

African Union

- **Africa:** At a recent seminar in Singapore co-hosted by the NTU-SBF Centre for African Studies, the keynote speaker and Distinguished Visiting Fellow of CAS, Mr Paulo Gomes from Guinea-Bissau, identified 4 megatrends in Africa. In terms of demography, he found a strongly growing population, 40% of which was urbanized, a strongly growing middle class and consumer market (US\$1.4 trillion African consumer spending by 2020), and a growing need for food production (agricultural production had to increase by 60% to meet the growing demand for food). In terms of capital, he identified 5 issues. Firstly, Africa had to increase the levels of its savings. Secondly, only 67% of the US\$500 billion African foreign reserves were invested in Africa. Thirdly, it should be investigated how remittances to Africa (expected to grow to US\$40 billion) can be harnessed to maximize the sustainable socio-economic development of Africa. Fourthly, FDI in Sub-Saharan Africa expanded more than 30-fold in the last 20 years, 7.5 times faster than in high-income countries, and nearly 10 times faster than global GDP. Lastly, funding from countries such as China and India (China factor) provided up-front payments, invested in infrastructure, and shared management skills and technology. In terms of regional integration, he found 3 factors. 1) Imperative of Regional Integration: Africa has 16 landlocked countries, where regional integration could “erase artificial borders” through transnational infrastructure and common policy frameworks for trade and investment. 2) Cross border infrastructure: challenges in African transport, ICT, energy and water infrastructures have restricted the growth and competitiveness of Africa. 3) Intra-African trade must be raised from the current low level of 12%. In terms of technology, he identified 2 issues: 1) Technology shaping business: there are 930 million mobile phones in Africa, and Africa has taken the lead in mobile money. 2) Africa’s applied tech innovations include applications in numerous fields (e.g. farming and fisheries). (Gomes, P. 2015. **Doing Business in Africa: Megatrends and Opportunities**. 24 August.)
- **CAS View:** What was clear from the presentation was that Africa presented a number of opportunities, as well as a number of challenges. Some of these challenges had to be dealt with by Africa itself, in order to create a more attractive environment for investments from abroad. These opportunities will also not necessarily be around indefinitely. Companies had to identify the risks and deal with them in order to tap into the impressive opportunities that presented themselves.
- **Africa:** Renewable energy, the sharing economy and transportation innovation are reshaping economies across the world. Jeremy Rifkin, author of *The Third Industrial Revolution*, has been campaigning for decades for economic growth that does not deplete the world’s natural resources. In a few places, both the huge demand for power and the push for green energy are being met. Without Ethiopia’s massive investment in electricity generation over the past decade, the electric rail line in Ethiopia would have been unthinkable. The Gilgel Gibe III Dam adds 1,870MW to the grid. Cheap and clean public transport can now drive urbanisation in Addis. Rifkin argues that Africa has the opportunity, as with mobile telephones, to leapfrog legacy infrastructure in the power sector. In addition to big power plants like the forthcoming 6GW Grand Ethiopian Renaissance Dam, Rifkin sees a decentralised network of smallscale renewable energy generation. Expanded access to electricity will largely not come from the national grid, but from off-grid solutions enabled by the decreasing price of solar power. Rifkin suggests that to survive the advent of cheap and shareable renewable energy, the big companies will need to learn to become aggregators and managers of power rather than simply generators and distributors, creating partnerships with a small cluster of houses draped with solar panels right up to the biggest corporations. There are some signs that African power companies

are putting the first foot on this ladder. The upfront costs of renewable energy do, however, remain a challenge. To the convergence of the energy and communication networks comes an upheaval in the logistics and transport sector. Advanced solar-powered drones and driverless cars are the technologies of today, their costs are dropping fast, and they are not foreign to Africa either. The Flying Donkey Challenge, supported by the Swiss, aims to create robust cargo drones that can carry 60kg because African economies are expanding faster than governments can build roads. Rifkin states that the sharing economy, where companies focus on access over ownership, is becoming important. Companies like Lyft, Airbnb and a series of clothes, equipment and toy-sharing websites are examples. A Nielsen global survey has found that countries in Asia and Africa are more open to involvement in the sharing economy.

- **CAS View:** Convergence is phenomenon increasingly being observed. In the late 1990's early 2000's, ICT and banking converged with the concomitant benefit for consumers. Here again is an example of convergence, again to the eventual benefit of the consumer, citizens and ecological environment of Africa. Hopefully Africa will be able to leapfrog the development path of energy, to arrive at business models that would be cheaper and yet friendlier to the ecology. Infrastructural problems in specifically the road transportation sector could be greatly alleviated. The strong social nature of communities, where the individual is less than the group, indeed makes sharing easier. All of these phenomena create investment opportunities for companies willing to deal with Africa's challenges.
- **Africa:** China's economic engagement in Africa has generated a lot of controversy, yet it is more popular in Africa than in Asia, Latin America, or Europe. The popularity is ascribed to the acceleration of African growth rates between the 1990s and 2000s, and the role of China's trade and investment in that. The question: why is China investing in Africa. These investments are not concentrated in natural resources, but in services and manufacturing sectors. Chinese investment is also everywhere: in resource-rich countries like Nigeria and South Africa, and in non-resource-rich countries like Ethiopia, Kenya, and Uganda. Chinese Overseas Direct Investment (ODI) is less prevalent in skill-intensive sectors in Africa, but more prevalent in the skill-abundant countries, suggesting that Chinese investors aim to exploit the local comparative advantage. Chinese ODI is also more concentrated in capital-intensive sectors in the more capital-scarce countries, suggesting its importance as a source of external financing to Africa. These patterns are mostly observed in politically unstable countries, implying firms' stronger incentives to seek profits in tougher environments. The allocations of ODI and total FDI across 49 African countries share important similarities: Both are attracted to larger markets and to natural resource rich countries. Like Western investments, many Chinese investments are in energy and minerals. One important difference concerns governance: Western investment is concentrated in African countries with better property rights and rule of law, while Chinese ODI is indifferent to it. On the other hand, China tends to favour politically stable countries, given that some significant part of the volume of Chinese investment is tied up in state-to-state resource deals. China is more concerned with the political stability of the government than with the rule of law. Therefore, Chinese investment tends to be a large share of total investment in countries with poor rule of law. (Chen, W., Dollar, D. and Tang, H. 2015. How similar is Chinese investment in Africa to the West's? **Brookings** – www.brookings.edu. 18 August.)
- **CAS View:** This study provides some insight into the pattern of Chinese investments in Africa. What cannot be denied is that China has been quite aggressive in its investment into Africa, with the Chinese government initially taking the leading role and business following later. While the benefits for Africa of Chinese investment is undeniable, the developed dependency on China has not necessarily been to Africa's benefit. The devaluation of the yuan and the implications thereof for Africa (discussed in last week's Friday@Noon) has

demonstrated that Africa has become vulnerable to China's economic wellbeing. For some countries, though, China's ODI may be the only form of capital available.

- **Africa:** Punting China as an alternative to the West has been trendy in an Africa impressed by it. Bilateral trade has exploded the last decade to an estimated \$222 billion last year (thrice that with the US), while more than 25% of SSA's exports go to China. However, China's sudden devaluation of its currency this month caused a global market rout that saw the value of African assets plunge following a sharply reduced appetite for emerging market risk. African currencies are taking a beating, with half of the world's worst performing currencies on Monday coming from Africa. Bourses have not been spared either—Nigeria's main stock market index shed nearly 9% in July, while South Africa's and Mauritius' remained largely flat. With commodities at a 16-year low, Africa exporters have borne the brunt, but the currency losses have seen even importers like Uganda and Kenya see hoped for gains evaporate. China says it is only looking after itself, leaving the US as the unlikely source of support. The signs that it would be a tough year for Africa were clear as China cut back on its previously high demand for Africa's raw materials. China has attempted to jumpstart its economy by devaluing its currency, reducing its one-year lending rate for the 5th time in less than a year, and cutting the amount on money it expects Chinese banks to set aside for the 3rd time this year. It will not be surprising if the IMF further cuts growth forecasts for Africa from the current 4.5%, from last year's projection of 5%. Projected economic growth rates have been cut throughout, of which the following are examples: Uganda - to 5% from 5.8%; South Africa – a decline of 1.3% in the 3rd quarter; Nigeria – 2nd quarter growth at 2.35%, from 3.96% last year; Zambia - to 5.8% from 7%; DRC - to 9.2% from 10.3%; Tanzania – to 6.5% compared to 8.5% last year; and Kenya to 6.5% from 6.9% (IMF forecast). With the real prospect that its economy, which has been riding on a tailwind of Chinese trade and investment, could decrease if the Asian economy does not pick up, it may be time for Africa to reassure old partners (i.e. USA) that it did not really mean to remove the fly on its forehead by using a machete. (Mwiti, L. 2015. Africa, spurning America, fled into China's arms. Now US may hold 'cure' to the continent's fast-dipping economy. **Mail & Guardian Africa** – www.mgafrica.com. 26 August.)
- **CAS View:** The cut in projected growth rates of African countries is due to their exposure to commodities and the cooling down of China's economy. The projected growth rates in quite a number of these countries still look good, relative to elsewhere. CAS last view recommended that Africa develop its manufacturing capacity and speed up its Industrialisation process. In addition, regional integration could remove “artificial borders”, thereby reducing costs and enhancing intra-African trade (currently at a low of 13%). Africa does need to enhance its exports otherwise it could only end up recycling poverty. The AGOA of the USA will definitely be an instrument that will greatly benefit Africa. The past week's experience might just temper the appetite for China by Africa.
- **Africa:** Africa's economy has been severely impacted by China's attempts to deal with its slowing economy. However, there are still some opportunities to generate returns. Sari: The sari is the most recognisable traditional Indian dress for women and is an important part of Indian culture, worn by grown women who have come into their own. Africa has a large Indian diaspora, particularly in the east and south. Traditional garments have become more elaborate and expensive, because they are now only worn on special occasions. Some saris can retail for up to \$10,000, with margins for selling saris online up to 200%, compared to 60% in general clothing and apparel. “Traditional” African fabric: It is recognisable by its bright colours, bold patterns, and boxy geometrical designs. The most successful brand in the market is Vlisco; As is the case with saris, “westernisation” makes jeans, trousers, shirts and blouses everyday attire, so African fabric such as Vlisco's increases in status and desirability. In 2011, Africa generated 95% of Vlisco's \$250 million in net

sales that year. Cement, lorries, and earthmovers: Africa is one of the world's fastest urbanising regions. In 2000, 33% Africans lived in a city; by 2030, 50% will do so. It means that the construction sector and industries that support those activities are bound to be in high demand. Cement is one example. Lafarge, South Africa's PPC and Nigeria's Dangote are all cement companies that have a strong footprint in Africa and are investment options worth considering. Schools and training colleges: Africa's population is the only one in the world that is still growing. More than half the world's growth between now and 2050 will be in Africa. 60% of Africans are aged under 24 years. With the right policies, Africa will be set up for a big "demographic dividend" windfall, as workers outstrip the number of dependents. For that to happen, these young workers have to acquire the necessary skills. Training and technical colleges are likely to make a comeback as they are a quick win for African economies striving to take advantage of the estimated 85 million jobs in light manufacturing that will be up for grabs in the next few years as wages and manufacturing costs rise in China. Good old land: In Africa, you can't go bad with good old land, particularly if you head out to smaller cities and towns where your initial investment is likely to be lower than in the main capital city. (*Mungai, C. 2015. Don't just cry as your currency plunges. Here are 6 off-the-wall investments for Africans to hide their money. Mail & Guardian Africa – www.mgafrika.com. 24 August.*)

- **CAS View:** The author did well to show that in spite of the negative impact of the Chinese contagion, there are still opportunities, some more formalized than others. SME's can also tap into these opportunities. Some of the opportunities referred to by CAS in Issue 9 under Nigeria, link up with these opportunities referred to above. The growth of the luxury market will also reinforce the above opportunities.
- **Africa:** Only 26.5% of Africa's population is connected to the Internet, with a recent UN report saying SSA countries accounted for 80% of the 10 that have the lowest levels of Internet availability in the world. Community access to ICT is considered vital if people are to be connected to information and skills. Given this, global tech corporates are developing initiatives to reduce the cost of connectivity and make it available in rural areas. Google: Project Loon submits signals from balloons 18 kilometres above the earth, being received by specialised Internet aerials. Facebook: Internet.org, a zero-rated app offers users access to services such as Facebook, the BBC and Wikipedia in countries such as Kenya, Zambia and Ghana. Microsoft: experimenting with TV white space technology, which utilises unused radio spectrum to provide Wi-Fi connectivity. The BRCK, a local solution by Kenyan company Ushahidi, is a rugged, self-powered, mobile Wi-Fi device, and connects people to the Internet in areas with poor infrastructure and no access to fibre or power. The real challenge and expense of BRCK came at the production stage, but the idea proved popular with investors. Certain key sectors have been identified (education and SMEs) to scale initially. The BRCK is designed and engineered in Nairobi, with components from Asia, with final assembly in the USA. Assembling the device in Kenya is currently not viable given expensive duties on local assembly of hardware. Being designed and engineered in Kenya means it is adaptable to local conditions, such as power outages and intermittent spikes. BRCK has demonstrated that local companies are better placed to solve Internet connectivity problems in Africa, in spite of the huge resources pumped in by the likes of Google and Microsoft to tackle the issue. The barriers to entry for local companies building technology have been lowered, so more locally designed and engineered software and hardware solutions can be expected, as well as final manufacturing eventually. The solution to the problem, however, lies in collaboration with the big players. (Jackson, T. 2015. Tech giants target African internet boost. **New African Magazine** – www.newafricanmagazine.com. 10 August.)
- **CAS View:** Africa has been ingenious developing solutions to local problems. Software such as mPesa is one such a solution that has its origins in Kenya, and is now being used throughout East and Southern

Africa. It has global application potential in areas where there is a large BoP grouping. The BRCK is another such a potential solution with global application in rural areas with poor infrastructure. Africa does need support, however. It also does appear that Africa must get its house in order so as to not curtail its own initiatives through taxes and duties. Component development in Africa should also be boosted. This will provide work and grow employment opportunities. Skills development needs to be aligned as well. Eventually these projects will have a knock-on effect on economic growth, with positive benefits on trade deficits and currency vulnerabilities.