

Remarks by Dr Salim Ahmed Salim on Africa's Political - Economic Outlook and Investment Potentials at the PCAP-PAIP II Advisory Committee Meeting, Tuesday 9th November 2010, Tunis, Tunisia.

Good morning Ladies and Gentlemen,

I am delighted to meet again with old friends and establish acquaintances with new ones in this majestic Afro-Mediterranean city of Tunis.

I have been asked to make some remarks on the challenges and opportunities across the continent and the state of investment prospects. This is of course a very vast topic and I will confine myself to general remarks and hopefully in the process convey some basic essentials.

Let me begin by observing that, by and large, since the year 2000, the African economy has been growing steadily until the recent global crisis that has forced either economic contraction and or economic downturn. Yet, unlike when we met last year in Cape Town with the background of 2008-09 economic downturn, Africa is again making headway in political and social - economic areas.

It is important to highlight this bearing in mind that this year is the 50th Anniversary of the independence of many African countries including Nigeria and the majority of French speaking countries.

Politics of pluralism has become more intense in our continent over the last decade. The continent has experienced much progress towards democracy and good governance. During the last 15 years, Africa has moved towards constitutional order and political stability – despite challenges posed by delayed elections, civil conflict and post election violence.

Kenya for example which only two years ago was on the verge of ruination because of the violence that followed the 2007 elections has now moved ahead, adopted new constitution and is doing well in economic development.

The situation in Cote d'Ivoire which for several years had been a source of turmoil and civil strife gives some reason for hope. A runoff election is expected on 28th November between the incumbent President Laurent Gbagbo and opposition leader Alassane Ouattara.

Smooth transfers of power to the opposition have taken place in several countries and there is also a diminishing of unconstitutional takeover of state power. Moreover where such illegal takeovers occurred they have been consistently and firmly challenged. Recent case of Niger and Guinea testify to that.

Essentially, there is a new political dispensation emerging in the Continent, which is unlikely to be reversed in the long run

There are of course a number of unresolved conflicts including those of Somalia, Eastern DRC and Sudan. The situation in Sudan, currently Africa's largest country is particularly worrying. There, while the conflict in Darfur remains unresolved with its attendant repercussions, attention has recently been more focused on the developments relating to the future of Sudan itself.

Given current trends, the referendum in Southern Sudan scheduled for 9th January next year is more than likely to lead to the separation of the South from the North. Africa has struggled hard for the Unity and territorial integrity of the Sudan, rightly considering the country as an important bridge between the North and the South and as a microcosm of Africa – where people in their diversity can live and work together. Regrettably, this great expectation appears likely to have run its course.

The challenge now is not whether there will be a separation. Rather how best to ensure that such a painful process takes place peacefully and that parameters be defined for future cooperation of the two components of Sudan. For the inescapable reality remains that the two sides – North and South, need each other.

This is not only because of the long historical, cultural, economic, social and other ties encompassing all domains of human endeavor but also simply because the two sides need each other to cooperate in order to resolve many of the current outstanding contentious issues. Such issues include the future of Abyei, demarcation of the border, the question of the citizens residing in the two areas as well as economic issues such as the national debt and assets, currency, resource sharing and infrastructure.

Indeed it remains an incontrovertible fact that for logistical and rational reasons they have no realistic option but to cooperate. For example, while the South has the greater portion of Oil resource, the infrastructures to move that oil from the South are in the North.

This then brings me to another observation when we consider possibilities of investment in Africa: Even in some of those areas of actual or potential conflicts, possibilities for investment are there. Indeed in the particular case of Sudan, it is my firm belief that there are considerable opportunities both in the North and the South, whatever the shape of the emerging post referendum entities.

Let me now say a few words about the state of the economic development in Africa.

Institutional reforms including legal reforms enhancing economic fundamentals, and substantial initiatives in creating a more predictable business environment has been witnessed in many African countries. These reforms have been going together with the development of strong institutions enshrined in the constitutions thus strengthening the rule of law, openness and accountability.

According to WEF on Africa 2010 report, Africa has defied the direst predictions that it would be hit hard by the global downturn. The continent has responded more quickly and strongly than much of the world – with African economies expected to average 5%

economic growth in 2010 and 6% growth in 2011. Policy reforms, debt relief, rising commodity prices and foreign investment have increased Africa's resilience to shocks.

While short-term risks remain, McKinsey analysis as was succinctly given to us last night, suggests that Africa has strong long-term growth prospects, propelled both by external trends in the global economy and internal changes in the continent's societies and economies.

GROWING SOUTH - SOUTH TRADE.

Africa now conducts half its trade with developing economic regions (south – south trade). From 1990 to 2008, Asia's share of African trade has reach 28 percent, while with Western Europe it has shrunk, to 28 percent, from 51 percent.

China is increasingly becoming a major business partner of Africa. According to forecast by the Chinese Ministry of Commerce (MOC), trade between China and African countries will again exceed \$100 billion this year. Data showed in the first half of this year, trade between China and Africa jumped sharply to \$61.2 billion in the first half of this year 2010. More than 1,600 Chinese enterprises are now investing in Africa in the fields of agriculture, mining, processing and manufacturing, infrastructure facilities and commerce.

While addressing the African Development Bank meeting in Senegal in 2009, Mr. Shaktikanta Das, the Alternate Asia Development Bank Governor for India, noted that "Trade between India and Africa has increased from US\$3 billion in 2000-2001 to

US\$36 billion in 2007-2008. Exports from India to Africa multiplied from \$2 billion in 2000 to \$6 billion in 2005, and African shipments to India also jumped from \$3 billion a year to \$4 billion.” Furthermore, it is reported that India expects to triple trade with Africa over the next four years to reach \$100bn

Low cost expertise in the manufacturing sector and in Information technology makes India a viable trading partner in most of African Countries. India's success in ICT and its expertise in commercializing innovations in agribusiness and biotechnology would provide an opportunity for mutual benefit, as India's entrepreneurs look to Africa for growth markets.

New developing powers are making their ways towards Africa. These include Turkey which in the past three years has been active in establishing its presence in Africa both diplomatically and trade and investments. Turkish exports to Africa are estimated to have leapt from \$1.5 billion in 2001 to over \$10 billion in 2009.

EXPANDING INTRA-AFRICAN TRADE:

Expanding intra-African trade will be one key to the future growth of Africa economies specifically small countries whom their prospects can only improve as regional integration creates larger markets. If these countries improved their intra regional infrastructure and regulatory systems, they could also compete globally with other low-cost emerging economies.

Various African Regional Economic groups are finding more effective ways of working together and some have adopted plans towards a merger into single group with the objective of fast tracking the attainment of the African Economic Community.

After successfully established Custom Union in 2005, East Africa Common Market Protocol came to effect in July 2010. The Common Market has been the single most important source of benefits of regime integration for the Investor, Tax-payer and ordinary People.

The East Africa Common Market has taken in more than 130 million people in Burundi, Kenya, Rwanda, Tanzania and Uganda. A lot has already been done to improve the business environment in the EAC through the creation of a harmonized investment region to maximize the benefits of a big market and business opportunities. The result has been considerable growth in the East African commodity trade.

THE RISING INTERNAL CONSUMER BASE.

Increasingly Africa's is experiencing tremendous interrelated social and demographic changes creating new domestic engines of growth. Key among these are urbanization, an expanding labor force, and the rise of the middle-class African consumer.

The process of urbanization is increasingly picking pace with economic growth. Urbanization is boosting productivity, demand, creativity and local investment. Domestic consumption is the largest contributor to growth in these countries. According to McKinsey report titled "What's driving Africa's growth" (June 2010), Africa's real

consumer spending has grown by 3 to 5 percent annually since 2000. At least 40 percent of the continent's one billion people do live in urban areas. By 2030, the report noted that, that share is projected to rise to 50 percent, and Africa's top 18 cities will have a combined spending power of \$1.3 trillion.

This has the potential of boosting Africa as a society of increasing political awareness, fostering innovation and culture of quality based end products.

All this has enabled sectors such as retailing, banking, and telecom to grow rapidly and prompted a construction boom that created about 30 percent of all jobs over the past decade.

MICROECONOMIC REFORMS

Furthermore, most countries are now recognizing the fact that private sector as THE key to economic growth and development. In many countries we see increasing involvement of private sector in policy adaptation and government decisions.

African governments have increasingly adopted policies to energize markets and create a better business climate that has led to reemergence of vibrant private sector. They privatized state-owned enterprises, increased the openness of trade, lowered corporate taxes, strengthened regulatory and legal systems, and provided improved financing to critical physical and social infrastructure.

With all these, Africa is gaining increased access to international capital. As McKinsey report on What's Driving Africa's Growth (June 2010) reports again, the annual flow of foreign direct investment into Africa increased from \$9 billion in 2000 to \$62 billion in 2008—relative to GDP.

DIVERSIFICATION OF THE ECONOMY

In the shift from agrarian to urban economies, multiple sectors contribute to growth. The share of GDP contributed by agriculture and natural resources has boosted the expansion of the manufacturing and service sectors, which create jobs and lift incomes, raising domestic demand.

Some of the Africa advanced economies like Egypt, South Africa, Morocco and Tunisia, are already well diversified. Manufacturing and services together total 83 percent of their combined GDP. Domestic services, such as construction, banking, telecom, and retailing, have accounted for more than 70 percent of their growth since 2000 (McKinsey, 2010).

Nigeria is another example of an African country that has begun the transition to a more diversified economy. Banking and telecom, in particular, are expanding thanks to a series of economic reforms undertaken in the last ten years. Since 2000, the number of Nigeria's telecom subscribers increased from almost zero to 63 million, while banking assets grew fivefold (McKinsey, 2010).

PUBLIC – PRIVATE PARTNERSHIP

More than ever before, in recent years there has been more signs of public – private engagement among players and actors within countries and regionally. As a processes of transfer of public good into private good (in part or in total), a trend towards Public Private Partnerships has been picking up steadily in many African countries. This is especially the case among those resource endowed countries with proven or potential energy based resources like Oil, Gas and special minerals such as Uranium. Potential for Intra-Regional public-private investments in key infrastructures like Electricity, Transport sector, and Special Economic Zones is huge.

Many countries have adopted various policy and legal reforms to create conducive business environment for this new economic approach to prosper and ensure reliable investment returns.

Let me before concluding turn to some of the problem facing the continent.

INFRASTRUCTURE:

Inadequate electricity supply, poor roads and railway systems, and inadequate ICT infrastructure hinders Africa's potential for rapid development and its potential for massive investment flow. However, most of the African governments and regional economic blocks have recognized this challenge and increased capital investments in both public and private infrastructural development. There are several initiatives underway to achieve infrastructure interconnectivity including construction of cross-border roads, power lines and joint railways developments.

1. HIGH COST OF DOING BUSINESS:

It is estimated that up to 30% of the cost of doing business in sub Saharan Africa was attributable to ineffective logistics systems and management and therefore, addressing logistics failure was as important as developing the missing physical infrastructure. Logistics bottlenecks includes unnecessary inventories, high interest costs, time related costs and over investment in equipments and labor. However, with the growing regional economic integration in all parts of the continent, this challenge is being slowly resolved in accordance with the various Common Market and Free Trade areas initiatives.

2. HUMAN RESOURCE CONSTRAINTS:

Education, specifically quality education is still a challenge for Africa to better utilize its potential. If Africa can provide its young people with the education and skills they need, this large workforce could become a significant source of rising global consumption and production. Education is a major challenge, so educating Africa's young has to be one of the highest priorities for public policy across the continent.

3. GOVERNANCE:

While we celebrate much improvement compare to where we were 15 years ago, still the issue of entrenched corruption is a major impediment to Africa development and investment potential. According to the World Economic Forum Global Institutions and Global Governance: Africa's Role in Global Cooperation Report (May 2010), Corruption in Africa is at least five times larger than global averages as a per cent of GDP, costing Africa upwards of US\$ 148 billion annually or about 25% of continental GDP.

The report rightly continues to note that “while corruption is to be found throughout the world, it is far more devastating in Africa than elsewhere. Every dollar diverted to bribes and graft is a much-needed dollar taken away from hospitals, schools and infrastructures.” Indeed, it is undisputable fact that **Africa cannot afford corruption.**

Ladies and Gentlemen,

In my remarks I have endeavored to give a picture of Africa as I see it. I have spoken of the existence of opportunities as well as my firm conviction based on my life experience and involvement in and with continent’s developments that Africa is moving on the right path. It is a very good place for investment and to do business. I believe that the FUNDS should continue and indeed enhance its involvement in the continent.

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