# SPEECH BY DEPUTY MINISTER EBRAHIM ISMAIL EBRAHIM TO A MEETING OF THE PRIVATE INVESTORS FOR AFRICA HOSTED BY STANDARD BANK, ON 'INVESTING IN AFRICA: OPPORTUNITIES AND PROSPECTS,' SAXON HOTEL, JOHANNESBURG, 27 MARCH 2012

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Eleven years ago, in a famous cover depicting an image of chaos and war in Sierra Leone, the Economist Magazine scornfully wrote off Africa as 'The hopeless Continent.' In doing so, it reflected a view that was pervasive at the time: that Africa was backward, condemned inexorably to violence, corruption and failure. "Since The Economist regrettably labelled Africa 'the hopeless continent' a decade ago, a profound change has taken hold." These are not my words. As the Economist has been gracious enough to admit, it was wrong. (2011 issue: 'Africa Rising.')

On the contrary, there has been a lot to be enormously hopeful about in Africa. From a peak of 16 wars raging across the Continent in 2002, today we are left with only one big conflict, in Somalia, which the AU is working hard to address. Around two thirds of governments in Africa are democratically elected, compared with just eight in 1991. Recently we have seen a return to democracy in Guinea Conakry, Niger, Cote d' Ivoire and Tunisia, and positive elections in Nigeria, Zambia and Egypt. Just this Sunday, in Senegal, President Abdoulaye Wade graciously conceded defeat to an opposition leader, Mr. Macky Sall, after 12 years in power. And somehow I suspect that the full impact of the North Africa 'neighbourhood effect' has not yet been felt. The World Bank, Ibrahim and other indices show a steady improvement in the quality of governance across Africa. The spread of peace and good governance has unshackled Africa's entrepreneurs. According to IMF figures, region-wide GDP growth has averaged 5.5% from 2000 – 2010, more than double the rate in the 80's and 90's. During this period, six of the world's fastest ten growing economies were African, and in eight of the past ten years, Africa has grown faster than East Asia. Moreover, Africa's growth acceleration was widespread, with 27 of its 30 largest economies expanding more rapidly after 2000, and also fairly inclusive, with the poorest seeing significant increases in real consumption. Steady progress has also been made in education, health, sanitation, and in empowering women. Many daunting challenges remain, for example, in tackling poverty, low agricultural productivity and climate change. Nonetheless, in the words of President Zuma, 'What we have achieved is a real African rebirth in the true sense of the word.'

The impressive growth momentum that Africa has built up over the last decade is not only expected to continue but also to trend upwards to around 6% in the coming years. The continent will be among the fastest-expanding economic regions in the world, with a long-run growth rate starting to resemble that of the rapid developers of East Asia, and will contain seven out of the world's ten fastest growing economies over the next five years. But despite all the good news, companies have been slow to enter Africa. Some executives are no doubt still stuck in the old mindset. Others question whether Africa's surge is just the result of one-off lift by the global commodities boom, or whether it is really a sustained economic take-off? "Will Africa continue to rise," they wonder, as the Economist asked last year?

In 2010, the Mckinsey Global Institute set out to answer these questions and found, to its surprise, that Africa's growth surge was broadly based and endogenous, with roots extending far beyond the global commodity super-cycle. Its excellent report, "Lions on the move: The progress and potential of African economies," which I strongly recommend, and on which I will draw a lot tonight, notes that natural resources explain only a part of the African story, directly accounting for just about a quarter of GDP growth from 2000 through 2008, while other industries, particularly manufacturing and services, contributed the rest. In fact, GDP grew at similar rates in both countries with and without resources exports.

‘The key reasons behind Africa’s growth surge were government reforms that created greater political stability, improved the macroeconomic fundamentals and energized the business environment. Economies became healthier as policymakers reduced inflation, shrank budget deficits, lowered trade barriers, cut taxes, privatized companies, strengthened regulatory and legal systems and liberalized many sectors. Nigeria, for example, privatized more than 116 enterprises between 1999 and 2006. Together these changes helped fuel an African productivity revolution. As a result, a dynamic African business sector is emerging. The continent now has more than 1,400 publicly listed companies and boasts more than 100 companies with revenue greater than $1 billion.

As Africa’s economies progress and household incomes climb, substantial new business opportunities are opening in sectors such as retail, construction, telecommunications, banking, infrastructure-related industries, resource-related businesses, and all along the agricultural value chain. Looking ahead, Mckinsey projects that at least four groups of industries on the continent could together generate as much as $2.6 trillion in annual revenue by 2020, or $1 trillion more than today. The biggest business opportunity of the four lies in consumer goods and services, followed by natural resources, agriculture, and infrastructure.  Africans spent $860 billion on goods and services in 2008—35% more than the $635 billion that Indians spent. If Africa maintains its current growth trajectory, consumers will buy $1.4 trillion worth of goods and services in 2020, making the prospects for consumer companies exceedingly bright.’ Africa is also expected to increase the value of its annual agricultural output by $ 600 billlion by 2030, and its annual production of resources to $540 billion by 2020.

Africa’s economic take-off is well under way, and there are compelling reasons to believe that it is likely to continue for decades to come. There are several long-term trends that suggest that this economic momentum can be sustained:

Firstly, perhaps the most important driver of growth in Africa, the ongoing normative and governance revolution, will continue to expand and deepen. As I have already noted, political stability and democracy have been the leading causes of Africa's recent turnaround, because competitive elections promote public accountability, incentivising better economic policies and governance, which in turn creates a better business climate. Through the adoption and continued operationalisation of a number of AU instruments on human rights, good governance, elections and the prohibition of unconstitutional changes of government – most recently the Africa Governance Architecture, the ideal of genuine participatory democracy, the rule of law and accountable government will continue to become ever more firmly entrenched in Africa's political culture. Already, most African countries hold multi-party elections, and since 2000 incumbent presidents or parties have transferred power after peaceful polls more than 16 times, something purists often consider the true test of a country's democratic credentials. The AU has also established an impressive record of defending democracy by consistently opposing and acting strongly against coups over the past decade. In line with its policy of zero-tolerance for unconstitutional changes of government and its emergent pro-democracy activism, the AU has strongly condemned the recent developments in Mali, and is working hard to restore democracy there. In short, we can be certain that Africa's future growth will be underpinned and assured by the permanent shift in expectations about rights, duties and governance that is taking place across the continent, both amongst citizens and at the inter-state level.

Secondly, Africa will continue to be buoyed by the exploding global demand for oil, metals, minerals, food, and other natural resources. The continent, which is arguably one of the world's largest unexplored resource basins, has an abundance of riches, including 10% of the world's oil reserves, 40% of its gold ore, and 95% of platinum group metals. An even more fundamental driver of future growth is that Africa contains over 60% of the world's available and unexploited cropland. As the world's population heads towards a likely peak of around 9 billion in 2050, it is very likely that Africa will become a major food exporter. It is estimated that upwards of US$80 billion needs to be invested in developing world agriculture each year for the next four decades. Increasingly, these funds will find their way to Africa. Already, Africa's production of wheat is expected to increase by 30%, rice by 75%, and milk and sugar by 35% over the next ten years, and Africa's total agricultural output could triple in value over the next 20 years. 'Africa's resource wealth could turbo-charge economic growth, provided the new wealth is used well.'

Third, far-reaching demographic changes already underway will fuel long term growth. By 2050, Africa's population is expected to have doubled from today's size to reach 2 billion. Fertility is falling and life expectancy is rising, thanks to improved public health and health care – a pattern that will simultaneously improve human development and worker productivity. By 2050, the continent will be home to one in five of the planet's young people and will have the world's largest workforce of 1.2 billion. In that year, one in four workers in the world will be African, compared to one in eight from China, reversing today's balance. They will also be highly competitive, as labour costs in places like China continue to increase. While other regions rapidly age, in Africa the ratio of workers to the retired and the young – the so called dependency ratio – will be improving. As these trends unfold, Africa will enjoy a 'demographic dividend' of young, energetic and increasingly educated workers to power the continent's services and manufacturing sectors.

Fourth, future growth will be primed by rapid urbanisation. Today around 40% of Africans live in the continent's cities, by 2025 the number is likely to be 50% and by 2050 this ratio will have risen to 60% or around 800 million people. This is a very good thing, it has been noted, as productivity is much higher in cities. African urban household incomes are more than double rural incomes, and urban poverty rates in Africa stand at around 35%, compared to 52% for rural areas. As people flock to cities, we can look forward to sharp increases in consumer demand, and a corresponding fall in extreme poverty, leading to a virtuous cycle of growth and job creation. So, for example, a recent African Development Bank Study found that the African middle class had surged 60% to 313 million people over the past 10 years.

Our host, Standard Bank, whose research I have used extensively tonight, estimates that the number of African households with discretionary income is expected to grow to 100 million by 2015, which should make Africa one of the fastest-growing consumer markets of this decade.

Fifth, Africa's determined integration agenda, which seeks to address the challenges posed by inadequate infrastructure, small and fragmented markets, the insufficient diversification of trade and the low levels of intra-African trade, will be another factor that will propel high future growth. This forms part of a lot of very practical work, often not very well known, that is being done to achieve renewal and development on the continent. Because of costly barriers, intra-African trade is unusually low – on average 10% - less than half the level in other emerging market regions. Creating larger regional markets should increase specialisation and competition, providing a boost to manufacturing by offering improved economies of scale in industrial production. Rising to this challenge, in November 2010, African Ministers of Trade recommended that Africa fast track the creation of the Continental Free Trade Area. An important step towards this goal was the launching in 2011 at a Summit held in South Africa of negotiations to create the Tripartite Free Trade area, which will eventually create a market of 26 countries reaching from Cape to Cairo with a population of about 600-million people and a combined GDP of US$1 trilllion. One of the main factors inhibiting trade, integration and economic development in general in Africa is inadequate transport links. It has been calculated that if the continent continues to narrow its infrastructure gap, economic growth will receive a further large boost – perhaps by as much as 2 percentage points a year. In view of this, the AU has set up the Presidential Infrastructure Championship Initiative, a continental committee of eight NEPAD Heads of State and Government, which President Zuma was asked to chair, to champion infrastructure projects at the highest level. South Africa is also chair and champion of the North-South Road and Rail Corridor project, which traverses eight countries in eastern and southern Africa and aims to facilitate trade by upgrading road, rail, power and port facilities, as well as simplifying cross-border regulatory procedures, so that producers and traders can access regional and international markets more easily. Other projects to be championed by the other

African championing states are: the Missing Link on the Trans-Sahara Highway; the Optic Fibre Algeria-Niger-Nigeria project; the Dakar-Ndjamena-Djibouti Road/Rail project; the Nigeria–Algeria Gas Pipeline; the Kinshasa-Brazzaville Bridge Road/Rail project; and the ICT Broadband and Fibre Optic network project. These projects have already passed the feasibility studies phase and should be at the implementation phase by 2016. Encouragingly, Africa is now able to spend about US$ 72 billion a year on infrastructure, but there remains a US$ 480 billion shortfall over the next decade to provide for unmet needs, particularly in water, power and transportation, and there is much scope for private participation and investment in this area.

Sixth, Africa's enthusiasm for technology will continue to boost growth. The number of mobile phone users in Africa has multiplied 33 times to 316 million users since 2000. The internet is spreading around Africa at an even faster pace. These trends have strong positive effects on growth. A 10 percentage point increase in broadband penetration in an average African country is estimated to lead to an increase in economic growth of 0.73 percentage points. And for every 10 new mobile phones per 100 people a country adds, GDP is likely to increase by 0.8 percentage points.

Finally, the diversification of Africa's economic partners will continue to provide a significant lift to growth. Emerging economies now account for half of sub-Saharan Africa's total trade, while Western Europe's portion has shrunk to 28%. The wider range of choice of potential business partners, as well as the intensifying competition amongst them, is giving African governments newfound bargaining power, which they are skilfully using to negotiate better terms to capture more value for the Continent. As Mckinsey explains, in the area of natural resources, this includes new types of partnerships in which buyers from countries such as China and India make up-front payments in addition to paying resource-extraction royalties, share management skills and technology, and build infrastructure in return for access to raw materials.

I think that you will all agree that an enormous geographic reconfiguration is currently underway in the world economy. Developed economies have seen a big output loss compared to trend since the crisis, relegating many to a lower growth path. In the aftermath of the Great Recession emerging markets are becoming the new locomotives of growth in the world economy. With its strong long term prospects, Africa stands out - offering substantial business opportunities that profit-driven companies cannot afford to ignore. According to UN data, Africa offers a higher return on investment than any other emerging market. Many companies, you amongst them, have already begun to recognise this - total foreign capital flows into Africa rose from $15 billion in 2000 to a peak of $87 billion before the crash.

South Africa has exceptionally strong corporate governance by any standards, creating a firm home base for expansion into the rest of the continent. South Africa is ranked first in the world by the Global Competitiveness Report for the strength of our auditing and reporting standards; second for the efficacy of corporate boards in securing shareholder's interests; and our securities exchanges are the best-regulated in the world. As Government, we are committed to fostering integration in Africa and creating a climate conducive to business, including providing the infrastructure backbone for further growth and development. This will set in place a virtuous cycle of economies of scale, of lowering the costs and risks of doing business, and of maximising competitive and comparative advantages.

At a dark and uncertain time for the world economy, Africa's vast possibility stands out as a positive beacon for the future. Africa is open for business. I invite you to partner with us as Africa becomes the next global growth point.

I would like to end from a quote from an article that appeared recently in the Harvard Business Review which nicely sums up everything I have been trying to convey tonight:

‘In many ways Africa holds the same potential that China did 20 years ago. A large rural population is moving to the cities, landing jobs with higher incomes, and starting to enjoy discretionary spending. Demand is growing, and foreign direct investment has soared. Just as investing in China embodies some political risk, so too does doing business in Africa. Companies must think carefully about the approaches they adopt, but it will be worthwhile. Above all, first movers will have the opportunity to forge strong local partnerships and capture market share before everyone wakes up to the buzz around the Bright Continent.’

I thank you.