Letter 40

What is the future for Africa?

"Africa doesn't need strongmen, it needs strong institutions"
Obama in his 2007 speech in Accra

- Africa is a vast continent, larger than the United States, China, Western Europe and India combined.

- In 1885, Africa had a population of 100 million and Europe of 275 million. In 2050, there will be 500 million Europeans as there are today, but the African population will reach 2.5 billion. Between 1885 and 2050, the African population will have increased 25-fold while the European population will have doubled. Everyone will be able to deduce a geopolitical impact from this.

- Today, 7 of the 54 African states, Nigeria, Ethiopia, Egypt, the Democratic Republic of Congo, Tanzania, South Africa and Kenya account for more than 50% of the continent's population.

- Between 2000 and the Covid crisis, Africa recorded an average annual GDP growth of 7.2%. This is in contrast to the average rate of 0.4% observed during the previous decade. Such an inflection of the growth rate is at the root of the interest in Africa and the interest, shown by many investors, in the three major economies, South Africa, Nigeria, and Egypt.

- Africa had weathered the financial crisis in 2008 and the fall in commodity prices in 2015-2016 but, following a growth of 3.3% in 2019, real GDP, -2.6% in 2020, fell for the first time in over thirty years. On a per capita basis, the decline is even more pronounced, -4.7%, and tens of millions of people have fallen back into poverty.

- Overall, Africa has a GDP of $2.5 trillion, which is less than the GDP of France and a far cry from the quarter of the world GDP achieved by BRICS.

- The crisis is not so much the result of the epidemic itself as of its consequences, the collapse of raw material prices, the halt in tourism, and the contraction of remittances by Africans working abroad, -20% according to the IMF. Some of the major African economies, South Africa, Nigeria, Angola, Algeria, which have been facing a slowdown in their growth in recent years, have been very affected.

To try to anticipate the future of Africa, let us analyse its dependencies, challenges and obstacles to development.

Dependencies :

African economies suffer from a lack of diversification and are often dependent on one or two resources, tourism or raw materials.

- ***Tourism :***

In Mauritius, the richest country in terms of GDP/capita, the Seychelles, Egypt, Morocco, Tunisia, Tanzania, Rwanda and other countries, tourism constitutes a substantial source of foreign exchange for the payment of incompressible imports.

Of these countries, and notwithstanding the dependence on tourism, only Egypt seems to have managed to preserve GDP growth in 2020, at the cost of large budgetary subsidies, and also thanks to the revenues from the Suez Canal and the money from new oil exports.

- ***Raw materials*** :

Africa is rich in minerals and has 9/10th of the world's platinum reserves, 8/10th of diamonds, 6/10th of cobalt, 40% of gold, nearly 20% of uranium and 7% of hydrocarbon reserves.

There is so much wealth to attract China, the continent's 4th largest trading partner in 2005 but 1st today with 1 million Chinese residents. China invests primarily in commodity-rich countries such as Nigeria, Angola and Zambia.

Copper for Zambia, oil for Angola, cobalt which, along with copper, account for 90% of exports for the Democratic Republic of Congo, are all examples of a strong and detrimental dependence in 2020. The same difficulties apply to Gabon and Equatorial Guinea which are also dependent on oil.

Nigeria, Africa's largest oil producer, suffered a GDP decline of close to 4.5% in 2020 as hydrocarbons provide the country with 90% of its export earnings and more than half of its budget revenues.

The only countries dependent on raw materials but are spared by this crisis are Niger and Mali. They are gold exporters, and have benefited from the 30% rise in prices in 2020. But they face other problems, such as drought and terrorism.

The challenges :

They include economic, agricultural, demographic and social issues.

- ***Economic challenges*** *:*

As a result of the crisis, GDP per capita fell by 4.7% in 2020, i.e., nearly ten years of progress erased in a few months. Before the crisis, assuming an income of $4/d, the middle class was limited to less than 140 million people, or less than 15% of the population.

Among the regions most affected by the crisis is Southern Africa, which is already weakened by many years of low growth. South Africa recorded an 8% decline in its GDP as the country suffered the impact of the contraction of mining exports, traditionally 10% of GDP, combined with the halt in tourism, 2.5% of GDP.

The poorest countries, Somalia, Sudan, Eritrea and others, are deeply affected by the crisis.

While the recovery of African economies in 2021 is undeniable, it will be weak.

- ***Agricultural challenges :***

The challenge is that of productivity in a context of fragmented land ownership, impoverished soil, recurrent drought in some regions, and insufficient financial means to buy machinery or fertilizers. Irrigation covers only 5% of cultivated land.

As ***Stephen Smith*** wrote in ***The Scramble for Europe***, sub-Saharan Africa has only 2 tractors for every 1000 farms, compared to more than 900 in France, and cows produce only half a liter of milk per day compared to 25 in France.

Food self-sufficiency is an elusive goal for many countries even though, for example in West Africa, sown areas have increased by almost 100% since 1980. It is difficult to do more without causing deforestation.

While Africa accounts for nearly a quarter of the world's arable land and just over 15% of the population, it contributed to less than 10% of global agricultural production in 2019. And, as ***Buchalet*** notes in his book ***The Future of Europe is in Africa***, much of the harvests, 40%, rot on the ground due to a lack of infrastructure and storage capacity.

Yields are four times lower than in Europe and Latin America and one wonders what the impact of global warming will be.

- ***Demographic challenges :***

Today, the birth rate is high but life expectancy is low, less than 64 years in 2020. In 2050, the continent will have a population of 2.5 billion but the key thing to remember is that 40% will be under 15 years old. In 2050, as ***Michailof*** writes in his book ***Africanistan***, the working-age population of 15–24-year-olds in sub-Saharan Africa will be three times that of China, 360 million against 120 million.

In view of population growth, 20 million jobs would have to be created each year, i.e., double the annual creation observed in recent years. The challenge is substantial because the mining industries create few jobs and because young people make up the bulk of the unemployed. Before the crisis, 3 out of 10 young people were unemployed, compared to a global average of 13%, according to the ***ILO***.

Migration is feared by European countries, but more than two-thirds of it takes place between African countries.

- ***Social challenges :***

Before the crisis, Africa was home to half of the world’s 820 million people who were below the poverty line i.e., 38% of its population. There has been drop in nearly ten points since the year 2000, but the situation is still fragile.

The informal sector accounts for more than 85% of employment, compared to 40% in South America and 25% in Europe. There are hardly any employment contracts, no social protection, no aid in the event of a crisis and therefore the fall in living standards is brutal.

According to ***World Bank*** statistics, more than 40 million people have once again fallen below the poverty line, i.e., less than $1.90/day.

According to the ***UN***, 20% of 12–14-year-olds in sub-Saharan Africa no longer go to school, 35% of the population over 15 are illiterate and only 6% of young people go to university, compared to more than a quarter globally.

Obstacles :

How to overcome the monetary, budgetary, industrial and infrastructure constraints faced by African countries?

- ***Monetary obstacles :***

According to the ***IIF*** (Institute of International Finance), among the developed countries in 2020, public debt issued by the United States and Canada represented 20% of GDP and half was acquired by the Fed or the Bank of Canada. In Japan, issuance accounted for 15% of GDP and the Bank of Japan bought almost two-thirds. In Great Britain, issues amounted to 15% of GDP and the central bank bought 90% of this debt.

In emerging countries and in Africa especially, there is nothing of this sort. Central banks do not have the capacity to pursue counter-cyclical policies, and have only low foreign exchange reserves at their disposal.

Weaker currencies fuel imported inflation, and current account deficits are exacerbated by capital outflows.

- ***Budgetary obstacles :***

During the crisis in 2020, governments could hardly mobilize the equivalent of more than 2.5% of GDP to support the economies, which was between one-third and one-sixth of the effort made by developed countries. Despite these small amounts, budget deficits have reached, on average, nearly 9% of GDP, causing public debt/GDP ratios to worsen by close to 10 points.

One reason for this budgetary constraint is that public revenues are below 20% of GDP in the majority of these countries.

Debt is high. The public debt/GDP ratio in sub-Saharan Africa rose from 30% in 2012 to 95% in 2019, and is now even worse. A level at risk when the Fed starts to reduce liquidity injections.

Borrowing costs are often prohibitive, the depreciation of currencies increases the burden of foreign currency debt and many governments are no longer able to meet their debt obligations. Among the countries at risk of insolvency, the IMF has identified nearly twenty exposed countries, including Zambia, Tanzania, Angola, Ghana and Gabon.

The G20's decision to temporarily suspend the debt servicing for the poorest countries in 2020 was well-received. The aid provided to these countries by the IMF and the World Bank, $26 billion and $18 billion respectively, was timely.

Among the major indebted African countries are Libya, which is struggling with a debt ratio that is 95% of GDP, and Tunisia with a ratio of 85% to GDP with almost 70% of this burden in foreign currency.

- ***Industrial obstacles :***

In all countries, since the industrial revolution in England in the eighteenth century, economic take-off has been made possible by industry. The problem in Africa is the structural weakness of industry, less than 15% of GDP on average and often less than 10% of GDP, alongside an agricultural sector that still employs more than 50% of the working population, whereas in Latin America, agriculture represents less than 15% of employment.

Of these countries, those of the Maghreb have the advantage of sometimes serving as production workshops for European countries, but overall, their growth remains low.

For the others, faced with developed countries where the automation of production lines and robotization are developing rapidly, the path to industrialization is narrow. It is impossible to reproduce the pattern defined by the countries of Southeast Asia. The industrial fabric is essentially made up of small companies with little financial means to invest and low productivity.

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So how will it be possible to create enough jobs because by 2050, 15-24-year-olds will represent a third of this population of 2.5 billion?

- ***Infrastructure-related obstacles :***

The quality of infrastructure is the key to a competitive business environment. This is evident in developed countries and in China. It is a handicap for Africa.

Despite its size, the African continent has, according to ***Jean de la Guérivière*** in his book ***Africa in 100 Questions***, only 5% of the world rail network, a road network of low density, 1/5th of the world average and port traffic hampered by the saturation of facilities.

In addition, only a third of the African population has access to electricity and less than 60% to water. Finally, let us point out the weakness of trade between African countries because many export nothing but raw materials.

Conclusion :

- ***From an economic perspective***, South Africa is the only major country among the 8 African states to be classified in the intermediate category. All these economies suffer from low diversification, and therefore from intrinsic handicaps. The continent as a whole, accounts for less than 3% of global GDP.

- ***From a growth perspective***, between 2001 and the current crisis, the most dynamic of the major economies was Ethiopia as it benefited from the redeployment of Chinese textile companies, but the political environment is now less favorable. The highest growth rates are often achieved by small countries such as Rwanda, Tanzania and Ghana, which are not easy for investors to approach.

- ***From a political perspective***, many of these 54 countries are unstable and according to the NGO Freedom, less than 10% of the continent's population enjoy democracy, a good half live in democracies and the rest are subject to dictatorships.

- ***From an institutional perspective***, the guarantees offered to investors remain insufficient, and regulatory red tape and endemic corruption are a deterrent. One example is Mozambique, which has one of the world's largest gas fields but is in a fragile state of stability.

- ***From a financial perspective***, the openness of these countries' capital markets is limited.

- ***From a stock market perspective***, only Egypt and South Africa are included in the "MSCI Emerging" index. Few countries have a market capitalization of more than $15 billion. This is a far cry from the $2.5 trillion of Apple alone.

Upon reading these lines, one can understand our caution, not to mention our reluctance, before investing in Africa. As much as European states, the United States, and multilateral organizations should invest in Africa, it is difficult for private investors to operate in Africa. ***"A pessimist is a well-informed optimist,"*** said ***Oscar Wilde.***

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