

BRIEFINGS

Africa's prospects

Opportunity knocks

Oct 9th 2008

From The Economist print edition

With world markets in turmoil, an unexpected and overlooked continent may benefit from its very isolation

Panos

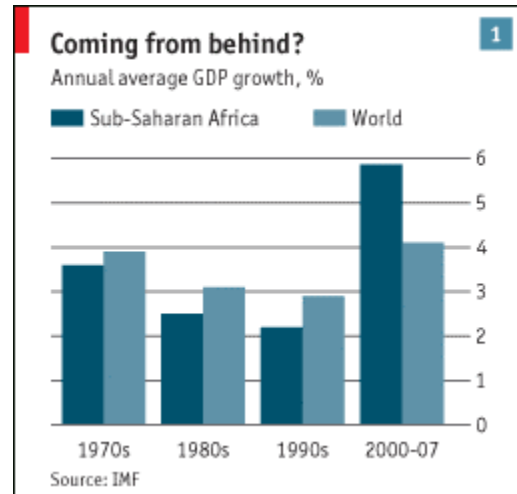


TAKE a snapshot of the main news stories around Africa. In Nigeria, its most populous country, the insurgency in the oil-producing Delta region grows fiercer by the day. Zimbabwe's agony continues as President Robert Mugabe and the new prime minister, his opponent in the last election, Morgan Tsvangirai, fail to agree on the composition of a face-saving coalition government; meanwhile, the country's official rate of inflation has topped 11m%, with the unofficial rate put at more than 531 billion%. The president of Sudan, Africa's largest country, has officially been accused of genocide and war crimes by the International Criminal Court. In Somalia, the tragedy of a lawless and ungoverned country only gets worse. Even in South Africa, the continent's biggest economy, political uncertainty has set in after the ousting of the former president, Thabo Mbeki, in a bitter political feud.

Yet all this has been accompanied by a steady drumbeat of optimism about the continent, and confidence in its prospects. Despite the litany of problems, the 48 countries of sub-Saharan Africa (hereafter referred to as plain Africa) are, by several measures, enjoying a period of unparalleled economic success. And despite the

turmoil in the world's financial markets, international investors still think they can make money there.

In 1990-94 annual GDP growth was a weak 0.9%; since then, growth has averaged closer to 5% (see chart 1). Before this autumn's financial meltdown, the IMF was predicting GDP growth of 6.6% this year; now it is predicting only a slightly lower rate. Annual GDP growth per person was 1.1% in the late 1990s; from 2004 to 2006 it was around 4%. In 1990 47% of Africans lived in poverty; in 2004 41% did and, if present trends continue, only 37% will by 2015. Zimbabwe apart, most African countries have been bringing inflation down, even if the trend is now creeping up again, in line with the rest of the world.



Many countries have been helped by better macro-economic management and big inflows of Western aid, investment and debt relief—as well as by more unquantifiable investments from Asia, particularly China, and the Middle East. The surplus petrodollars of the Gulf states have been flowing into east Africa. The IMF estimates that foreign investment and loans to Africa rose from \$11 billion in 2000 to \$53 billion in 2007. Much of this has stemmed from the commodities boom. Oil-producing countries such as Angola and Nigeria, and even war-torn Sudan, have supplied the soaring growth figures, and much of the foreign investment has gone into extractive industries.

Moreover, there is a reasonable chance that Africa may survive the current world financial crisis less bruised and battered than some other parts of the world. The very factors that damaged the continent in the past may now be working in its favour.

Take the banking sector. Businessmen and budding entrepreneurs have always moaned about the excessive regulations and conservatism of African banks. Controls on foreign exchange often prevent them raising more money by investing in exciting financial instruments in the West. Foreign ownership of banks is unusually limited (to less than 5% in Nigeria and South Africa). Now, however, this very de-linkage from the Western financial system has turned out to Africa's advantage. Its banks have almost no exposure to the subprime market causing such havoc elsewhere in the world. Benedicte Christensen, deputy director of the IMF's African Department, says confidently that there is "no systemic risk that we can see in any African country in terms of banking."

No one doubts that Africa will feel the effects of the crisis eventually. As world trade contracts, so will the demand for Africa's oil and minerals, the main commodities behind its current boom. Oil prices dipped under \$90 a barrel this week, down about 40% from earlier in the year; that will dramatically hobble the development of a country like Angola. The price of copper has been tumbling, which will sharply affect the futures of Zambia and Congo. And the foreign capital that African countries have

relied on so much for their development will be in shorter supply; in the West, investors will have a decidedly smaller appetite for risk. The supply of aid money, too, will probably decline. But African leaders hope that these effects will be softened by other factors.

Courted by the world

China and the Gulf states have been fascinated for some time by Africa, and there is no reason why this should end. Indeed, Africa's leaders still like to think of their continent as a gorgeous bride, with a glittering dowry of oil and minerals, to be courted by a swooning world. It is, after all, not just the Chinese who have been queuing to pay over the odds for those enticing minerals (copper, iron and cobalt) and hydrocarbons. Scarcely a month goes by without some country or group playing host to African leaders to win their favour, all copying the Chinese-African jamboree in Beijing in November 2006. Last December it was the turn of the European Union in Lisbon; in March the Indians held an African summit in Delhi; in May the Japanese laid on a welcome in Tokyo.

China is the most prominent of the new deal-makers, but in some African countries, including Kenya and Sudan, India is not far behind. Malaysia has been investing, too. And the rising ambitions of these eastern nations in Africa have spurred the Americans into action, anxious not to be outdone in a continent which they feel should be in their orbit. The United States wants to get as much as a quarter of its oil imports from Africa within a decade, to lessen its dependence on the Middle East. Though the Americans have been focusing on the Gulf of Guinea, particularly Nigeria, they are also heavily involved in Angola, which is likely to become Africa's largest producer.

America's interest in Africa has also been revived by the administration's "war on terror". It has been offering money and military deals to many governments, especially across the Sahara and in the Sahel (the fringe just south of the great desert), to combat the threat of militant Islamists. To benefit from this military and diplomatic windfall, several African countries have accepted the role of front-line states in America's war. Ethiopia and Kenya, both sharing long borders with Somalia (where the Islamist threat is real), have gained in this way; so have Mali and Nigeria, where the threat is less apparent.

All this attention and investment are not an automatic blessing. The men who make the deals are enjoying a sweeter life than ever before; but for most people the riches have trickled down slowly, and sometimes not at all. Africa's record of governance remains, on the whole, poor and its respect for human rights patchy (see map). These are still the main reasons for the continent's failure to march steadily towards prosperity.



Because aggregate growth has depended hugely on the worldwide commodities boom of the past decade or so, the overall economic improvement also masks deep inequalities. A recent World Bank paper illustrates the difference in economic well-being between countries with minerals and oil and those without. Landlocked countries without resources grew by an annual average rate of just 3.6% from 1995 to 2006, whereas oil-exporting ones grew by 9.1%. Although some of the poorest countries did well in 2007 (Sierra Leone, for instance, grew by 11.6%) the base was low. Ethiopia grew by 6.2%, and has had more than seven years of peace, but it is still threatened by famine. And the 14 African countries that the World Bank classifies as “fragile” have grown by only 2.5% a year over the past decade.

A lot of hot private capital has been attracted to a very few countries, such as Nigeria, where fund managers have been impressed by reforms in the banking sector as well as by its healthier economic state. Mobile-telephone companies have been doing extremely well almost everywhere. The IMF says that a select group of countries—Botswana, Ghana, Kenya, Mozambique, Nigeria, Tanzania, Uganda and Zambia—are now stable enough to rank as emerging markets. But the World Bank paper is sceptical of claims that Africa’s economic fundamentals—savings,

investment, productivity and export diversification—have improved enough in the good times to keep the recovery going when commodity prices fall. That scepticism will now be put to the test.

Angry young men

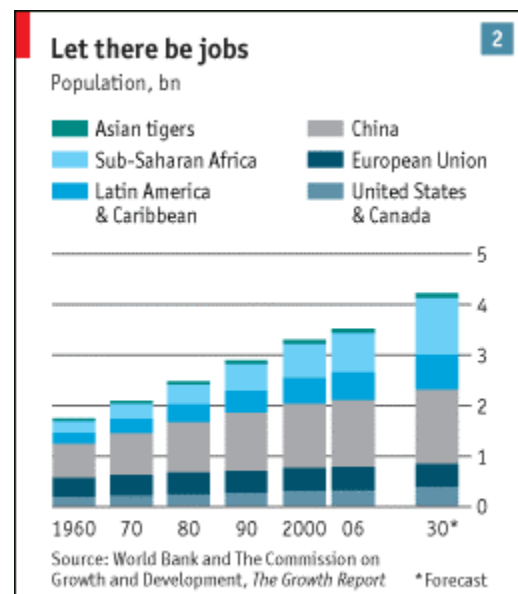
The bad news is that, even in some of Africa's bigger and beefier countries, the benefits of growth have been balanced by soaring increases in population (see chart 2). In short, even the more successful countries have not managed to provide anything like enough formal jobs, above all for the young. So there are millions of frustrated, bored and angry young men in Africa's burgeoning slums and shanty towns. With few prospects, they are ready to explode, as they have done ever more frequently in the past year or so.

Take Kenya, which boasts east Africa's wealthiest economy. In rich countries, the average woman has 1.6 children in her lifetime. In Kenya, she has nearly five. The population has grown sixfold since 1950, to 37m, with a bulge in the cohort of young men aged 15-24; most will be, at best, under-employed. All it needed was a spark, after the country's rigged election on December 27th, to ignite a collective rage.

Or look at Ethiopia, its neighbour. Here the population, now 85m, is growing by about 2m a year, one of Africa's fastest rates. Despite recent economic successes (exporting flowers, for example), poverty remains endemic. Some reckon that 70% of young Ethiopians are jobless. In Nigeria, with 149m people, the problem is extreme. Many young men in the oil-rich Delta region have given up all hope of work. Instead they have joined an insurgency, kidnapping and stealing oil to earn a living.

This economic and political frustration is a lethal mix in what are supposed to be Africa's more hopeful countries. It cuts across ethnic, tribal and religious lines. Crooked elections, as in Kenya, often ignite the violence. Young people, their expectations raised, believe that their votes will produce politicians who will address their grievances and bring some economic and social justice. As such hopes are repeatedly dashed, a youthful rage has built up across the continent.

For countries that have no oil to export, high fuel and food prices have made matters worse. The high cost of staples has led to riots in nine African countries this year, including relatively peaceful ones, such as Senegal. It is also stoking inflation.



Rich and rotten

Even those countries which seem, on the surface, to be doing well from selling their oil and copper to Asia are in danger of damaging themselves in the longer term. The "Dutch disease" was a term coined by *The Economist* in 1977 to describe how the exploitation of natural resources can cause a decline in other forms of economic activity, particularly manufacturing. This briefly happened in the Netherlands when natural gas was discovered; the same may be happening in Africa. And despite—or perhaps because of—Nigeria's massive oil wealth, several of the country's civil institutions, together with human rights and the rule of law, have all withered in the past few years.

In four of the five states of Nigeria's Delta region, for example, accountability, openness and democracy seem to have diminished in proportion to the increase in oil money flowing into the states' coffers. Elections have become long spells of organised thuggery. The former head of Nigeria's anti-corruption commission, Nuhu Ribadu, has called Nigeria's mode of government "gangsterism". Politicians, particularly at local level, form criminal syndicates to squeeze the public coffers dry. The more money is available, the more unscrupulous they become.

When Mr Ribadu's anti-corruption investigations got too near the top of government earlier this year, he was promptly relieved of his post. The same fate befell another anti-corruption chief, John Githongo, in another relatively rich country, Kenya, in 2005. Mr Githongo now concludes gloomily that a whole era, starting in the mid-1990s when African governments at least tried to take corruption seriously, is over.

In Sudan, another country awash with oil, the bonanza should once again have benefited a country that suffers from both poverty and drought. Instead, oil wealth has exacerbated existing tensions and grievances. Sharing out the most productive oilfields is a deadly source of tension between the Christian-animist south and the Muslim- and Arab-dominated government in the north. As a result, the long war between the south and north, which was ended by an ambitious peace accord only three years ago, is threatening to break out again. Botswana, in southern Africa, remains the only country that has managed its resource wealth (mainly diamonds) well.

Raising the financial stakes in Africa often seems to have persuaded those who benefit most from the new riches to cling ever more tightly to power. There are, for sure, more elections than ever before. But heeding disagreeable election results is for wimps, judging by the attitude of Kenya's Mwai Kibaki or Zimbabwe's Mr Mugabe. Uganda's president, Yoweri Museveni, has changed his country's constitutions in order to hang on. Cameroon's leader, Paul Biya, has shown a desire to follow this bad example, and has provoked riots as a result.

Neither will Africa's politicians be deterred from this attitude by their new high-spending friends, the Chinese. China is welcomed for its much needed investment and its building of roads, pipelines and ports. But the Chinese may also be encouraging governments and politicians to ignore their people's demands for more democracy and cleaner government. Kenya's opposition was much irritated by an editorial in January in the *People's Daily*, the official newspaper of the Chinese Communist Party: "Western-style democratic theory is just not suited to African conditions. Rather, it carries with it the roots of disaster. Kenya's election crisis is

just one example." Words like this seemed almost to approve Mr Kibaki's disastrous rigging of the election.

Good-news countries

Several of the African countries making the most promising strides are those with very few natural resources. Poor, landlocked Mali is combining slow but steady economic improvement with political stability. Mozambique, recovered from war and rich in minerals, is also progressing slowly in the right direction.

Ghana, at independence in 1957 one of Africa's richest countries per head of population but subsequently ruined by dictators and mismanagement, is also making a comeback. In December 2006 it floated a five-year bond for the first time. The issue was oversubscribed. Last year Ghana struck oil for the first time off its coast. But the Ghanaians, wiser after their descent from high hopes to kleptocracy, kept their celebrations muted and are now inviting the Norwegians in to advise them on how to exploit their windfall sensibly. Ghana's elections, due in December, will provide a test of whether the country can avoid the violence and fraud that stalked the ballots in Kenya and Zimbabwe.

The emphasis in these good-news countries is on boosting the private sector, reducing corruption and getting the politics right. Their efforts are allowing them to qualify for America's Millennium Challenge Account, worth hundreds of millions of dollars in aid. Even though the underlying problems remain daunting, and even in the midst of the world financial crash, sub-Saharan Africa has a chance to build itself anew.