Why Africa must adapt or die

BY: MARTYN DAVIES | 19 JAN 2015 10:10

Is Africa's development inevitable? The conventional assumption is that all countries and regions will develop - albeit at different speeds - and eventually graduate from "emerging economy" status into the ranks of the First World.

The rapid ascent of Asia's Tiger economies in the past three decades, particularly China, and the creation of wealth in their societies reinforce the belief that "developing economy" is only a temporary tag on the pathway to a First World future.

But can Africa assume an influential position in global affairs, in the same way that Asia did last century?

There are similarities: for example, 50 years ago, Asia was characterised by post-conflict societies, mass poverty and a corrupting populist ideology - not unlike many contemporary examples in Africa.

But the narrative for Africa has shifted remarkably in the past decade to one that is decidedly positive - "Africa Rising" is what The Economist magazine labels it. Look across the continent and you'll see that most of Africa's economies are growing, strongly propelled over the past decade by high oil and commodity prices, rising consumer spending and the potential for industrialisation.

Companies have awoken to the "Africa opportunity" and their expansion in the region has mostly focused on capturing consumers and consolidating marketplaces. But crucially, for companies to build embedded businesses, Africa's new growth trajectory must be sustainable, Asia-style.

So the question becomes, can Africa's GDP growth translate into qualitative development across the continent? To answer this, we need to look at Africa's prospects through three lenses: its extractive industries; rising consumerism on the continent; and its ability to industrialise.

On the first point, many people are aware of the "resource curse", a widespread theme in Africa according to which a country's development prospects have proved to be inversely proportional to the natural resources it has. This is partly because these economies become dependent on the vagaries of commodity prices determined in international markets. In many cases these countries also only have a single resource, be it gold, oil or whatever. Unable to diversify, their governments are restricted to collecting limited rents from multinational companies. This is a risk because investment in a resource is largely an exercise of investing in an asset with continuing diminishing rates of return. Without diversification to manufacturing and services, long-term developmental prospects are always bleak.

Take Nigeria, where the disconnect between its potential and its reality is stark. Nigeria has never been as dependent on oil as it is today, with more than 90% of its export earnings coming from this
resource. On paper, Nigeria is now the biggest economy in Africa. But assuming two things remain constant - Nigeria's proven oil reserves and its current rate of production - then its oil will be depleted in 41 years. For Nigeria, diversification is imperative for a sustainable future.

Looking across Africa, countries with the biggest natural resources endowments are anything but shining examples of inclusive growth. Wealth is unable to trickle down into society from "narrow" extractive industries, especially in the face of corrupt and bureaucratic governments. Even the internal security threats that afflict many African countries - Nigeria and surrounding fragile states in particular - are testament to their inability to bring about inclusive growth for their citizens. Security problems are the most severe threat to the "Africa Rising" narrative. Ultimately, governance will determine whether the resource rents are reinvested into ensuring that African economies are sustainable.

The second lens is that of the African consumer market. The most accurate "Africa Rising" story is that of consumer companies expanding their footprint across the continent to serve a previously untapped consumer market. It isn't an exaggeration to say Africa is emerging as the "next India" - with a similar population and growth rate, though 20 years behind the Indian reform and economic high growth story. This business model is driven by demographics - essentially looking to capture clusters of consumers and consolidating this business through efficient supply chain management. "First-mover" advantage is crucial in highly fragmented sub-Saharan markets, and several South African companies have led the way. MTN has done this in telecoms, SABMiller in alcohol, Shoprite and Walmart in retail, MultiChoice in broadcasting and Ecobank in retail banking. Most of these firms are listed on the JSE Securities Exchange, which gives credence to the claim of South Africa being the financial "gateway" for the continent through its well-regulated equity and capital markets. In today's age of consumerism, capital is attracted to consumer demographics. This is a marked difference from the colonial-era "scramble for Africa", which was driven by territory and resources. Now, the continent's young age profile is luring investment that services a consumer appetite.

The third factor that will determine where African countries stand a decade from now is how far they are able to climb up the industrialisation ladder. I cannot think of a single developmental success story in which an economy has developed without first industrialising. Arguably, African governments have not taken advantage of the past decade's growth spurt to move towards diversification. But if Africa is to deliver on The Economist's "Africa Rising" narrative, it is imperative that the economies diversify. There is only one way to do this: through a sustained and sizeable investment in people - the need to generate, retain and create opportunities for talent in domestic economies. At a policy level, sub-Saharan states will need to forge proactive business-friendly growth models rather than aid-supported reactive economies driven by commodity prices that result in nothing more than dependency.

There are huge opportunities for African countries, not least from the fact that the value chain of production in Asia is shifting away from China. The rising cost pressures on China's manufacturing sector will cause them to relocate to lower-cost foreign economies. This creates an opportunity for forward-looking African countries to emerge as "new Vietnams" - lower-cost destinations for manufacturing. Ethiopia is emerging as the best candidate for this role. That country is already
attracting low-end manufacturing from China, including shoe, steel, cement and vehicle production. And Ethiopia’s “authoritarian developmental” model is conducive to working with Asian investment, which wants a stable manufacturing platform.

Justin Lin, former chief economist of the World Bank, calculates that China could lose up to 85 million jobs in the next decade due to rising production costs. If Africa is able to capture just a tenth of these exported jobs, the continent will effectively double its existing manufacturing workforce. If this opportunity is seized by reformist African states, they could well be on the cusp of a 19th-century style industrial revolution.

Until now, Africa’s growth model has been notoriously non-inclusive. But over the next decade, we will begin to see which countries win in Africa. The winners will be those that adapt, and fast, for real economic transformation. Africa in 2025 is just a short period away.

*Source: Business Times*