As seen in:
gtnews.com, 20 December 2011

BNY MELLON

gtnews | An Association for Financial Professionals® Company

BNY MELLON

Africa on the Rise: Changes and Developments

The economic turnaround in Asia has provided both an example and a new source of trade and investment for Africa, producing economic growth that little more than a decade ago seemed impossible, given the continent's seemingly intractable problems. Driven largely by its exportable wealth of natural resources, Africa's economy has begun to grow in other directions, as its own middle class has begun to grow, creating a demand for imported finished goods.

Karen Henwood - Manager, Treasury Services, Southern Africa - BNY Mellon

Since the 1970's and 80's, a period that witnessed great economic growth throughout Asia, the majority of sub-Saharan African countries have experienced slow growth and stagnation. Numerous reasons have been offered for this:

- Differences in initial development conditions.
- Differences in natural resources.
- The nature of pre-existing ties to the industrial economies.
- The political situations within given countries, particularly the role played in economic decision-making.
- The difference between outward-looking economic strategies in Asia, and inward-looking strategies in Africa, between export promotion and import substitution.

In the 1990s, many sub-Saharan African countries, looking to Asia as an example, began to promote economic policies that would speed their participation in the global economy. Ironically, this initial effort coincided with and was to a great degree undermined by the Asia crisis of 1997, which slowed foreign investment not only in Asia, but in all developing countries. At the same time, it provided a cautionary lesson in the risks and rewards of globalisation and in the need for each nation to develop integration strategies that reflect the varying degrees of sophistication in their policies, technology, finances, and industrial structures.

Furthermore, Africa is an essentially different case than Asia. There are 45 small economies and two regional powers (South Africa and Nigeria). Forty percent of the population of sub-Saharan Africa lives in landlocked countries and, on average, each country borders four neighbours. Eighteen of those countries achieved sustained growth in the 1990's; 14 experienced little or negative gross domestic product (GDP) growth during the same period. Many were affected by war and conflict.

Africa in the 21st Century

In the first decade of this century, six of the world's 10 fastest-growing countries were African and, in eight of those 10 years, Africa grew faster than east Asia. Even in the current slowed global economy, the International Monetary Fund (IMF) predicts 6% growth in Africa this year and the same growth again in 2012. Sub-Saharan African countries not only began to develop their economies along the lines of the Asian model, but increasingly looked to Asian nations (and, more recently, American) as trading partners rather than to the US and Europe.[1] Only a few decades ago, Africa's combined trade with Brazil, Russia, India, and China, combined accounted for approximately one percent of its total.

Today that number is 20% and predicted to reach 50% by 2030.[2]

These trade flows have largely been driven by the expanding middle classes in China and India, whose increased spending power has pushed up the demand for African commodities (mainly petroleum and raw materials to China and non-oil minerals to India), and by rising economic growth in sub-Saharan Africa, which has in turn expanded demand for Asian manufactured imports. In this period, the value of African commodities increased approximately 50%. At the same time, however, there was a slackening demand from Europe. This means that the Asian partnership has become larger and more important both in real and relative terms.

Asian Investment in Africa

In May 2007, Zhou Xiaochuan, governor of People's Bank of China, speaking to a ministerial roundtable of the African Development Bank held in Shanghai, noted that a shift in comparative advantages, new trends in saving and capital flow, and deepening bilateral financial co-operation would provide new momentum toward strengthening Asia-Africa trade and economic co-operation. Zhou suggested three principal factors that would drive future trade and economic cooperation.

1. A shift in comparative advantages

Changes resulting from graded labour cost and infrastrucutural investment are shifting the balance from one where Africa is primarily a provider of natural resources and labour to one where it is increasingly an importer of finished products.

2. New trends in saving and capital flow

New, diversified channels, as well as increased savings, has increased investment to Africa, opening new avenues of trade.

3. Financial co-operation between Asia and Africa

Financial market reforms and better quality services among financial institutions has enabled optimum mobilisation of savings and secured the uses of capital, dampening financial risk.

Trade flows between Africa and Asia are significantly different than those between Africa and Europe or between Africa and the US, in which trade has been stimulated by preferential arrangements. For example, western trade incentives have often come packaged in liberalisation and democratisation incentives. China, instead, has boosted co-operation with African nations in financial reform, fiscal-ecological environment improvement, and enhancement of macro-financial control. In addition it has encouraged active investment in Africa within its own business community. Chinese financial institutions have engaged in African intra-structural construction to support and boost local development, and African partners have opened liaison offices and branches in China.

Finally, China has improved its partnership with the African Development Bank and other sub-regional banks - increasing donations to the African Development Fund, establishing a bilateral technological co-operation fund, and creating poverty-reduction initiatives. In the past two years, China has provided more loans to poor countries, mainly in Africa, than the World Bank.[3]

It has been estimated[4] that, from 2005 to 2010, 14% of China's foreign investment was made in sub-Saharan Africa, exceeding its investment in Europe, the US and Australia. One tangible result is an increase in trade between China and Africa from approximately US$10bn in 2000 to over US$120bn in 2010. New airports in Maputo, Mozambique and in Gaberone, Bostwana were built by Chinese construction companies, which are also active elsewhere around the continent.

Still, this is not for Africa a perfect relationship. Many worry that China is exploiting Africa's natural resources; there is concern as well that China, like the west in earlier times, may become a coloniser, and one with a worse record than the west in terms of human rights and labour laws. And, although many consumer goods imported from Asia are far less expensive than those from the west, they are sometimes so inexpensive as to threaten sales of locally produced goods. Also, some African exporters believe they are hurt by agricultural subsidies in Asian nations, although these complaints have been sympathetically received by some Asian countries, including China, who promised more open access for African traders.

Investment Opportunities

Africa provides investment opportunities due to high profit rates, improvements in Africa's investment codes, privatisation of state enterprises, and liberalisation of economic management. As a result, a number of Asian countries besides China, for example Korea, India, Malaysia and Vietnam - supply aid to Africa, typically in the form of education and access to technologies. These include scholarships and specialised training provided in Asia, and sending Asian experts to help train farmers, fishermen, and small businessmen in new techniques to improve output and efficiency India has invested in Sudanese oil exploration, and in chemicals ventures in Morocco and Tanzania; copper mining in Zambia; oil in Mauritius and Madagascar; and telecommunications and textiles in Malawi. India is also the third largest source of foreign direct investment in Uganda.

Malaysia's Petronas oil company has exploration ventures in a dozen African countries. Other Malaysian companies are involved in telecommunications in Ghana, Guinea, Malawi, and South Africa, palm oil production in Gabon, banking in Mozambique, and tourism in Seychelles.

Opportunities for Western Banks

Because of Africa's turbulent political history, success there for western banks is more tightly enmeshed in their governments' approaches to trade policy. It has been suggested, and is probably true, despite the aforementioned leeriness about China, that Africa and Asia have a comfort with each other as trade partners that Africa does not have with the west - a lingering remnant perhaps of colonialism and resentment of exploitation. This is something of which the Asian nations are well aware and seek to take advantage of. But trade, all seem to agree, can spur education, diminish poverty and motivate a workforce and this can be greatly enhanced by enlightened trade and banking policies.

Despite its rapid economic growth, Africa lags far behind Asia, let alone Europe and the US, in banking relationships, so the opportunities for banks are multifold. Historically, banks have been hesitant to do business in Africa. Persistent political instability, corruption, internecine warfare, disease, and famine - these issues made the continent a high-risk arena for banks. These problems have not gone away, despite the many positive changes. For banks, the critical issue is getting past simply measuring risk and reward and toward developing long-term, sustainable banking practices. But this cannot be done without the strong involvement of the African nations themselves. Governments need to improve corporate governance; reduce corruption; increase transparency, reporting and accountability; increase personal freedoms; and create a stronger regulatory environment more in line with international standards. But banks can play a direct role as well through their own social responsibility. As was noted in a report of the United Nations Environment Programme Finance Initiative[5], banks can, in choosing carefully the corporations with which they do business, help create training and skills development; promote affirmative action in the workplace; improve conditions of employment; raise health standards; and promote sound environmental practices - all of which will serve the sustainability of the banks' own business environment and help address Africa's needed social change.

As well, banks need to reach the unbanked, which is still a vast majority of the population in most African countries, and this will take some creativity on banks' parts. In South Africa such efforts have included bringing the bank to the people in the form of vans and or prefabricated buildings. In some rural areas, ATM machines are run on solar power or banking relationships are established through local shop keepers.[6]

The most promising and likely advances should be in mobile banking. There are more mobile phone users in Africa - some 600 million - than in Europe or the US and a greater land mass attached to mobile internet services than India. This, combined with the poor state of roads, makes mobile banking an extremely attractive solution in Africa. Already, in Kenya, Safaricom, which is partly owned by Vodafone, has a successful cell phone banking operation called Impesa, which is reaching rural and previously unbanked populations.

Conclusion

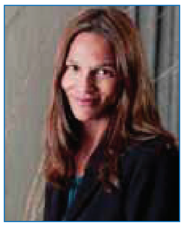
The economic turnaround in Asia has provided both an example and a new source of trade and investment for Africa, producing economic growth that little more than a decade ago seemed impossible, given the continent's seemingly intractable problems. Driven largely by its exportable wealth of natural resources, Africa's economy has begun to grow in other directions, as its own middle class has begun to grow, creating a demand for imported finished goods.[7] As was similarly the case in Latin America, foreign investment, particularly in infrastructure and social structure, has doubly stimulated African economies, both creating jobs and improving the climate for future growth.

Africa has a large and diverse population and, although that has created as many problems as solutions in the past, it is a positive and necessary component for driving Africa's economic future. Improvements in education and training and in medical care, as well as the increase in democratic resolution to political unrest, should go far toward realising the potential of a large and growing workforce.

Despite the many successes in Africa over the past decade, perceptions of Africa as a safe and attractive area for investment, particularly in the west, lag. This needs to be addressed. Economic growth is a prerequisite for reducing poverty and inequality, and trade can facilitate economic growth as it expands markets, spurs competition, and disseminates knowledge, creating opportunities for growth, poverty reduction, and development.

Investment and trade can raise productivity and increase exposure to emerging technologies, which in turn spurs further growth. There seems every reason to believe this can unfold in Africa during the next decade and beyond

1. In the last five years, African exports to Asia tripled, now accounting for 27% of the total. By comparison, the US accounts for 29% and the EU 32%.
2. The Economist, 3-9 December 2011.
3. The Economist, 20 April 2011.
4. The Heritage Foundation, 2011.
5. CEIO briefing, 'Sustainability Banking in Africa,' The United Nations Environment Programme Finance Initiative.
6. One Billion Opportunities: Banking the Unbanked Globally,' The African Executive, 2011.
7. Maersk has witnessed double-digit growth in Asian shipments of palm oil, sugar, and rice to Africa, and Maersk, CMA CGM, Jippon Yusen Kaish and other shipping companies have added African-bound trade routes and ship to accommodate growth. Cargonews Asia, December, 2011



Karen Henwood has worked in the financial services industry in southern Africa for the past 16 years with roles at Citibank and HSBC prior to joining BNY Mellon in South Africa in 2004. At BNY Mellon, Henwood has worked in several businesses, including issuer services, where she assisted local companies to make their shares available in US using ADRs. Her responsibilities also included assisting South African issuers with their corporate trust requirements related to their international debt issuance. Henwood then headed up BNY Mellon's local representative office in Johannesburg between 2008 and 2010, before switching to her current role of managing the company's treasury services business in southern Africa, with a focus in the cash management and trade services, working with regional financial institutions. Henwood's educational background includes a degree in economics from the University of London and an MBA from the University of Maryland.