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Africa: Between hope and despair

David Pilling Comments

Optimism surrounding the continent has evaporated with the collapse in commodity prices

Whatever happened to "Africa Rising"? Not so long ago, when investors, shell-shocked from the 2008 financial crisis, were hunting for the next big growth story, the idea of a resurgent Africa took hold. After decades in which the perception of Sub-Saharan Africa had been that of a continent of poverty, disease, civil war and kleptocracy, from about 2009 a new, more hopeful, narrative began to gain traction.

In this version, instead of being the "hopeless continent" — the title of a notorious Economist magazine cover story in 2000 — Africa became the next great investment frontier. Most of its multilateral debt had been forgiven, growth rates had improved since the turn of the century and, for the first time, governments were tapping capital markets at low rates.

The rosy view was partly driven by demographics. Thanks to a high birth rate — in many countries 5 or 6 per woman — the population of Sub-Saharan Africa is likely to double to 2bn by 2050, according to Hans Rosling of the Karolinska Institute in Stockholm. By contrast, Europe and the Americas have stopped growing and Asia's population is

levelling out. African cities were thus said to be brimming with young aspirants ready to buy branded beer (rather than cheap moonshine), toothpaste, mobile phones, motorbikes and, perhaps before too long, cars and houses.

China's voracious appetite for African oil, copper, iron ore, bauxite and sundry other commodities pushed up the earning power of countries from Angola to Zambia. Similarly, its no-strings approach to investment and construction had pushed down the price of roads, ports and power stations plus the odd presidential palace .

Africa, according to this more hopeful narrative, was less convulsed by violence and run by more sensible leaders who held regular elections and implemented rational economic policies. All of this opened up the possibility that it could leapfrog a stage of development by jumping straight from a pre-industrial state to a shiny new digital world.

"The idea gradually built that Africa was about to become the new Asia," says Richard Dowden, executive director of the Royal African Society in London, and author of The Economist's "hopeless continent" article. It was, he says, "absolutely ridiculous".

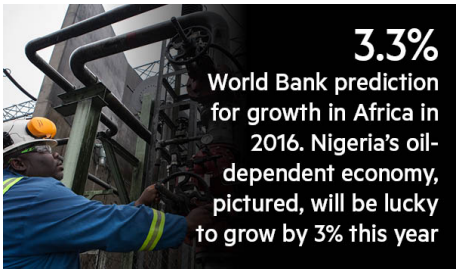
Mood swing

That exuberance has evaporated. Nigeria and South Africa, which together make up more than half of sub-Saharan Africa's gross domestic product, are in deep trouble. Nigeria's petroleum-dependent economy will be lucky to notch up GDP growth of 3 per cent this year, barely enough to keep up with population expansion. The naira is under pressure, foreign exchange is rationed, the budget is strained and a balance of payments crisis is looming.

South Africa is in even worse shape, convulsed politically, battered by deep job losses in its struggling mines and facing the real possibility of a downgrade of its sovereign debt to junk.

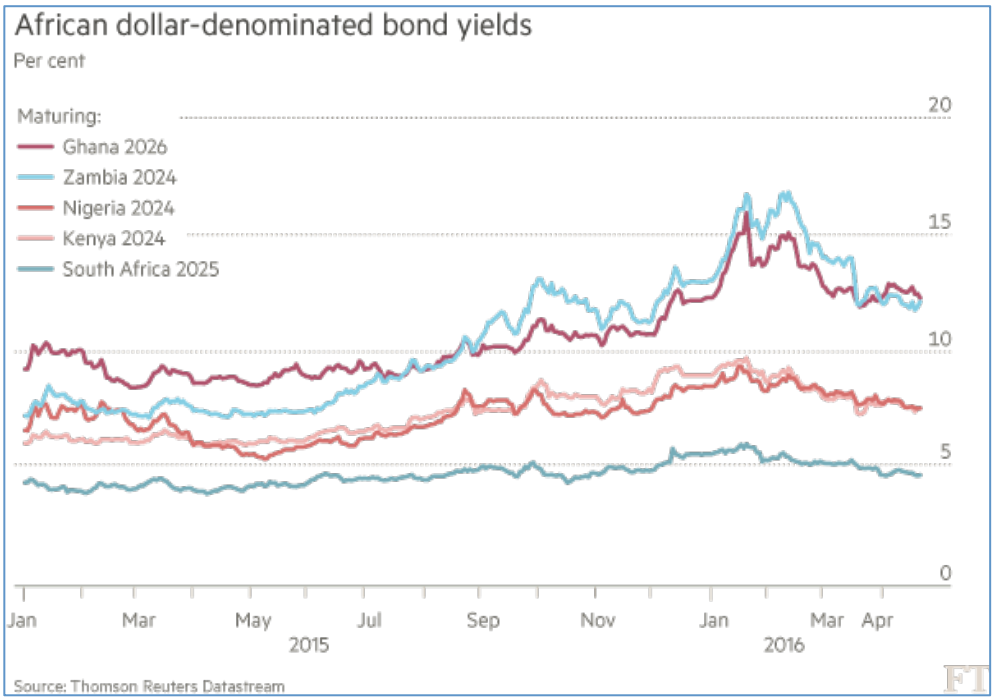
Several other African states, especially commodity producers, are struggling. Angola, which had been pumping out oil and purring along at double-digit growth rates, has turned to the International Monetary Fund. Mozambique is in dire straits after squandering much of the proceeds of international borrowing. The grotesque use by politicians of windfall profits around the continent is a reminder that corruption is alive and well.

With a few notable exceptions, such as Kenya, Tanzania, Ethiopia, Rwanda and Ivory Coast, resurgent after years of civil war, the picture is similar. In country after country, growth is slowing, external positions weakening and fiscal deficits widening. In its semi-annual report, the World Bank forecast growth in Sub-Saharan Africa of just 3.3 per cent this year, less than half the average of 6.8 per cent recorded between 2003 and 2008. Because of



their growing populations, most African states need nearly 3 per cent growth just to stand still in per capita terms.

"You've gone from huge over-exuberance to uber-pessimism without anything much in between," says David Cowan, Africa Economist at Citibank. That begs the most important question about Africa today. Is there a sensible view between hope and despair?



In seeking answers, it is helpful to scrutinise the original causes of optimism. One commonly cited reason for hope was that, after the turbulent decades that followed independence, many states were at last becoming better governed. Certainly, with the cold war over, there are fewer full-blown civil wars in the likes of Angola, Mozambique and the Democratic Republic of Congo. It has been several years since Africa has seen anything like the genocide that tore Rwanda apart in 1994. Still, lower-level conflict remains in South Sudan and Somalia, and Africa faces a new threat in the form of Islamist terrorism.

On the question of governance, the picture is mixed. Ellen Johnson Sirleaf, president of Liberia, is part of a supposed new wave of leaders. "There are many others like me that are going to serve their time and leave," she says, referring to expectations that she will stand down after two terms in 2018. "It's part of changing Africa."

Yet the idea of African leaders turning over a new leaf looks less than convincing. The continent is still full of leaders who have long clung on to power, including Robert Mugabe, who has run Zimbabwe for 36 years, Cameroon's President Paul Biya (34 years and counting) and Yoweri Museveni in Uganda (30 years).

Nor is there much evidence that democratic governments produce better economic results. Paul Kagame, president of Rwanda, one of Africa's best-performing economies, clearly believes that development is more important than democracy. Already in power for two decades, he has just had the constitution altered to allow him to hold on to power until 2034. Ethiopia, a Soviet-style dictatorship, is one of Africa's economic success stories.

Middle-class myth

The conviction that there is a growing African middle class, which has done most to drive business interest in the continent, is equally fragile. Vijay Mahajan helped consolidate Afro-optimism with his 2009 book *Africa Rising: How 900m African Consumers Offer More Than You Think*. But Mr Mahajan, a US-based marketing professor, built his thesis on less-than-robust advertising classifications of spending power.

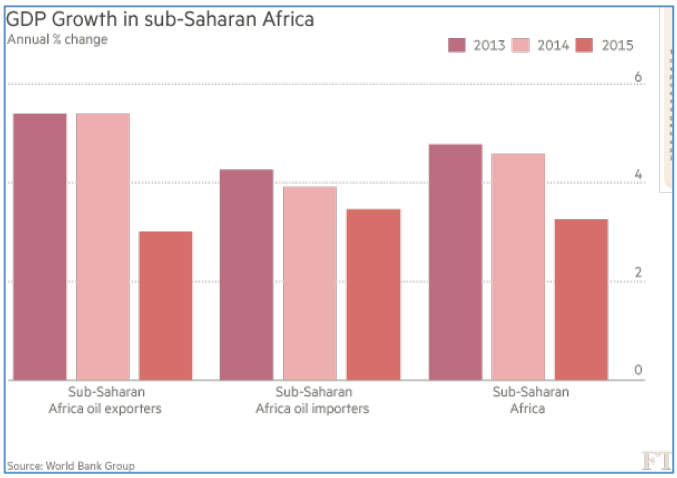
Many of his "middle class" were scraping by on a few dollars a day in insecure jobs. Mr Mahajan sticks to his optimistic account but admits that the book's iconic title was a concoction of his publisher, Pearson, former owner of the Financial Times.

It is true, as Mr Mahajan argues, that official data underestimate African wealth, much of it hidden in the informal, untaxed economy. Some multinationals have done well by catering to a new strata of consumers. Anheuser-Busch InBev is paying $71bn for SABMiller largely on the basis of its lucrative African brewing operations. Even in the midst of Nigeria's current woes, Coca-Cola paid $240m for a 40 per cent stake in CHI, a juice maker.

Yet Africa's middle class is fragile. Many well-paid jobs are in the bloated public sector, funded by governments that may no longer be able to afford such expense.
In recent years, consumer goods companies have been forced to chase their customers downmarket, offering them smaller packet sizes (the two-cigarette pack has hit the streets of Harare) or economy brands to keep cash-strapped customers loyal.

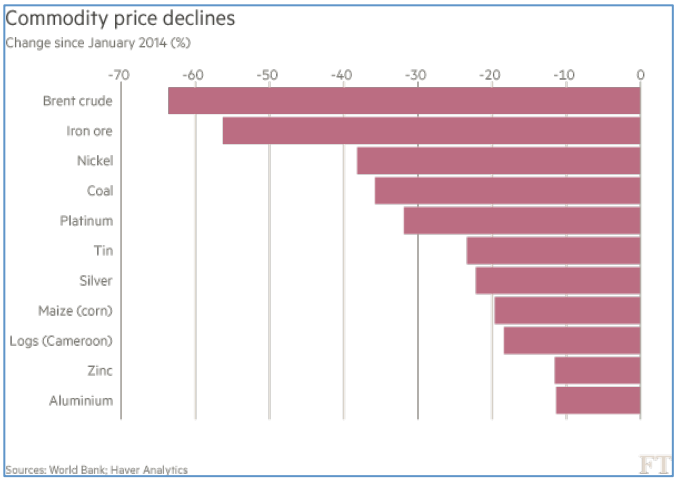
Perhaps the biggest flaw in the middle class story is that, with a few exceptions, Africa hardly makes anything. For too many countries, the economic model continues to be to dig stuff out of the ground and sell it to foreign companies.

Moeletsi Mbeki is an academic and younger brother of Thabo Mbeki, the former South African president and a strong proponent of the Africa Rising thesis. Moeletsi argues, conversely, that few countries have a strategy to match Asian economies, such as Taiwan and South Korea, which built prosperity on manufacturing and exports. "Yes, African economies are getting more sophisticated," he says. "But Africa is still not yet in the manufacturing age."



Productive exceptions

An exception is Ethiopia, which has turned a command economy-style commitment to production into fast growth, though perhaps not quite as fast as official data suggest. It has attracted textile manufacturers from Turkey and shoemakers from China and turned Addis Ababa into a bustling hub. With 90m people, Ethiopia has scale. That cannot be said for a lot of other nations. Rwanda, in some ways a bright spot, has a GDP of just $8bn, smaller than the London borough of Ealing.



The one country with true scale is Nigeria, with 180m people. Kingsley Chiedu Moghalu, a former deputy governor at its central bank, argues that rock-bottom oil prices are just the spur his country needs finally to diversify and become a manufacturing force. Yet Nigeria is not even at the starting line. The country, home to 2.5 per cent of the world's population, has just 0.1 per cent of its installed electricity capacity. It has expensive labour, an overvalued currency and a business class skilled at making money through arbitrage and rent-seeking. Muhammadu Buhari, its president, says he is against devaluing the naira because Nigeria has nothing other than oil to export.
It is not all bleak. Some African countries have built dynamic economies without relying on commodities. Kenya has been a pioneer in its use of technology. Its M-Pesa mobile

money system, now a decade old, has produced an increasingly cashless economy, drawing everyone from city-dwellers to Maasai pastoralists into its network and vastly improving business efficiency .

The emergence of China, even one less hungry than it was for commodities, has been a game-changer, most obviously through the improvement of Africa's infrastructure. The continent's paved road network has grown by 7,500km a year for the past decade, according to the African Development Bank. Go almost anywhere in Africa, and Chinese companies are building roads, ports and office blocks.

In the end, though, success stories are too rare and progress — both economic and political — too fragile, to be confident that Africa has changed decisively.

"Africa has always been valued for its commodities, whether it's gold or diamonds or slaves," says historian Martin Meredith. "'Africa Rising' was based on the Chinese being prepared to trade heavily to get their hands on those raw materials."

That phase is over. Unless governments can build sustainable growth models less dependent on commodities and based more on adding value domestically, the 'Africa Rising' story will be just that: a story.

IMF Called In As Slowdown Bites

Few African countries have seen their fortunes rise and fall as spectacularly as Angola in the wake of the drop in commodity prices. Following the 2002 ending of a brutal civil war, Africa's second-largest oil producer embarked on a massive spending spree as it sought to rebuild a devastated nation and ratchet up crude production. Luanda spent about $15bn a year building roads, sewerage systems and other infrastructure, it attracted increasing levels of foreign investment, particularly from China, Portugal and South Africa, and recorded some of the fastest growth in the world.

Its economic success was blighted by accusations that the autocratic regime of President José Eduardo dos Santos was using the country's hydrocarbons wealth to enrich a politically connected elite at the expense of the impoverished masses. Throughout the oil boom, little was done to diversify the economy, meaning that when crude prices collapsed the government was forced to dramatically slash its budgets.

When flush with petrodollars, state spending was the main driver of growth. But as that source of finance — which last year accounted for 95 per cent of export earnings and 52 per cent of revenue — began to dry up, projects were halted, jobs axed and business faced a foreign currency shortage.

This month, Angola, which enjoyed double-digit growth during the boom, turned to the International Monetary Fund for a potential bailout, with a request for a three-year programme.

Eurasia Group said at the time that turning to the IMF shows both Angola's "desperation in the face of the oil shock and a willingness to undertake tough reforms". But the research group warned that the country's economic problems "do not lend themselves to quick fixes". *Andrew England*