Associated Press

Summit shows off economic promise

Stable governments, growing middle class add to luster

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The Associated Press

August 6, 2014

They export BMWs and birdseed and plenty in between. Their middle class is growing fast enough to draw the likes of Marriott and Wal-Mart. China, Europe, Japan and the United States are vying to build roads and power plants there.

No longer are the nations of sub-Saharan Africa, long a symbol of war, famine and corruption, an economic basket case. Six of the world’s fastest-growing economies are there. Higher oil prices, richer consumers and sounder governments have raised so much interest in Africa’s economic promise that it’s being showcased this week at the first U.S.-Africa Leaders Summit in Washington.

The question is: Can all this endure?

Africa has stood on the verge of prosperity before only to see its opportunities fizzle. Yet never before has it stood to benefit as it does now.

“Africa presents enormous opportunities,” says Paul Sullivan, director of international business development at Acrow Bridge of Parsippany, New Jersey, which has put up hundreds of prefabricated steel bridges across Africa.

As African leaders gather to mark a decade of economic gains, they appear intent on sustaining the growth and ensuring that the benefits are spread broadly and not siphoned away by corrupt officials and foreign companies.

In the decades after many of the countries regained their independence in the 1960s, their natural resources – Nigerian oil, Liberian diamonds, Congolese copper and cobalt – failed to support durable growth. They sometimes proved a curse: Proceeds would vanish into Swiss bank accounts of corrupt leaders and give armed factions something to fight over.

Analysts note hopefully that the current resurgence is built on foundations sturdier than the ups and downs of commodity prices. Many African nations have become more democratic, making it easier for entrepreneurs to do business, and have boosted investment in education and infrastructure. A decade of solid growth has created a middle class with more spending power – 350 million strong in 2010 by the African Development Bank's count, up from 220 million in 2000.

Armed conflicts are down despite headlines about the terrorist groups Boko Haram in Nigeria and al-Shabab in Somalia.

The improved environment has benefited even countries without bounteous natural resources. In resource-poor Rwanda, for example, economic growth rose from an average 1.7 percent from 1990 to 2000 to 7.7 percent the next decade.

The consultancy Ernst & Young ranks Africa as the world's second-most-attractive market after North America. Cumulative foreign investment in sub-Saharan Africa has catapulted from $33.5 billion in 2000 to $246.4 billion in 2012, according to United Nations numbers crunched by the Brookings Institution.

South Africa exports BMW sedans to the United States. Ethiopia has developed a niche making shoes. And it produces the best-selling imported birdseed in the United States.

"We see Africa as the fastest-growing market worldwide," says David Picard, a manager at heavy equipment manufacturer Caterpillar.

In 2011, Wal-Mart acquired Massmart Holdings, which runs 350 stores in 12 sub-Saharan countries. Marriott International last year agreed to buy Protea Hospitality of South Africa, a 116-hotel chain in seven sub-Saharan countries.

Cummins, based in Columbus, Indiana, has enjoyed double-digit sales growth this year in supplying power equipment to Africa. Consumers in the Nigerian capital of Lagos eat burgers from Johnny Rockets and ice cream from Cold Stone Creamery.

No nation has been more aggressive in Africa than China. Its direct investment in sub-Saharan Africa has jumped from virtually nothing in 2002 to $18.2 billion in 2012. China is hungry for oil, coal and other resources and eager to develop the roads, bridges and ports needed to pull them out of Africa.

Africans tend to favor doing business with China in part because it's less likely than Western nations to demand economic and political reforms to accompany trade and development deals.

"Investors from the U.S. and Europe have tended to be large investors who demand all kinds of facilitation, who expect all kinds of conditions," says Frederick Golooba-Mutebi, a Rwanda-based researcher and honorary fellow at the University of Manchester. "I do not see Europe and the U.S. catching up with China."

Indeed, this week's summit is seen as an American effort to regain some of the influence lost in the region to China over the past decade. Next year, the United States hopes to expand a 14-year-old free-trade deal with Africa.

On Tuesday, the Obama administration announced $14 billion in commitments from U.S. businesses to invest in Africa – money to be plowed into construction, clean energy, banking, information technology and other sectors. The money includes a $2 billion investment by General Electric by 2018, $200 million by Marriott and a $66 million commitment by IBM to provide technology services to Ghana's Fidelity Bank.

In addition, Coca-Cola and its African bottling partners announced an investment of $5 billion, raising to $17 billion Coca-Cola's investment in Africa from 2010 to 2020.

Before Africa's continued ascendance can be assured, though, analysts say its countries must resolve some thorny questions. Among them:

• Can it build the roads, railways and power plants needed to sustain its pace of growth?

Rosa Whitaker, a former U.S. trade official and now a consultant specializing in Africa, says sub-Saharan countries need to spend more than $90 billion on infrastructure. Electricity is a big obstacle. Two-thirds of people in sub-Saharan Africa have no access to it. "You can't do much without power," notes Stephen Hayes, president of The Corporate Council on Africa, which promotes U.S.-Africa commercial ties.

• Can sub-Saharan nations do more business with each other, as nations in more advanced parts of the world have done?

African countries typically conduct only about 10 percent of their trade with their neighbors. By contrast, countries in the Europe Union do about 70 percent of their trade with each other, Southeast Asian countries 30 percent, Whitaker says. Among the reasons for weak intraregional trade: Poor roads and other infrastructure; conflicts and troubled ties among countries; and corruption at customs posts that can delay shipments at the border.

• Can they transition from supplying other countries with materials to generating their own finished products?

Africa traditionally has supplied raw materials – oil, coal, diamonds – and let other countries turn them into valuable goods.

"We have been exporting crude oil and importing petroleum products," notes Nigerian Trade Minister Olusegun Aganga, a former Goldman Sachs executive. "No nation has managed to go from a poor to a rich nation by relying entirely on export of raw materials."

Nigeria's government has an ambitious plan to industrialize its economy and add value to its natural resources – to turn crude oil into chemicals and other petroleum products and sugar cane into the sugar that Nigeria now imports from South America.

• Can they avoid the so-called resource curse?

Abundant resources have failed to build widespread wealth or stable growth across Africa. Many economists say natural riches have tended to promote corruption and conflict and to stunt development in poor countries. Analysts are studying the East African countries of Mozambique, Tanzania, Uganda and Kenya as they develop newly found reserves of oil and natural gas.

In the past, analysts say, African countries have been out-negotiated and exploited by foreign companies. This time, Cullen Hendrix, a University of Denver specialist in global conflict, wonders, “How can host countries get the best possible deal?”

One encouraging sign, Hendrix says, is that ordinary Africans have grown more assertive about holding their governments accountable for deals they cut.

Assessing Africa’s prospects after a decade of solid growth, Jennifer Cooke, director of the Africa program at the Center for Strategic and International Studies, thinks the region’s nations have “an opportunity right now. But it’s not a guarantee.”

“Do they use this moment for economic transformation?”

Sidebar: U.S. in Africa

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