

AEFJN Presentation

New Scramble for Africa

Patrick Marren
Kimmage Development Studies Centre
Dublin

AEFJN Presentation

Africa has become a sought-after continent....thanks to its strategic importance. Today Africa really matters.

EU Commissioner for Development
(in Carmody 2011)

AEFJN Presentation

Paradox of Plenty

Resource rich but economically poor

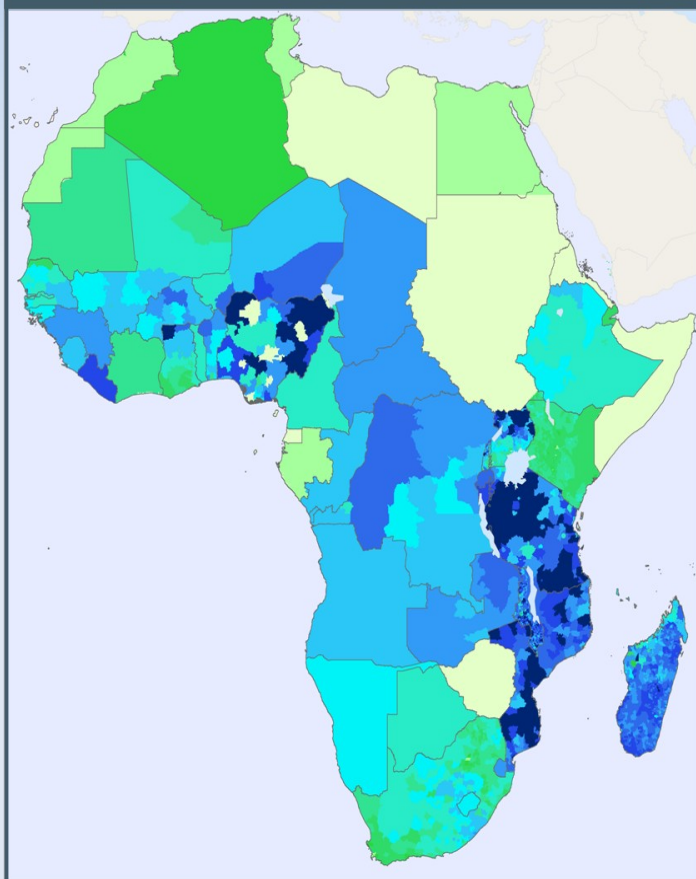
10% of Worlds Oil

40% of Worlds Gold

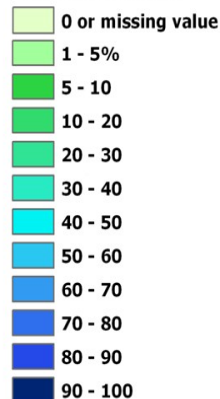
90% of Worlds Diamonds

50% live below \$1.25 per day

Share of Population living on less than \$1.25 per day



Percentage population below \$1.25/day



© 2010 HarvestChoice

Source: Wood et al 2009. Strategy & Results Framework Background Paper. CGIAR.

AEFJN Presentation

Economic rise of China and India – 7 to 10% GDP growth per year.

Rise in Demand for African Oil and Minerals

African Exports risen from \$215bn 1995 to \$508bn 2010

Export Growth 10% per year (2005-2010)

(Source WTO 2011)

African Export Areas (Top 4) (WTO 2011)

Area	Value (\$bn)	Growth (%)	Export Share 2005	Export Share 2010
Europe	184	7	43	36
Asia	122	18	18	24
North America	85	5	21	17
Africa	62	17	9	12

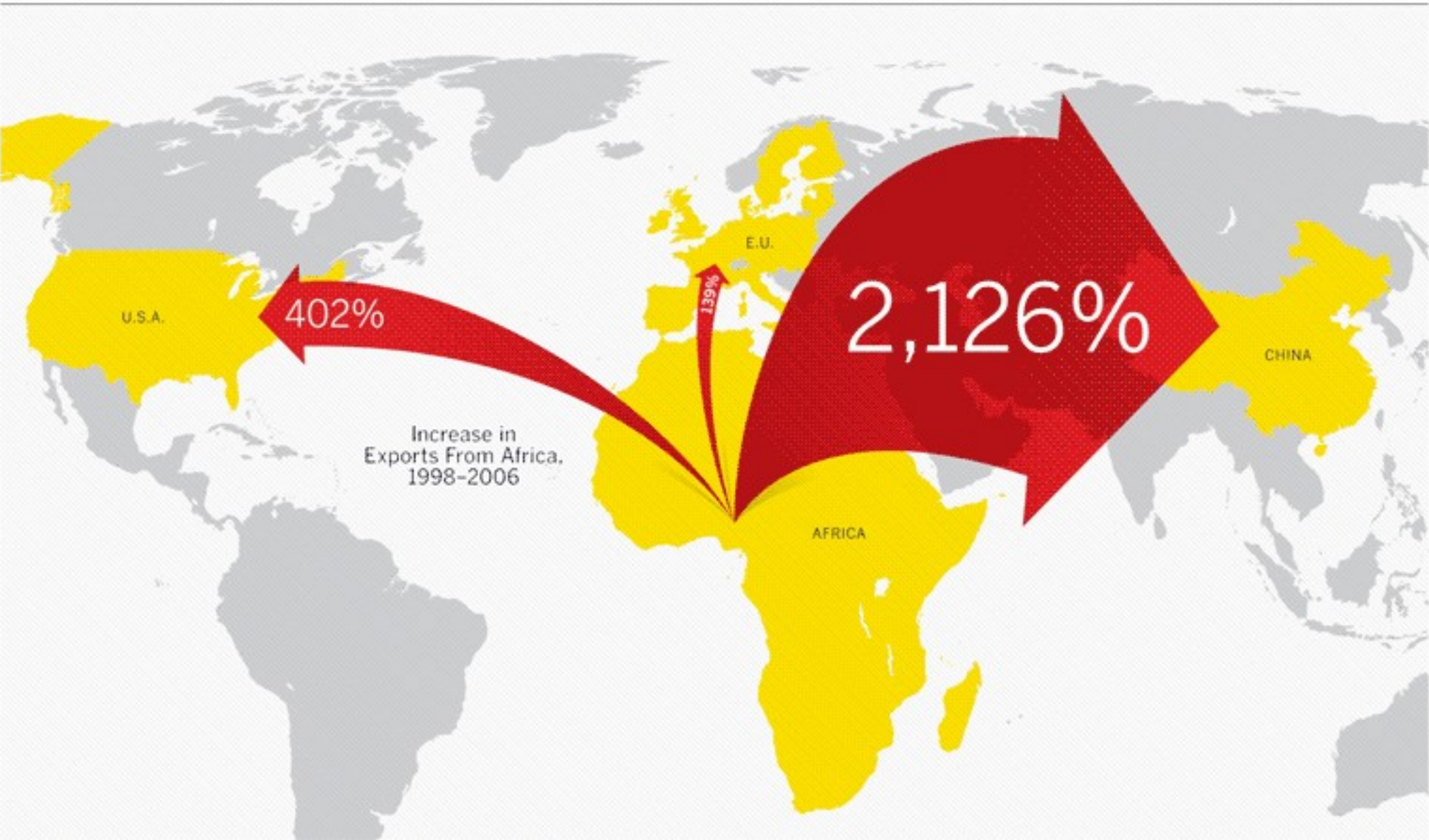
African Main Exports (WTO 2011)

Product (b)	Value (\$bn)	Growth (%)	Export Share 2010
Fuels & Mining	333	10	66%
Agricultures	55	13%	11%
Manufactures	95	8%	19%

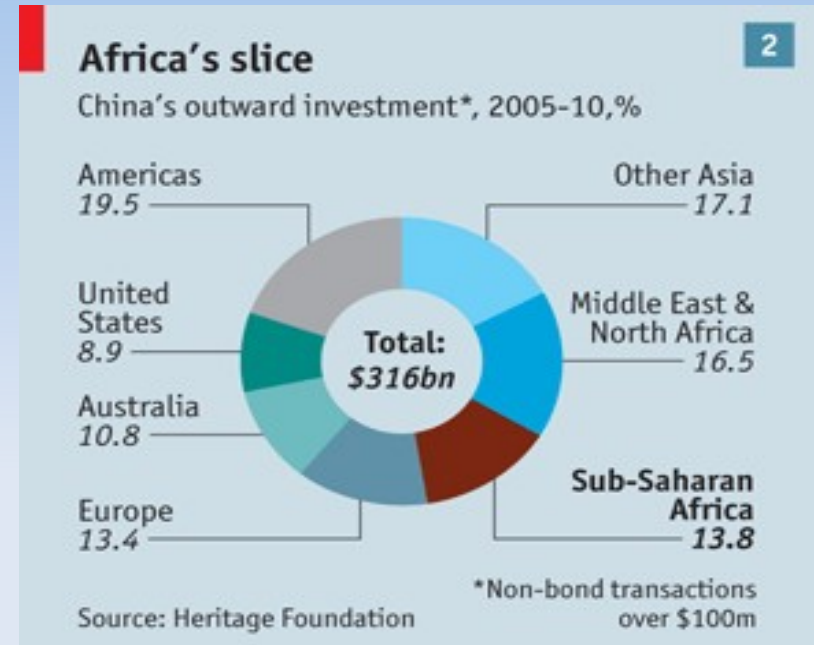
China – Africa's new partner

The Race for Raw Materials

Thanks to aggressive deal making in the sub-Sahara. China has dramatically boosted its economic footprint in Africa.



China – Africa's new partner (Economist 2011)



AEFJN Presentation

McKinsey Report 2010 Africa's Potential

- 1) Natural Resources
- 2) Increasing Consumption Class
- 3) Young Labour Force

AEFJN Presentation

Africa today

\$1.6 trillion

Africa's collective GDP in 2008,
roughly equal to Brazil's or Russia's

\$860 billion

Africa's combined consumer
spending in 2008

316 million

the number of new mobile phone
subscribers signed up in Africa since 2000

60% Africa's share of the
world's total amount of
uncultivated, arable land

McKinsey Report Africa's Potential

- 1) Natural Resources
- 2) Increasing Consumption Class
- 3) Young Labour Force

AEFJN Presentation

Africa today

\$1.6 trillion

Africa's collective GDP in 2008,
roughly equal to Brazil's or Russia's

\$860 billion

Africa's combined consumer
spending in 2008

316 million

the number of new mobile phone
subscribers signed up in Africa since 2000

60% Africa's share of the
world's total amount of
uncultivated, arable land

McKinsey Report Africa's Potential

- 1) Natural Resources
- 2) New Middle Class
- 3) Young Workers

McKinsey 2010

African Real GDP Growth 5% (2000-2008)

Twice average for 1980's & 90's

Sectors: not just Resources, but Telecoms,
Banking & Retail

Foreign Investment – surging from Asia

McKinsey 2010

Key Findings

Current Growth: result of economic and business policy changes and reductions in conflict

Future Growth drivers

- Global race for commodities & FDI
- Urbanisation, Labour force and rising consumerism

'Africa as a market, supplier and producer'

McKinsey 2010

African Countries – now more business friendly & economically stable

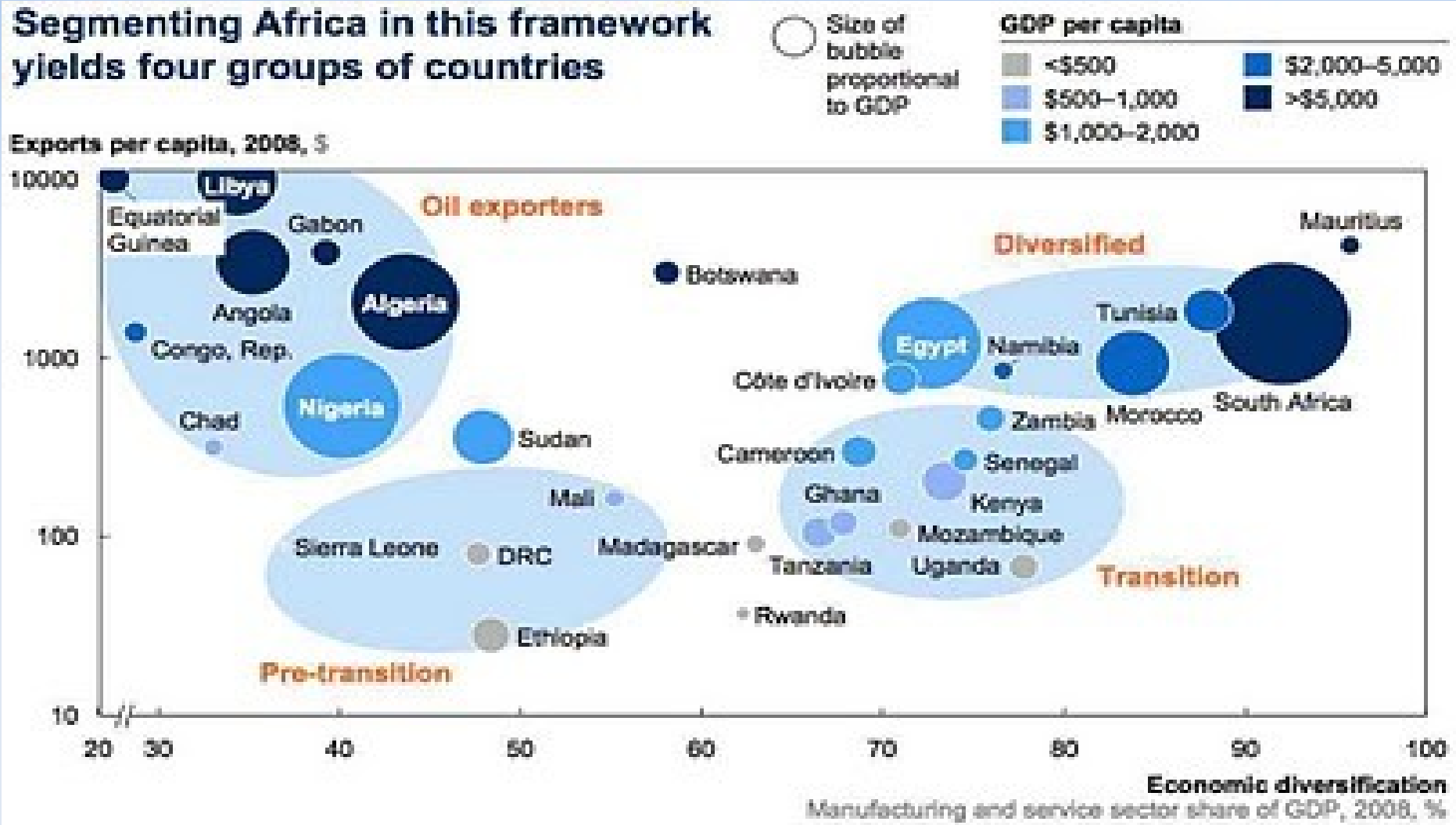
FDI rose from \$9bn (2000) to \$62bn (2008) – relative to GDP similar to China

Urbanisation – 40% live in cities, 85m households earn \$5,000+, to rise by 50% by 2020

Labour force – will exceed Chinese and Indian by 2040 with 1.1bn

McKinsey 2010

Segmenting Africa in this framework yields four groups of countries



McKinsey 2010

- 4 Economy types

Diversified – Need to get labour costs competitive

Oil Exporter – Challenge to diversify and maintain economic and political stability

Transistion – Rising manufacturing, need to focus on intra-african trade. Uganda and Ghana have oil

Pre-transistion – Poor, unstable, lack basic social and physical infrastructure – Aid needed

McKinsey 2010

Natural Capital: Agriculture

- Huge potential, over 600m ha. not under cultivation – 60% of worlds total!

Current yields very low – investment needed, and restructuring of holdings

Significant interest in Agricultural investment from China, Israel, UK for Food and Biofuels

- CSO – Potential “Land Grabs”
- Africa – New Green Revolution???

McKinsey 2010

Natural Capital: Fuel and Mining

Continued Strong global demand

Potential revenues to double by 2020?

New Deals include infrastructure

- Ex: 2008 Sinohydro & China Railways in DRC - \$2.9bn incl. 3,200km rail, 31 hospitals, 145 clinics and 2 universities
- China to overtake Europe by 2020 as 2nd largest oil export market?

- Resource Curse

Q: Can African institutions handle new resource wealth efficiently and equitably?

- Resource finds can be economically and politically destabilizing

Oil & Nigerian Development

(Source:Sala-i-Martin, Xavier, Subramanian, Arvind (2003) Addressing the Natural Resource Curse: An Illustration from Nigeria WP03/139, July 2003)

(1995 prices)	1970	2000
GDP per capita (ppp)	\$1113	\$1084
Poverty Rate	36%	70%
Top 2% earnings	Same as bottom 17%	Same as bottom 55%
Oil Revenues since 1965	<\$2bn	\$350bn

- **It is the devils excrement...Juan Pablo Perez Alfonso, Founder OPEC**

We are in part to blame, but it's the curse of being born with a copper spoon in our mouths, Kenneth Kaunda, Former Zambian President

- **All in all, I wish we discovered water...Sheikh Ahmed Yamani, Saudia Arabian Royal Family**

Resource Curse

Resource finds - positive impact?

**Provide Revenues – more Investment, more public goods,
higher living standards**

BUT!!!

**Historically – Primary commodity prices have fallen
relative to manufactures: Terms of Trade decline**

Primary Commodity prices are volatile – erratic earnings

**Extractive sectors: few jobs and few linkages with other
sectors in host economy**

**'Dutch Disease' – Earnings of \$ from extractive exports,
stronger exchange rate, traditional exports wiped out,
and local manufacturing swamped cheap imports**

Resource Curse

Government Policies can counteract these issues

- **Terms of Trade decline – Diversify exports**
- **Price volatility – Create a Stabilization fund**
- **Linkages – Public Investment in Education and Infrastructure**
- **Dutch Disease – Tight fiscal policy and keep extractive earnings out of economy in overseas investment accounts**

- **Despite these options – government often do not succeed, why?? Political explanations**

Resource Curse

Political Explanations

- **Resource rent myopia: Governments get lazy, lax planning, poor investments, failure to diversify**

'Men of fat and fertile soil, are most commonly effeminate and cowards, whereas those of barren lands...careful, vigilante and industrious'

Bodin, Jean (1576) Six Books of the Commonwealth

Resource Curse

Political Explanations

- Rentier States

Resource revenues discourage the State from developing institutions to collect taxes, monitor, regulate and promote other sectors

Reliance on resource rents, not taxes, creates less accountability to the citizens – limited democratic reform, or in cases where they feel threatened, buying off citizens. The latter results often in poorly planned expenditure.

- Politics – battle to win the spoils of office

If ethnic fractionalization exists, can result in conflict

Resource Curse

Reality

- Some countries negatively impacted by resource finds – Nigeria, Venezuela
- Some countries positively impacted – Botswana, Malaysia, Norway
- **Governance is key** – the institutions and policies have to be appropriate to handle the pressures associated with resource rents
- Given the demand for resources from China and India, many countries have potential pots of gold, but do they have the institutional capacity to deal with such windfalls????

Resource Course

No. of Key processes – Promoting better 'governance', transparency and accountability by Government and Corporate sectors

- Extractive Industries Transparency Initiative: www.eiti.org

Global Standard – requiring signatory countries to voluntarily publish details of payments made by and to companies operating in their territories

- US Disclosure Legislation: Dodd-Frank Act

Requires US listed Companies to disclose payments and other operating data to governments, pushing EITI principles with US law

Other jurisdictions looking at similiar measures

AEFJN Presentation

Web resources

Centre for Global Development www.cgdev.org

EITI www.eiti.org

PWYP www.publishwhatyoupay.org

Revenue Watch www.revenuwatch.org/

Southern Africa Resource watch www.sarwatch.org

Tax Justice Network <http://www.taxjustice.net>

AEFJN Presentation

Further reading

Carmody, Padraig (2011) The New Scramble for Africa, Polity Press

Collier, Paul (2010) The Plundered Planet, Oxford

Deacon, Robert T. (2010) The Political Economy of the Resource Curse: an interpretive survey,

<http://www.econ.ucsb.edu/~deacon/Political%20Economy%20paper%20June2.p>

McKinsey (2010) Lions on the Move: The Progress and Potential of African Economies.

Ross, Michael (1999) The Political Economy of the Resource Curse, World Politics 51(Jan. 1999)