated that R350 billion has left the country over the past 18 months. The president and his cronies (the Gupta family from India) seem to have engaged the British PR company, Bell Pottinger, to increase racial tension in the country, to the benefit of their cabal. Also, it seems that global companies KPMG and SAP have also been involved in some way or another. Investigations to ascertain the truth of this is underway. It is shocking what Zuma has been willing to do to stay in power. He is also orchestrating his ex-wife to succeed him as president of the ANC, and hence president of South Africa in 2019, should the ANC win the national elections of 2019. Hopefully all this disclosure will lead to someone with a stronger moral fibre winning the ANC elections in December 2017 to become ANC president. As it is, South Africa cannot afford a continuation of the status quo, which would be the case should Dhlamini-Zuma (Zuma's ex-wife) succeed Zuma as ANC president. To address the economic disaster South Africa is drifting towards, the latest Finance Minister, Malusi Gigaba, yesterday announced a 14 Point Economic Growth Action Plan. The details of this plan are not yet freely available, not even to the ratings agencies (strange?), although Gigaba has promised that the plan will be made public at some stage. What was surprising, if not a source of concern, is the provision of another bailout of the state-owned SAA, this while it is apparently making a loss of R370 million per month. Zuma has steadfastly refused to replace the chairperson of the SAA board, who is seen as a large part of the problem. The SOEs in general in South Africa are a source of serious concern, and various charges of corruption have been levelled against many of them. Another very serious issue being addressed in South Africa currently is that of "state capture." Even the deputy president of the country, Cyril Ramaphosa, has said that South Africa needs to recover all the money stolen through state capture. This is where we find the Gupta family from India playing a central role. It is stated that they control Zuma and many of his cabinet. It is a pity that the country has degenerated to this level. The country has competent people; the ANC has competent people. A burning question will always be how Zuma had managed to take the ANC and South Africa on such a road of self-destruction. The outcome of this all? South Africa is fast losing its appeal as an investment destination, in spite of the attractions of the country. Its social cohesion is becoming problematic (with racial divisions being aggravated by the programmes developed by Bell Pottinger), but there is hope that a strong centre could pull the country together. South Africa is waiting with bated breath on the ANC elections in December 2017. This will set the scene for the national elections of 2019, and will probably also impact the decisions of the rating agencies on whether to downgrade South Africa further. There is much to lose!