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Outlook brightens for frontier market

Africa is preparing to host the football World Cup for the first time but is the continent finally turning the corner?

William Wallis

In the half century since colonial administrators began packing their pith helmets and heading home, sub-Saharan Africa has experienced a string of false dawns.

Autocracies waxed and waned, accompanied by varying degrees of socialism, nationalism and capitalism. When they were not catastrophic the outcomes were often disappointing.

By the late 1990s, neither state intervention, nor the World Bank medicine of austerity and market reforms that ensued had delivered to more than a handful of sub-Saharan Africa's 48 states self-sustaining economic growth, independent of foreign aid. To this day, only a handful of genuine democracies have taken root.

But could the football World Cup be taking place in Africa fortuitously just as the outlook brightens, with the strategic importance of the continent and improvements in the business climate simultaneously on the rise?

A steady flow of multi-billion-dollar investments, reviving terms of trade and growing interest in regional markets suggest another opportunity is knocking at the continent's door.

"Africa is rich and its stock is rising. The value of its land and minerals is going up," Kofi Annan, the former UN secretary-general said last week as he launched a review of Africa's progress in meeting development goals. "There is no lack of resources, no deficiency of knowledge and no shortage of plans. Africa's progress rests above all else on the mobilisation of political will."

Optimism has returned partly because Africa is rebounding from last year's slump faster than much of the world. The International Monetary Fund (IMF) forecasts gross domestic product (GDP) growth in sub-Saharan Africa at 4.7% this year, rising to nearly 6% in 2010 — although if the global economy slips back into recession all bets are off.

The region could be on the verge of joining the Bric nations — Brazil, Russia, India and China — as a destination for investment, Ngozi Okonjo-Iweala, the World Bank vice-president argues. "An eminent businessman once commented that profit lies where the gap between perception and reality is greatest. That surely applies to sub-Saharan Africa," she said.

Some of this confidence derives from improved macro-economic management and recent debt write-offs. But a larger part stems from the value of Africa's resources at a time when long-term global consumption is on the rise.

Africa has about 10% of global oil reserves, possibly more. South Africa has 40% of the world's gold. The continent has more than a third of cobalt reserves and base metals abound. Its agricultural potential is barely touched.

In the past decade, Asian demand for African commodities has helped reverse the slump in prices that led to chronic deficits. This in turn has encouraged investors from elsewhere, including Europe and the US, to rethink their approach. China, which has increased trade five-fold with Africa since 2003, has played a leading role in the turnaround.

Other developments have been home-grown. The expansion of mobile telephones for example, has defied all expectations, pointing to a vast consumer market of 900 million people once considered too poor to be bankable. Last month, PwC, the accountants, found hundreds of African business executives surveyed felt more confident about the future than peers on other continents.

Yet much of the progress is occurring despite government, Annan's review concluded. A generous interpretation would be that the role of the state has decreased and the private sector now sets the pace. A less generous view is that despite routine elections, there is still a huge deficit in accountable leadership

and a strong risk that a chance to boost social and physical infrastructure could be squandered.

"In period after period, we have had the opportunity to save our surpluses and invest in increased productivity. Instead, we consume," says J H Mensah, a former finance minister from Ghana. "It is a change of ethos that somehow needs to happen."

According to recent estimates, at least US\$854 billion (RM2.8 trillion) have been siphoned from Africa since 1970 in cumulative capital flight. Elite networks continue to conspire with unscrupulous foreign businesses to cannibalise economies, impervious to the poverty in which the majority of Africans live.

"There is a crisis of leadership and governance in Africa and we must face it," says Mo Ibrahim, the Sudanese telecoms mogul turned philanthropist.

"These guys know that millions of children are going to bed without dinner. The blood of those children is on the hands of those who spend the money on arms and private jets."

Indeed, when the challenges facing African countries are looked at individually, the picture darkens. AIDS still ravages the continent and the impact of climate change looms large.

Few countries have yet created a sense of national identity within the artificial boundaries inherited from colonial rule and many are still torn by ethnic and political strife. A vast swathe of the continent from Sudan to Congo is deprived of basic functions of state. All three main regional drivers of growth, Kenya, Nigeria and South Africa, are going through tricky reforms and only one is a credible democracy.

Meanwhile, the direction of trade may be changing but its character, involving raw material exports and manufactured imports, has not. Yet over the long-term demand for African commodities, land and manpower is unlikely to diminish. This time optimism about the outlook has less to do with visionary autocrats and more

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with the macro-economic climate.

If Mrs Okonjo Iweala is right and sub-Saharan Africa's inhabitants represent the world's next frontier market, this could be an occasion when the whole is greater than the sum of Africa's parts. African teams competing in next week's World Cup will be hoping the same applies to them.



The headquarters of South Africa's MTN Group in Johannesburg. South African companies and investors are beginning to use their base in Africa's biggest and most sophisticated market as a springboard to move into the continent's fast-growing frontier markets and Africa is rebounding from last year's slump faster than much of the world. Photo by Reuters



Mo. Photo by Reuters