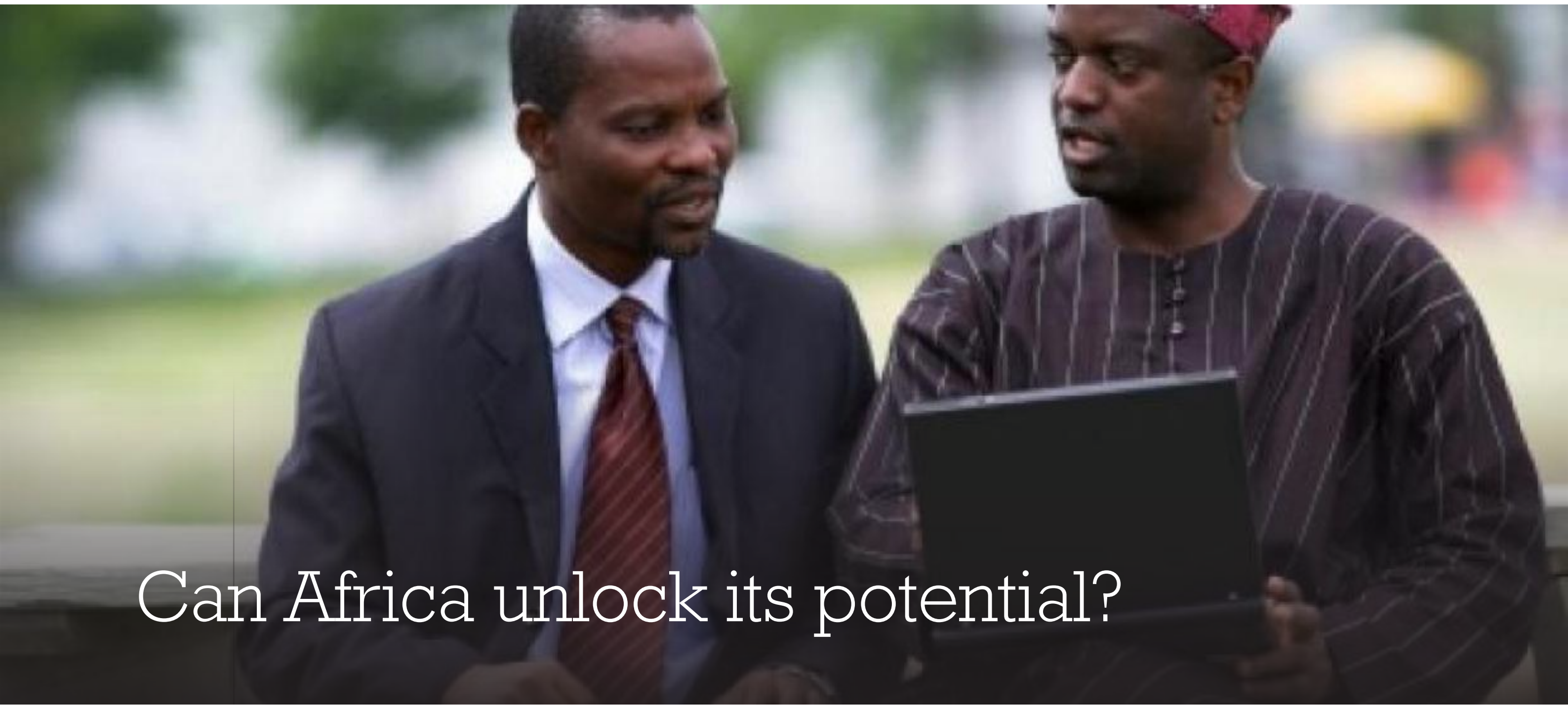

Can Africa unlock its potential?

Africa is turning the page on 50 years of over-reliance on Western economies, thanks to strengthening trade and investment links with emerging countries like China, India, Turkey and oil-rich countries in the Middle East. And although the continent's economic growth will be hit this year by the turmoil in North Africa, analysts say prospects for sub-Saharan Africa are brighter than they have been for some time.

"People are finding Africa exciting (because) this is the last frontier," enthuses Yacoob Abba Omar, South Africa's Ambassador to the United Arab Emirates, speaking to INSEAD Knowledge on the Abu Dhabi campus. "More and more people are saying that this is the place to be now."

Macroeconomic forecasts support his optimism. While the countries of North Africa, including Sudan, are expected to show only 1.1 percent growth in their combined gross domestic product this year, after 4.6 percent last year, sub-Saharan Africa is poised to grow by 5.5 percent this year, after 5.0 percent growth in 2010, according to the latest edition of the African Economic Outlook, produced by the African Development Bank and other international partners.

Next year should be even better, with combined growth of 6.2 percent for sub-Saharan Africa. In North Africa, much will depend on political developments: barring unexpected setbacks, the Outlook predicts growth could recover to 5.1 percent in 2012.

Such optimism reflects the effects of a rebalancing of the world economy in the wake of the global financial and economic crisis. "Africa is benefiting from investment, trade and aid, but also from the macroeconomic, political and strategic advantages that the rise of emerging countries has produced," the Outlook asserts. Emerging countries now account for around 40 percent of Africa's merchandise trade, compared with just over 20 percent a decade ago. And although developed countries still accounted for 85 percent of worldwide foreign direct investment (FDI) last year, cross-border investment in Africa by firms based in emerging economies, or so-called South-South investment, is also growing.

Need for greater transparency

Such trends are clearly positive for a continent that includes many of the world's poorest countries. But to reap their full benefit, Africa urgently needs greater transparency and accountability to ensure fair and sustainable development in the interests of all citizens.

"As emerging markets take their place on the world stage, it is not surprising - and it is to be welcomed - that investment starts to spread out around the world," says Lord Green, Britain's Minister of State

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for Trade and Industry, who spoke with INSEAD Knowledge at the OECD ministerial meeting in Paris in May.

Along with increased trade and investment, however, Africa must develop “transparent institutional frameworks so that corruption is minimised and investment really is in the long-term interest of (recipient) countries,” he affirms.

The African Economic Outlook sends the same message. Without stable home-grown development policies, it warns, current optimism could turn sour.

“Opening new space for private sector development is paramount,” it says. “If Africa fails to form solid strategies and to negotiate proactively, there is a risk that the new global players will push Africa to further specialise in raw material exports.” That would mean a further depletion of the continent’s natural wealth without significant improvements in living conditions for African people - a recipe for unrest.

One of the biggest challenges facing Africa is its lack of effective infrastructure including ports, rail networks and roads. “Our biggest need, and this is one of the things that is holding back intra-African trade, is investment in infrastructure,” Ambassador Omar acknowledges.

But ensuring fair and stable partnerships with the foreign investors who can finance these and other major projects is also a crucial issue. “We are looking for partnerships, we want people to come in and work with Africa. We don’t want this to be a one-sided arrangement,” says Omar. “Otherwise the memories of colonialism in Africa (are) too fresh and people would say: ‘Well we don’t want any new colonialists’ … we want to move to a situation where we have partnerships with different people in different places to uplift Africa.”

Corruption must be addressed

Corruption, notoriously, is one of the biggest scourges standing in the way of the fair partnerships that Omar has in mind. Whether through covert payments by multinational companies to governments to win big contracts, or through extortionate practices by lower-level officials, corruption has long been blamed for the mismanagement of African economies and the embezzlement of profits from the exploitation of natural resources.

As “a tax on business”, corruption can be an impediment to the large-scale investments that African countries need, Donald Kaberuka, president of the African Development Bank, admits. Kaberuka spoke with INSEAD Knowledge at the OECD ministerial meeting in Paris.

Although “corruption is an issue which we ourselves as Africans are dealing with”, he acknowledges that Africa needs support from foreign firms and governments in the drive against corruption.

Developed countries are finally getting around to addressing the problem, for example through the OECD Anti-Bribery Convention, which outlaws bribes to foreign public officials in international business deals through measures to tighten controls on corporate financial transactions. But major emerging countries have yet to take a public stance.

In May, G8 countries issued a statement after their summit meeting in Deauville, France, expressing support for mandatory disclosure by multinational companies of payments to governments relating to oil, gas and minerals extraction. NGOs have been campaigning since 2002, under the banner of “Publish What You Pay”, for all natural resource companies to disclose their payments to governments in every country where they operate.

Even in developed countries, however, words need to be followed by action. Only a few countries have prosecuted significant numbers of companies under the OECD Anti-Bribery Convention, while initiatives like the Extractive Industries Transparency Initiative which brings together governments, companies and civil society bodies in a push for transparency in the oil and gas sectors, and in mining remain largely voluntary.

Last year, the US Congress passed legislation requiring companies listed on US stock exchanges to report their payments to the US and foreign governments for oil and minerals, but details of how this disclosure rule should operate still have to be finalised. The European Commission is due to publish proposals for disclosure rules affecting European companies later this year.

A new form of colonialism?

Commentators have criticised the conditions under which some of these deals have been made as unfairly weighted in favour of investors and against the interests of local populations. In such cases, warn some analysts, fears of a resurgence of a new type of colonialism may already be justified.

Kaberuka says it is up to the governments of African countries to ensure that the conditions for such transactions are acceptable. International bodies such as the UN Food and Agriculture Organisation have drawn up recommendations for best practices in such deals, he points out. These take account of demographic and environmental factors, as well as political issues.

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"Agribusiness investment in Africa is vital and welcome," he asserts. If best practices are not followed "it is unlikely that Africans would be beneficiaries", but if properly negotiated, he insists, agribusiness investment can be favourable for both sides. "Where best practices are being followed, this could be a way to arrive at a win-win situation."

Action is also needed on the part of African countries in other areas, for example to remove barriers to intra-African trade, says Green. "Trade and investment go together... We need to ensure that African businesses are able to trade and develop their business in that way."

At a broader level, he adds, governments and international aid donors must work together to build the institutions and legal frameworks needed to handle increased business activity. "We must work to ensure that the governance framework is as strong as it could possibly be."

Acknowledging the many challenges facing Africa, Kaberuka insists that they must be seen in a broader historical perspective. Like Europe 50 years ago, he says, Africa is now embarking on a path that will eventually lead to greater regional economic integration.

"Unlocking the potential of Africa: that is what we are working on. That requires building institutions which are sound and which are sustainable."

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