



AFRICA RISING SERIES

MASTER CLASS

AFRICA EXPORT RISING: MYTH OR REALITY?

Date

Thursday, 20th
November 2014

Venue

REGENT Business School
8th Floor Boardroom

Time

08h00 for 08h30

Facilitator

Ms Hannah Edinger

Panellists

Dr. Rob Davies
Mr. Mike Mabuyakhulu
Mr. Karl Xhanti Socikwa
Prof. Anis Karodia
Mr. Andrew Layman

Rapporteur

Prof. Dhiru V Soni

Trade and Investment KwaZulu-Natal (TIKZN) is hosting “*Export Week*” between the 17TH and 20 November 2014.

Export Week KZN is an annual programme of TIKZN that was developed to recognize, promote and assist with growing KwaZulu-Natal’s export businesses and industries. Through the comprehensive programme of activities, it provides professional development and information on growth sectors and market opportunities to KwaZulu-Natal’s new and existing exporters and internationally focused businesses.

Export Week highlights the significance of *exporting* to the KwaZulu Natal economy and aims to celebrate the success of KwaZulu-Natal exporters. Export Week KZN is filled with information and networking sessions. An export business summit will be capped off with the Durban Chamber’s Export Awards Gala Dinner. Export Week highlights and supports the efforts of KwaZulu-Natal exporters as well as the many service providers (supporting exports) who make it possible for KZN companies to compete on the world stage.

REGENT Business School is partnering with Trade & Investment KwaZulu-Natal (TIKZN) in hosting a **MASTER CLASS**. Key individuals such as Dr **Rob Davies**, Minister of Trade & Industry of South Africa. Mr **Michael Mabuyakhula**, MEC for Economic, Tourism and Environmental Affairs, KwaZulu Natal, Mr. **Karl Socikwa**, CEO of TPT and representatives from **Bureau Veritas**, **Ernst & Young** and **REGENT Business School** will engage in discussion and debate on the narrative of “**African Export Rising: Myth or Reality?**”



Durban Harbour at Night



AFRICA EXPORT RISING: MYTH OR REALITY?

In keeping with the tradition of the REGENT Business School's Brown Bag Seminar Series on *Governance and Issues in Critical Management Studies*, Trade and Investment KwaZulu-Natal has teamed up with REGENT Business School in hosting a Master Class to discuss and debate the topic: ***Africa Export Rising: Myth or Reality***. The master class is couched within a new series titled "***Africa Rising***".

Why the sudden interest in the narrative of *Africa Rising*? The world has suddenly realised that Africa is the last frontier and ideal environment for new business opportunity in the context of a transformed brand of global capitalism.

Is there truth to the new *Africa Rising* narrative? As much as we believe that both the Western and Asian countries are rebranding Africa as a 'continent of opportunity' for self-serving interests, the new narrative bears some truth. New economic growth figures, averaging at about 4 percent, give much credence to the claim that indeed Africa is 'rising'.

The continent's commodities boom and mineral and oil wealth have definitely benefitted state coffers, however, with little 'trickle down' effect. Moreover, there has been a real change in perception by investors, as noted in a new report from Ernest & Young's Africa 2013 "Attractiveness Survey". The change reflects not only an overall transformation in Africa's image, but also shifting investment patterns.

Contrary to stereotypical views, the new narrative portrays a continent where the 'winds of change' are stimulating economic reforms. Africa is becoming more conducive to business development. The new transformation is playing a significant role in promoting Africa as a viable business partner in the global market. Through the influence of the World Bank's "constructive engagement" policies, trade has been liberalised, import restrictions and price controls on many primary and secondary products have been removed and various measures to regulate the financial and banking sectors have been many implemented. These new developments clearly indicate that continent has created the necessary conditions for economic growth and a thriving local and international business community.

Africa is definitely 'rising' and the private sector is the key to this new advance. Conflicts and wars though prevalent have diminished in terms of occurrence. New democratic dispensations have added to good governance. Innovative financial markets are opening up and trade is improving. Most importantly, though, economic growth is surging.

More specifically, it is the new consumer-based market of almost one billion that offers the greatest opportunity for trade in Africa.

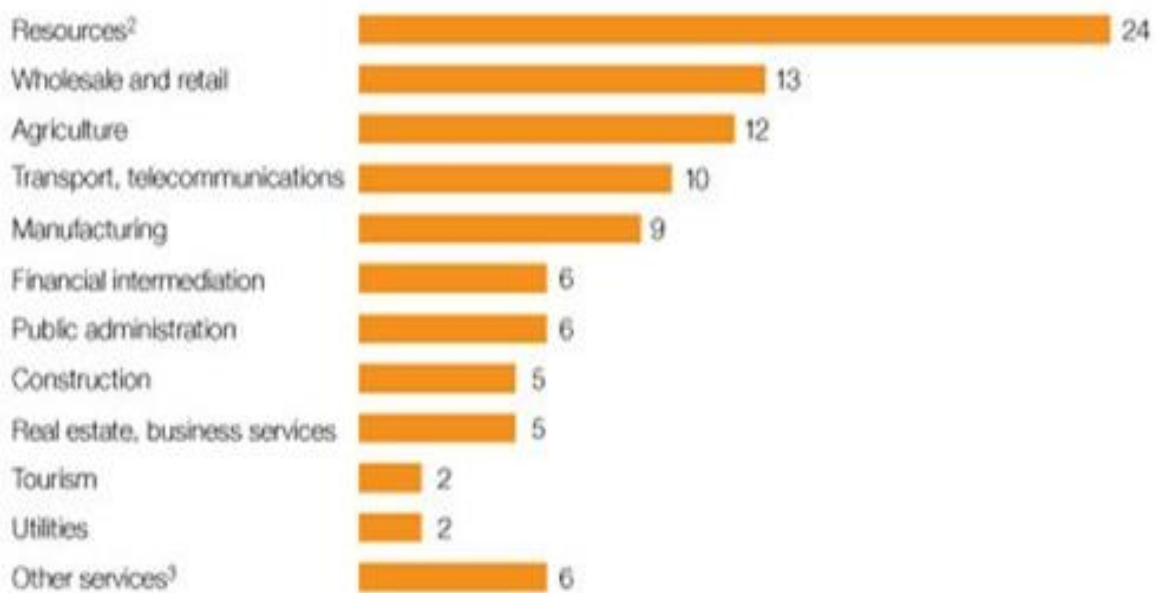


Definitely, Africa is of increasing strategic significance to the global economy. Despite the global recession, many African nations emerged as key markets for global investors. It is particularly interesting that in 2009 (soon after the food and financial crisis) many countries in Africa outperformed the economies of developed countries, admittedly from a lower base.

The demography of Africa is another factor which suggests opportunity. It is one of the most populated and youngest markets in the world, with more than one-half of its population under 24 years of age. Global population projections estimate that by 2050, Africa will have a population of 2 billion. The projections also suggest that the proportion of Africa's youth (under 15 years) is expected to rise to 45 percent of the total population. This quite obviously raises some interesting possibilities for trade.

While petroleum products are the driving force behind much of international trade, other sectors offer impressive growth. The BRICS countries are rapidly increasing their business dealings with Africa, whilst the USA and the European Union consolidate their old trading partnerships. In addition, the continent currently represents one of the largest untapped potential for investment as it is one of the richest natural resource regions in the world.

Africa's growth was widespread across sectors from 2002 to 2007.



Source: McKinsey Global Institute Analysis

To tap into trade-growth opportunities, sub-Saharan Africa (SSA) needs to diversify in several ways: it needs to become less dependent on the stagnating markets of its traditional trading partners in the developed world. At the same time it needs to lower its dependence on the export of commodities vulnerable to price shocks.

Africa can achieve sustainability in export revenues by integrating deeper into sector value-chains and thereby increasing the share of value-added products within its exports. African countries need to maximize their trade-related economic growth through 2025 by tapping into growth markets in Asia, Latin America and their own continent, and invest in trade-related infrastructure and trade facilitation.



Finally, is Africa really rising? The reality is the GDP says nothing concrete about the health of an economy, let alone its sustainability and the overall impact on people's welfare. Hence thinking of standards of living for the majority of Africans, one would argue that it is better to count on the growth per capita as a more suitable tool to measure the rate of economic progress.

One can always be hopeful but the reality is that-Africa has not always done well compared to other regions such as the East Asia. For example, the poverty rate only improved from 72% to 70% between 1981 and 2010 whereas the same region reduced the rate from 92.4% to 29.7% and this is a clear indication that Africa's share of world poverty could, in fact, have been rising.

In light of too much negativity about Africa since 1980s, it naturally feels as though a mention of the good things happening is overdue. But one ought to be truthful while telling the African story. And yes, some things have definitely changed for the better: Africa's violent conflicts have somewhat reduced, democratic accountability is improving and the macroeconomic situation is stabilizing; but such advances are insufficient for economic development-and it would be misleading to claim that these minor improvements have eradicated poverty, provided jobs to the jobless and got rid of people's misery.

To bring this change, African countries must diversify away from agriculture and natural resources into manufacturing and industries that are more technologically advanced.

FOR YOUR INFORMATION

REGENT Business School has identified the *Africa Rising* narrative as a niche area for research. In this respect, our academics and researchers have by request written extensively on the topic in BIZCOMMUNITY.COM Africa News and the BLUECHIP Journal, an upmarket coffee table publication for CEOs of major companies. In addition, many of these articles have been published in International Academic Journals. For your reading pleasure, we have included a few of these publications in your REGENT Gift Pack.

We are of the opinion that one of these publications maybe of particular importance to you company, especially if you are considering exporting or doing business in Africa. The article is titled:

Africa Rising: Doing Business in Africa

Should you wish to commission our researchers in investigating/researching similar export opportunities in Africa or Asia, or the BRICS countries, please contact the Directorate of Research at: www.regent.ac.za

Africa's Growth Trajectory


 **2.6 trillion**
Africa's collective GDP will increase from \$1.6 trillion today to \$2.6 trillion by 2020.

 **\$880 billion**
Agricultural output will increase from \$280 billion today to \$880 billion by 2030

 **1 billion**
The number of Africans of working age will exceed 1 billion by 2040, when the continent will be home to 1 in 5 of the world's young people and its labour force will be the largest in the world.

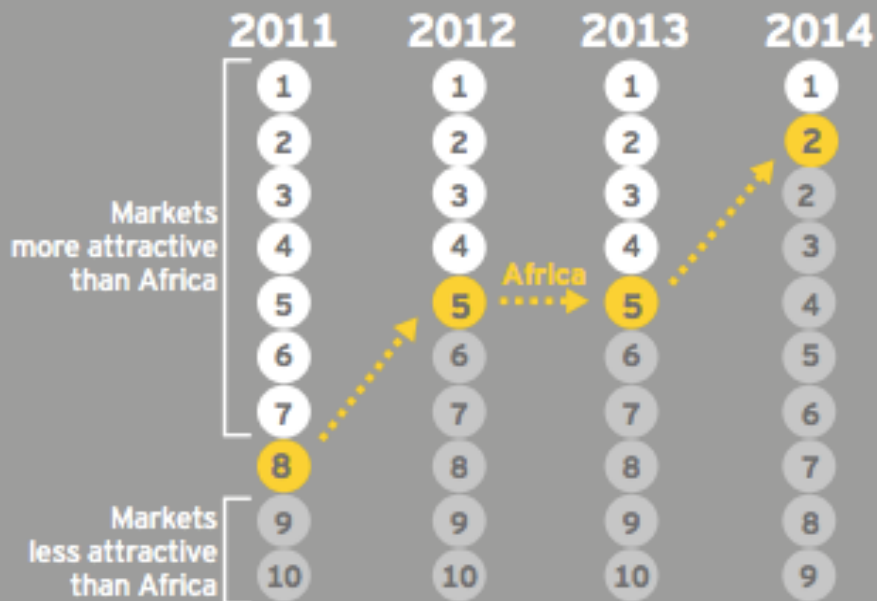
 **8/10**
In 8 of the last 10 years, Africa's lion states have grown faster than the Asian tigers.

 **34%**
Africa has the fastest-growing middle class in the world. Some 313 million people, 34% of Africa's population

 **2060**
By 2060, Africans living below the poverty line will be in the minority; (33%).



Improvement in Africa's relative attractiveness



Respondents citing an improvement in Africa's attractiveness as a place to do business

Attractiveness over the past year

60%

+4 points

Change vs. 2013 survey

Attractiveness over the next three years

73%

+1 point

Change vs. 2013 survey

Source: EY's 2014 Africa attractiveness survey (total respondents: 503).





Exports Key to Diversifying African Economies

While Africa's collective long-term prospects are strong, the growth trajectories of its individual countries will differ. Economists have traditionally grouped them by region, language, or income level. We take another approach, classifying 26 of the continent's largest countries⁵ according to their levels of economic diversification and exports per capita. This approach highlights progress toward two related objectives:

● Need to Diversify the Economy

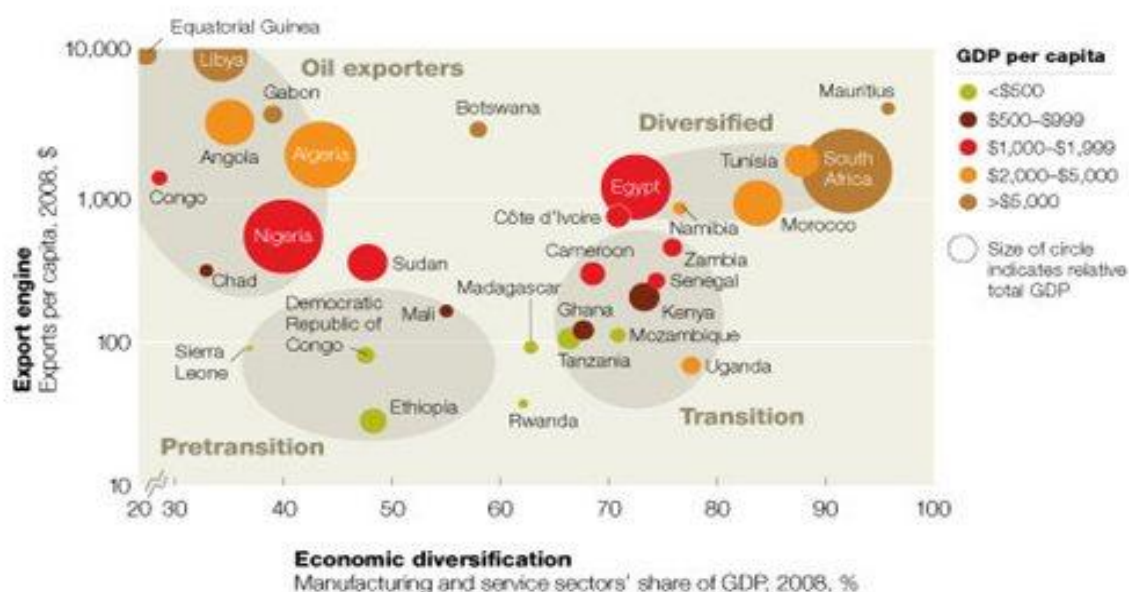
In the shift from agrarian to urban economies, multiple sectors contribute to growth. The share of GDP contributed by agriculture and natural resources shrinks with the expansion of the manufacturing and service sectors, which create jobs and lift incomes, raising domestic demand. On average, each 15 percent increase in manufacturing and services as a portion of GDP is associated with a doubling of income per capita.

● Need to Boost Exports to Finance Investment

Emerging markets require large investments to build a modern economy's infrastructure. Exports are the primary means to earn the hard currency for imported capital goods, which in Africa amount to roughly half of all investment. This is not to say that African countries must follow an Asian model of export-led growth and trade surpluses, but they do need exports to finance the investments required to diversify.

History shows that as countries develop, they move closer to achieving both of these objectives. Most African countries today fall into one of four broad clusters: diversified economies, oil exporters, transition economies, or pretransition economies. Although the countries within each segment differ in many ways, their economic structures share broad similarities. Our framework is useful for understanding how growth opportunities and challenges vary across a heterogeneous continent. Although imperfect, this framework can guide business leaders and investors as they develop strategies for Africa and can provide new perspectives for its policy makers.

Country segments in Africa¹





Export Competitiveness, Regional Trade Integration Could Spur South African Export Growth

Boosting competition and promoting deeper regional trade integration are critical for restarting South Africa's export engine to bolster growth which would help create jobs and reduce poverty, according to a recently released World Bank report.

- South Africa needs faster export growth to propel economic growth and job creation, according to a new World Bank report
- The report examined the export patterns of 20,000 South African non-mineral export companies over the last 12 years to identify factors that could be holding back exports from realizing their potential
- The report identifies three opportunities to help ignite export growth: greater competition amongst firms in South Africa, resolving infrastructure bottlenecks and cutting logistic costs, and deeper regional integration in goods and services

The Economic Update on South Africa: ***Focus on Export Competitiveness*** examines the performance of some 20,000 South African export companies in the non-mineral sector over a 12 year period from 2001 and discusses opportunities to help South Africa improve its export potential. The study was especially important, as the government has identified the export sector as a key driver of faster growth. The country's National Development Plan targets export volume growth of 6% a year, and tackling high unemployment is one of South Africa's priorities.

The report shows that the bulk of South African exports are concentrated in few mega firms who ship products to countries around the world, with approximately 1000 companies generating 93% of all of the country's exports. The rest of South Africa's 20,000 exporting firms export small amounts. In addition, these mega companies are losing momentum as they are creating fewer new products and not expanding into new markets.

The report points to the recent emergence of Sub-Saharan Africa as the main destination for South Africa's non-mineral exports, overtaking Europe as the main trading partner. However, the African market is still too small to drive overall export growth. The European market is still 30 times larger than Africa's.

Resolving infrastructure bottlenecks and cutting logistic costs present a second opportunity to support export growth. Cutting the charges exporters incur for the use of ports, rail and telecommunications would promote competitiveness and benefit small and medium-size exporters and nontraditional export sectors. Exports could benefit from deeper regional integration in goods and services within Africa including by creating production and service value chains that cut across national borders, and draw on all the region's resources and capabilities.

Progress on all fronts would help propel South Africa towards faster growing exports and help the country realize its goal for the higher, more inclusive, job-intensive growth outlined in the National Development Plan.



FACILITATOR



Ms HANNAH EDINGER is Director and Head of Research & Strategy at Frontier Advisory (Pty) Ltd, a leading advisory firm that specialises in emerging and frontier markets, based in Johannesburg. In this capacity, Hannah works with corporate and government leaders in providing timely information and analysis to assist clients to formulate and implement strategies in these markets.

PANELISTS



DR ROB DAVIES is serving his second term as Minister of Trade and Industry, having been appointed to this portfolio in May 2014. During his first term from 2009-2014, he oversaw the development and implementation of annual three year rolling Industrial Policy Action Plans as well as steering South Africa's participation in important trade relations, including the Tripartite SADC-COMESA-EAC Free Trade Area, BRICS, Economic Partnership Agreement with EU, the US Africa Growth and Opportunity Act,



Mr. MIKE MABUYAKHULU is a MEC for Economic Development & Tourism in the KwaZulu-Natal Provincial Government. He is a Member of the KwaZulu-Natal Provincial Legislature and was involved in the Peace Process in KwaZulu-Natal in the 1980's and 1990's. He is proudly known for getting his job done. During his tenure he has overseen many important projects in KwaZulu-Natal, including the new International Airport and the Dube Trade Port.



PROFESSOR ANIS MAHOMED KARODIA was born in Durban and matriculated from the Raisethorpe High School, Pietermaritzburg. He worked as a civil servant for 33 years in the North West Province of South Africa. He was the former Director of Veterinary Services, Chief Director of Agriculture and subsequently, Director General of the North West Provinces Departments of Agriculture and Education.



Mr. KARL SOCIKWA, a graduate of Rhodes University, South Africa has been at the helm of South Africa's national port operator, Transnet Port Terminals, since November 2009. During his tenure as CEO of TPT, he has led the team of over 9200 employees to become a formidable force in the logistics sector in Sub-Saharan Africa,



Mr. ANDREW LAYMAN is the Chief Executive Officer of the Durban Chamber of Commerce & Industry, a position to which he was appointed at the beginning of 2011. He formerly occupied a similar position in the Pietermaritzburg Chamber of Business for thirteen years. Prior to that date, he had a career in school education which spanned thirty years.

RAPPOREUR



PROFESSOR DHIRU SONI was Head of Department of Environmental Studies and Development and Deputy Vice Chancellor for Research at the erstwhile University of Durban Westville. He was also Executive Director for Outreach at the University of KwaZulu Natal. He is an International Urban Research Fellow of Johns Hopkins University (USA), Visiting Scholar and Professor at Northwestern University (USA), West Virginia University (USA). East London University (UK) and Nirma University

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