Deloitte.

Africa from the Inside:

August 2016

Spotlight on Africa's growth

From the "Africa Rising" narrative to "Multispeed Africa"

Like the majority of emerging markets, GDP growth in the African region has dropped dramatically over the last three years. Of sub-Saharan Africa's big four economies – Nigeria, South Africa, Angola and Kenya – two are rapidly contracting (Nigeria, Angola) whilst one is static (South Africa). It is only Kenya which is bucking the regional trend and growing at a decent emerging market rate of over 5% – arguably the base norm for a true emerging market in the region for progress in the face of high population growth.

So what then is the "new normal" for Africa? There has been a severe commodity price correction; debt serviceability by sovereigns is posing crises for many countries; localised conflict is flaring up across the continent; and governance is seemingly on the decline.

An obvious question then is, is the "Africa rising" narrative dead? Is the continent merely reverting to the pre-commodity boom trend? Not quite.

The way this place called "Africa" has been looked at and quantified has always been flawed. The region is so vast, so diverse with so many economic differences and interests that it has always been far too simplistic to have a single view or narrative for the African continent.

The wide geography, the nascent markets, lack of connectivity, very low collaboration between states, and most importantly, the lack of people and knowledge networks across the continent, all prevent a common cross-continental view being formulated.

Whilst the collapse of mineral (2013) and oil (mid-2014) prices have severely knocked the overly resource-dependent economies in the southern and western regions respectively, the eastern region's growth trajectory remains buoyant.

Economies such as Ethiopia, Kenya, Tanzania, and Rwanda are the frontier growth stories of the continent. It is only Mozambique that through its own recent questionable financial dealings has removed itself from this regional grouping of high growth eastern economies. Other eastern African economies are increasingly attracting capital and trading with the Middle East and South Asia – the region is certainly integrating – not with the African hinterland but with near Asia – a new "Africa-Arabia-Asia" economy.

In the next decade, the East African region will have a population of approximately 330 million people. That is almost double Nigeria's current population. And it will be a region with a growth trend that is not resource-driven (except for agricultural products) – unlike the recent growth spurt in West Africa that has been proven to be heavily underpinned by temporarily inflated oil prices, driven more by speculators than by real market demand.

The East Africa Community (EAC), which includes Burundi, Kenya, Rwanda, Tanzania and Uganda, is forecast to grow by the International Monetary Fund (IMF) at 6.1% this year. At the region's current growth trend and extrapolating this forward 10 years, about US$350 billion is forecast to be added to consumption in these markets – very close to the current GDP of South Africa.

Since the turn of the millennium, the primary driver of resource demand has been the Chinese economy. As China "rebalances" – i.e. its economy shifts from an over-investment driven model to one that is more service and consumer oriented – so will its demand markedly shift from "hard" commodities to "soft". This will further underpin East Africa's resource sector offering and pivot toward Asia.

So what of the rest? What of Nigeria, Angola and other oil-propelled economies – the previous darlings of the obsolete and inherently flawed Africa rising narrative? Arguably, these countries need a political-economic reset. The strategy for investors in these countries is now one of fortitude. The pricing and valuations of assets in these economies – in particular their capitals and major cities – have been revealed to be flawed and based on short-term profiteering and excessive hype.

The distortive effect of oil in Nigeria and Angola was all too evident. There is absolutely no (market) reason why Luanda should be the world's most expensive city.

West African economies need to reprice and are in the painful process of doing so. Rapidly dropping asset prices and consolidations across the economy present opportunities for counter-cyclical (read smart) investors.

During these challenging times, states need to embark on dramatic reform which arguably did not happen whilst times were good. The ease of doing business needs to improve and moribund and anti-competitive state-owned firms need to be privatised.

But the actual trend in the region may in fact be the opposite. Increasing "statist" and protectionist stances and policies in many countries – Kenya, Mozambique, Tanzania, Zambia, Zimbabwe to name just a few – are becoming evident.

In Asia, most often the state is the entrepreneur. In Africa the state is the participant in the economy. Rather than claiming to be agents of development, states themselves need to stop crowding out the private sector and blocking opportunity to entrepreneurship through monopolising so-called "strategic" sectors.

The "developmental state" in most cases in Africa is an oxymoron. States cannot legislate themselves toward diversification and value addition without enabling business and incentivising capital.

The current crisis that some African states find themselves in should be resulting in a fundamental review of their strategies and a reversal of their previous often ideologically underpinned statist approaches to development.

Key take-away

The role of African governments is now to cut bureaucracy, create the necessary human capital skills, encourage entrepreneurship and the most obvious but perhaps the most difficult, improve governance. After all, the emerging market story, is ultimately a governance story. To truly develop, Africa's leaderships need to grasp this simple fact.

An earlier version of this article was authored by Dr Martyn Davies and published by the Sunday Times in August 2016.

Contacts

Dr Martyn Davies
Managing Director: Emerging Markets & Africa
Deloitte Africa
mdavies@deloitte.com

Hannah Edinger
Associate Director
Deloitte Africa
hedinger@deloitte.co.za