China

Beijing Should Rise to the Challenge of a New Africa

With so much weighty change surrounding the US, Europe and the Middle East, it is easy to lose sight of the significance of an emerging Africa, a vast land mass not so long ago dubbed *The hopeless continent*.

Andrew K P Leung, SBS, FRSA, Chairman and CEO,
Andrew Leung International Consultants and Investments Limited, Hong Kong

Africa is as big as the US, China, India and most of Europe put together. Explosive population growth means that by end of this century, four out of ten persons on the planet will be Africans. The continent is a treasure trove of natural resources. Apart from numerous mineral deposits, it has 60% of world's virgin cropland, a veritable food basket for the world at risk of food insecurity.

According to McKinsey Global Institute, an international think tank, Africa remains the second fastest-growing region. By 2034, it will have the world's largest working population, more than China or India. Between 2015 and 2045, 24 million African urbanites will be added every year. Household consumption is expected to grow by 3.8% annually, amounting to $2.1 tn by 2025.

In addition, business spending would increase from $2.6 tn to $3.5 tn, creating an aggregate $4.7 tn economic opportunity.

By 2025, manufacturing output is to almost double from $500 bn to $930 bn, if only to meet domestic demand. Africa imports one-third of its food, beverages and processed goods consumed. Demand for vehicles and chemicals is also expanding.

The continent is undergoing a technological revolution. Over 100 million Africans are on Facebook, 80% on smartphones. According to authors Jake Bright and Aubrey Hruby, a "Silicon Savanna" is in the offing. M-PESA becomes the most advanced and fastest growing mobile payment system in the world, capturing financial flows equivalent to a third of Kenya's GDP. A budding African IT ecosystem is being created in 170 innovation spaces. Examples include Ghana's Cyber City, Nairobi's accelerator Savanna Fund, and IBM's Project Lucy, which promotes IT access to education, clean water and healthcare through artificial intelligence. Nearly $1 bn has been accumulated in venture capital in African start-ups.

Enter a 'new' Africa

Africa is home to 400 companies with a turnover of above $1 bn. Many of these have been growing faster than their global peers.

Against such promising prospects, however, a recent report by the International Monetary Fund (IMF) has found a two-track Africa. In 2016, two-thirds of Sub-Sahara (83% of Africa's GDP) slowed to just 1½% growth. A modest rebound to some 2½ % in 2017 was due only to temporary factors. Nevertheless, several large West and East African nations registered 5 to 7 ½% annual growth.

As China's economy has been restructuring away from commodity dependency, the consequential collapse in global energy prices dealt a heavy blow to Africa's main oil and mineral exporters. As the world economy slows, even non-resource-sensitive African countries are grappling with debt and non-performing loans. Overall, debt-service-to-revenue ratios are rising sharply for oil exporting states.

Many African countries resort to more government spending and loose monetary policies. The outcome is deepened fiscal deficits and rising inflation. Absent strategic reforms, boom and bust remain a recurring African symptom.

An emerging new Africa has huge implications for the rest of the world, esopportunities, I spoke at the Aegean Economic Forum at Izmir, Turkey on October 26 and at the MEDays Forum 2017 in Tangier, Morocco on November 09.

A main bottleneck is inadequate physical infrastructure. This inhibits Africa's agricultural potential and restrains its regional integration. China's state-directed package of investments in power plants, railways, ports, highways, irrigation systems, schools, and hospitals in exchange for resources has helped build up Africa's human and economic capital. This contrasts with over half a century of Western development aid, which has fed corruption, aid addiction and a culture of dependency.

Africa's 'paradox of plenty'

Meanwhile, Africa remains trapped in a "paradox of plenty", unable to capitalize on its cornucopia of resources to transcend to a higher level of industrial development. For some African countries, one reason is inability to develop strategic "linkage industries". Possibly the only exception is Botswana, which succeeded in forcing De Beers, the world's largest diamond conglomerate, to help build its world-class diamond-cutting industry.

Much of Africa's challenges is captured in the United Nations' sustainable development goals. To help Africa's development, the Forum on China-Africa Cooperation (FOCAC) Johannesburg Action Plan (2016-2018) offers a comprehensive list of assistance measures covering agriculture, food security, industrial capacity, infrastructural development, energy, natural resources, ocean economy, tourism, investment, economic cooperation, trade, finance, social development, medical care, public health, education, human resources, poverty eradication, science, technology, environmental protection, climate change, culture, people-to-people exchanges, media, academia, security, consular relations, immigration, judiciary, law enforcement, and international cooperation.

Outlook

However, China's engagement with Africa remains tainted with corporate governance deficits, ecological neglect, decimation of indigenous informal economy, harsh treatment of local employees, and perceived domination. Howard French's *China's Second Continent: How a Million Migrants Are Building a New Empire in Africa* is instructive.

As the example of Zimbabwe shows, Africa's overarching weakness is a deficit in governance. In *Why Nations Fail,* author Daron Acemoglu shows how corrupt "extractive institutions" inform state failures.

So far, China has strictly adhered to the long-held principle of non-interference. Any offer of assistance to improve governance would be off-limits. Nevertheless, it begs the question why China should not work together with a willing African state in promoting better governance, perhaps in partnership with the United Nations Development Program.

Of particular importance are transparency and accountability. There is no reason why China's state-owned banks and other state organs could not help ensure vigorous application of such international standards as the Extractive Industry Transparency Initiative (EITI) and the equator principles governing environmental and social risks in project finance.

In the coming decades, how China succeeds in promoting good governance in Africa and in reining in the undesirable behavior of some of Africa's Chinese diaspora would mean as much for Africa's development as for China's image as a global power. ■

Reference # 20M-2017-12-12-01