

Africa:

- **Africa:** Chinese President Xi Jinping offered US\$60 billion in financing for Africa, while warning against funds going towards “vanity projects”. He promised tangible development that would be green and sustainable.

China has denied engaging in “debt trap” diplomacy, and Xi’s offer of more money comes after a pledge of another US\$60 billion at the summit in SA 3 years ago. The new US\$60 billion will include US\$15 billion of aid, interest-free loans and concessional loans, a credit line of US\$20 billion, a US\$10 billion special fund for China-Africa development, and a US\$5 billion special fund for imports from Africa. Chinese companies will be encouraged to invest no less than US\$10 billion in Africa in the next 3 years. Government debt from China’s interest free loans due by the end of 2018 will be written off for indebted poor African countries, as well as for developing nations in Africa’s interior and small island nations. China will carry out 50 projects on green development and environmental protection in Africa, focussing on fighting climate change, desertification and wildlife protection. China would also set up a peace and security fund and a related forum, while continuing to provide free military assistance to the AU. This year’s summit will strengthen Africa’s role in Xi’s BRI. For more information, read: <https://bit.ly/2MOMoJq>.

CAS Analysis: Given the composition of the fund allocation, and the context of the FOCAC 2015 promise of supporting Africa to create value at source, there can be no doubt that there is a need in Africa for boosting its manufacturing sector, and that the funds will contribute towards this objective. China is also known for its neutral stance – it is not prescriptive about how and for what funds made available by it, should be spent on. For China then to caution that Africa should refrain from becoming involved in “vanity projects”, is a sure indication of the severity of the issue. This cautionary must also be seen within the context of charges against China that it is saddling up Africa with unsustainable debt loads. Should this money be spent on vanity projects, it will lend credence to the charges against China. Some countries in Africa, such as Djibouti, are starting to develop dangerous debt levels. However, not all US\$60 million will be for loans; some will be used to stimulate the respective African economies with investments, which would grow the manufacturing and other sectors, with the concomitant benefits. Some of the funds will be used to finance imports from Africa. China will also be writing off government debt of very poor indebted African countries. So, from this perspective, this round of financing seems to be aimed at bringing about positive changes. Does it have the potential to increase the debt levels? Obviously it does, but given Xi’s warning, hopefully the financing will be used for productive projects that will have the potential of generating government revenues, leading to exports and import substitution, and the all-important job creation! One must also see the FOCAC 2018 spending within the context of the BRI, where all of Africa have been invited to participate. This initiative will, in its current phase of development, primarily focus on infrastructure development, which can only be to Africa’s advantage. Ramping up manufacturing needs infrastructure to grow and develop.

East Africa

- **Eritrea:** Russia is joining the list of nations intent on establishing their foothold in the Red Sea. In a recent meeting with Eritrean leaders, foreign minister Lavrov announced plans to establish a “logistics centre” at a port in Eritrea.

The project was aimed at boosting bilateral trade and infrastructural investment between the two nations, which underscores Russia’s efforts to renew its ties with African states and boost its influence. In March, Lavrov undertook a week-long tour of Africa, visiting Angola, Namibia, Mozambique, Ethiopia, and Zimbabwe and signed agreements to establish economic zones, explore opportunities in accessing minerals including diamonds and platinum, and enhance military and technical cooperation. In the CAR, Russia is also supplying weapons and security advice to the government. Eritrea has a strategic location in the Horn of Africa. Its Assab and Massawa ports have been at the centre of the changing power dynamics in the region. Saudi Arabia and the UAE have used the Assab port for logistics purposes and as a detention facility. Ethiopia’s rapprochement also means it is looking to utilize and invest in Eritrea’s seaports. Eritrea also hopes to use its geographic position to attract global investment. Russia’s arrival in Eritrea will mean a crowded Horn of Africa. For more information, read: <https://bit.ly/2oA6Lv8>.

CAS Analysis: Eritrea is coming out of the cold with a bang. Not only did we see its erstwhile enemy, Ethiopia, accepting peace, and looking at using Assab as a port for its exports and imports, but now we have Russia gaining a presence in the country. Russia's footprint in Africa is growing rapidly, and in a number of countries all over the continent. It has also been investigating the establishment of a naval base in Somaliland, further down south from Eritrea. I have referred to the growing crowd of potential antagonists in the Horn of Africa in previous articles and newsletters. Up till now we have seen the USA complain regularly about China's presence in Djibouti. It will be interesting to observe their reaction to the growing footprint of Russia in the region.

- **Uganda:** Uganda's effort to establish industries in several parts of the country is being threatened by supply constraints. If these are not swiftly solved, it is likely that the government investment in these ventures will go down the drain.

One of the biggest problems agro-processing factories face is a shortage of key raw materials, including tea. The government's support towards specific industries created across 4 regions may not achieve the desired results if the farmers are missing in the supply value chain. This situation could be overturned if ministries, departments and agencies all coordinated their effort. The minister said she would discuss this issue and other infrastructural issues, such as power and roads, and corruption and mismanagement surrounding the procurement of tea leaves from farmers, in cabinet. The Uganda Development Corporation (UDC) has been supporting several industries, which is part of government's plan to promote value addition in an attempt to align the agro sector to the National Export Development Strategy and National Development Plan II. For more information, read: <https://bit.ly/2CeAqUh>.

CAS Analysis: Value addition is increasingly becoming an important strategy in African countries wishing to diversify their economies away from an over-emphasis on raw material exports. The obvious challenge identified is indeed a major constraint – if you do not have sufficient raw materials, you have a major problem. Various companies have ignored the importance of linking up with local supply chains, to their own detriment. It was surprising to note some companies with an African base amongst them. And once again we see the need for infrastructure development. Without sufficient transport and energy infrastructure, growing a manufacturing base, or developing an agro-processing industry, will be quite difficult! It seems that we experience the same stories, with different players. Africa should learn from each other's mistakes, as well as from their successes. It is not necessary to re-invent the wheel ever so often.

West Africa

- **West Africa:** VW, already active on assembly sites in Kenya, Algeria and Rwanda, recently signed MoU's to establish an automotive hub in Nigeria and a vehicle assembly site in Ghana.

In Nigeria, Volkswagen undertook to implement a phased assembly approach, starting with assembly kits, with the long-term view of establishing Nigeria as an automotive hub in West Africa, with a comprehensive Volkswagen vehicle and service network. The Nigerian government undertook to accelerate the approval of the Nigerian Automotive Policy, which includes the gradual transition from importing used cars to manufacturing and distributing new passenger vehicles. Nigeria's overall objective is to develop local content, creating employment, acquiring technology and reducing pressure on the country's balance of payment. In Ghana, VW will establish a vehicle assembly facility and assess the feasibility of rolling out a mobility concept for Ghana. The agreement will include developing a fully-fledged sales and service network in Ghana, as well as setting up a production and after-sales training academy. In turn, the Ghanaian government undertook to develop a comprehensive automotive industry policy, which will incentivise and facilitate vehicle manufacturing and assembly in Ghana. Exploratory talks are also being held with the Ethiopian government. For more information, read: <https://bit.ly/2oIEtP5>.

CAS Analysis: I have recently addressed VWSA's expansion into Rwanda, where they will be looking at assembling 1000 cars per year. This must be seen against the ~550,000 cars produced in South Africa, where there is a population of 57 million. In Nigeria, where there are ~190 million people, a total of 10,000 new cars are sold per annum. There is therefore a massive potential in Nigeria. It is also said that there is a requirement of a per capita GDP of at least US\$3000 for a decent motor vehicle manufacturing sector.

The only country amongst those mentioned that meets this requirement, is South Africa (US\$7525). Nigeria (US\$2412), Kenya (US\$1169), Rwanda (US\$765), and Ghana (US\$1814) all miss the benchmark. One therefore needs to ask what is the reasoning behind VWSA's expansion strategy? They are clearly preparing for the future growth of the continent, which has the prospect of a strong growth in population size and a strong growth in its middle class. The integrated mobility solutions in Rwanda and Ghana will include a review of the commercial viability of introducing car sharing, ride hailing and shuttle services, as well as serve as a source of second-hand cars. I did in a previous newsletter refer to the potential that exists in the market of Eastern DRC as far as the assembly plant in Rwanda was concerned. Ethiopia is another interesting choice. With a per capita GDP of US\$550, they are far below the benchmark GDP per capita of US\$3000.

- **Nigeria:** MTN Group faces a US\$2 billion demand for taxes in Nigeria. The announcement of the tax bill incurred over the last decade comes days after Nigeria's central bank ordered MTN in Lagos to hand over US\$8.1 billion that it said was illegally sent abroad.

According to MTN, the Attorney General's office calculated that MTN Nigeria should have paid approximately US\$2.0 billion in taxes relating to the importation of foreign equipment and payments to foreign suppliers over the last decade. MTN said its total payment of ~US\$700 million over the period fully settled the amount owing under the taxes in question. The latest demands come 2 years after MTN agreed to pay more than US\$1 billion to end a dispute with Nigeria over unregistered SIM cards. SA group Sun International said it was in final stages of exiting Nigeria following clashes with regulators and shareholders. It is following in the footsteps of retailer Woolworths and food maker Tiger Brands, both of which quit Nigeria over the last 3 years. MTN called the latest demands by Nigerian authorities "regrettable and disconcerting". Analysts say Nigeria's demands against MTN risk further undermining its efforts to shake off an image as a risky frontier market for investors. For more information, read: <https://bit.ly/2wOcd1W>.

CAS Analysis: MTN seems to be facing an uphill battle in Nigeria. First they had the initial fine of US\$5 billion for the unregistered SIM cards, which eventually was reduced to about US\$1.8 billion. Now they have the demand to hand back US\$8.1 billion, as well as a tax bill of US\$2 billion. As the one commentator said, either MTN are a bunch of fools that do not understand the regulatory environment in Nigeria, or they are the victims of a bunch of crooks. There is actually a third option, and that is that both the first two options are true. We have seen in Tanzania that the government there levied a fine of US\$190 billion against Acacia Mining, which is four times the GDP of the country. It was eventually reduced to US\$300 million, which is substantially less than the original fine, to say the very least. Similarly, in Chad, the government levied a fine against Exxon Mobile of US\$74 billion fine for underpaying royalties. The fine was about 5 times more than Chad's GDP of US\$13 billion. The court also demanded Exxon pay US\$819 million in overdue royalties. Exxon eventually reached a settlement with Chad, avoiding the \$74 billion fine altogether. This kind of situation is not good for the reputation of Africa. As the article states, "Nigeria's demands...risk further undermining its efforts to shake off an image as a risky frontier market for investors." This is obviously true for every country in Africa. To be fair to Nigeria, however, both Woolworths and Tiger Brands left the country for reasons related to poor decisions on their part, and not necessarily due to decisions by the Nigerian government against them.

Southern Africa

- **Botswana:** President Masisi has attended the FOCAC Beijing Summit and paid a state visit to China.

China has funded over 40 Botswana projects ranging from refurbishing railways, constructing houses to building primary schools. Chinese medical teams have treated more than 2 million people in Botswana since 1981. China is the second largest consumer of Botswana's diamonds. China is also one of Botswana's largest project contractors and major trading partners. Chinese companies have created more than 2,000 jobs in the local communities. China provides government scholarships to Botswana students and is one of the favourite destinations for Botswana students to study abroad. Growing numbers of Chinese tourists have come to Botswana for sightseeing. The 2 countries will exploit the opportunities in the development of bilateral relations under the BRI framework and FOCAC to bring more tangible benefits to their citizens. First, the countries will increase high level exchanges between China and Botswana. Second, they will strengthen practical cooperation between China and Botswana. Botswana is rich in mineral and tourism resources and has strong diamond and livestock industries. China has advantages

in industrial equipment, technology, capital and market. Botswana is welcome to participate in the BRI. Third, they will promote cultural exchanges. Fourth, they will enhance cooperation on regional and international issues of mutual concern. For more information, read: <https://bit.ly/2oKVSGN>.

CAS Analysis: China once again steps in to become the dearest friend of an African country, in the process helping to develop the economy of Botswana, as well as society at large. We also see practical examples of the understanding that the whole of Africa is welcome to participate in the BRI, and not only Kenya, Djibouti and Egypt. And there is ample evidence to suggest that China is also seeking influence and is wooing Africa for its support in global forums.

- **Zimbabwe:** President Mnangagwa has made impressive claims regarding Zimbabwe's investment pipeline, but some doubt that they can be backed up. Since Mugabe's departure, the country has been visited by high-profile dignitaries, e.g. from the UK and China.

The strong investor interest has given Mnangagwa the confidence to publicly claim that his government has to date attracted more than US\$11 billion in FDI commitments. He made a number of promises: to mend Zimbabwe's toxic relations with the global community; the US\$5.2 billion liquid fuels deal with Sikkhosana Holdings; a platinum mining and refinery investment deal with Karo Resources International, worth US\$4.2 billion; and Sinosteel Corporation's US\$1 billion investment for a power plant and three chrome-smelting furnaces. However, sceptics have cast doubt on the figures. There are also grave concerns that Mnangagwa's government is desperate for investment and is therefore signing deals with comparatively obscure companies. Also, not even SA or Mozambique, two of the biggest recipients of FDI in sub-Saharan Africa, have attracted those levels of investment. There is, however, a lot of hope in the potential of Zimbabwe. It is underinvested. Investors are positioning themselves for huge potential rewards that can be harnessed after the elections. For more information, read: <https://bit.ly/2wKq88y>.

CAS Analysis: We must also remember that in addition to the UK and China, Zimbabwe was also visited in March 2018 by Foreign Minister Lavrov from Russia. So, there will be various investors interested in banking on the upswing in Zimbabwe. Well-known investor and author, Jim Rogers, stated that the next bear market could be the worst in his lifetime and that instead of U.S. stocks, he is looking at investing in Zimbabwe, an emerging market. According to him, Zimbabwe was ruined for 40 years by a crazy dictator. According to Rogers, "there's a new guy, he may be worse, he may be better, but he's certainly different, so you should think about Zimbabwe." He had already started to invest in Zimbabwe in a small mutual fund in 2017. The reality is that Zimbabwe basically can only go one way, and that is up. Worst case scenario is that nothing happens – the status quo is maintained. That does, however, seem unlikely. The country has great potential, with its mining resources, agriculture, and tourism, as well as a well-educated population. Should the government get its act together, it is not inconceivable that many of its better educated diaspora will return, as is the case with quite a number of its farmers whose farms were taken away by the Mugabe regime. This will only be to Zimbabwe's benefit and must be actively encouraged.

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