

Lettera

Club The European House-Ambrosetti

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Africa: an opportunity for Italy and for Europe

AFRICA IS A CONTINENT THAT IS ALMOST FORGOTTEN

Africa today is a **continent that has almost been forgotten**: pandemics, endemic corruption and poverty mean that in the mental map of the European and Italian business community, this area has almost become a "no-man's land". In particular, **Sub-Saharan Africa** (excluding South Africa) is virtually absent, despite its potential which is equal—if not superior—to that of northern Africa.

Development of the continent is especially problematic:

- its **contribution to world GDP** has been minimal for almost 40 years (just over 2%): Sub-Saharan Africa (2007) 713 billion dollars; northern Africa 735 billion dollars;
- its population is in continuous growth (close to **980 million inhabitants**), but almost 50% of the total live under conditions of extreme poverty;
- its weight in terms of **international trade** is only around 6%.

The lack of proper infrastructure, frequent political crises and corruption, armed conflict, spread of disease, and shortage of skilled labor and a managing class do not contribute to attracting high levels of Foreign Direct Investment.

This despite the fact that since 1960, Africa has received over 540 billion euros in aid. Added to this are international loans and foreign debt relief initiatives.

Nonetheless, the policies adopted by **multilateral and international cooperation bodies** are facing **sharp criticism** for:

- the fact that most aid is absorbed in the cost of repaying debt and interest payments, as well as **administrative operating costs**;¹
- the fact that most aid is comprised of loans, with a consequent **explosion in foreign debt** and interest;
- the "stringent" conditions tied to aid that often have the effect of generating further economic and social problems.

AFRICA IS ON THE MOVE

However, Africa is showing **encouraging signs of development**, even in the most remote areas.

In recent years, the African continent has enjoyed an **average annual growth rate of 6%**, although with significant differences between countries (for example, among those nations with growth rates above this average are Angola, Zambia and Uganda).

There has also been major progress in overall development, with a series of initiatives in various sectors of social, productive and political life: **market reforms** and reform of the **political, administrative and bureaucratic apparatus**.

Among the most important reforms pursued in recent years are:

- structural fight against corruption (in the majority of countries)
- elimination of customs barriers between countries (through the creation of free trade areas)
- privatization of the economy (for example, in Ethiopia).

¹ According to some estimates, even over 50% (Source: World Bank).

It has been demonstrated² that these processes are positively correlated. In fact, those countries exhibiting good economic performance are characterized by:

- enhanced levels of foreign trade
- better governance and structural reforms.

This has led to growth in Foreign Direct Investment (FDI).

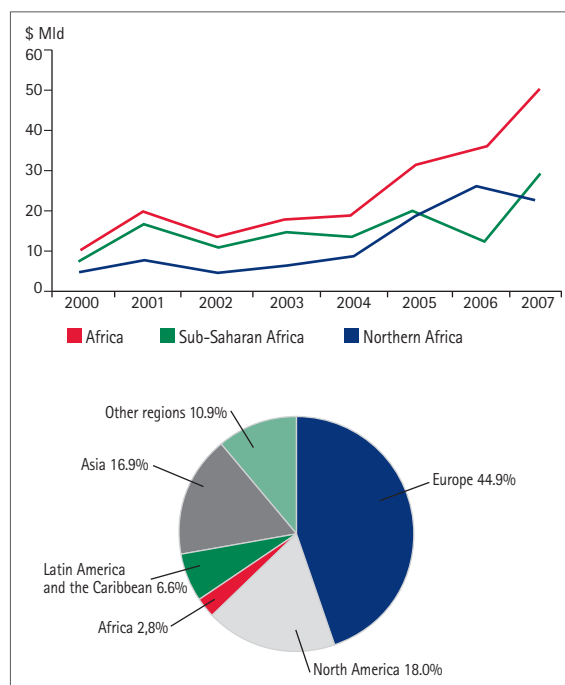


Figure 1 – FDI flows to Africa and global levels (Source: The European House-Ambrosetti based on UNCTAD data)

Some **African companies** are initiating a policy of **internationalization** through de-localizing and investing in other countries on the continent (for example: Mobile Telephone Net, telecommunications; Energy Africa, energy supply; Zain Nigeria, telecommunications; Nampak, packaging).

Nonetheless, a significant responsibility for development is still borne by **international aid**, but with the **appearance of new donors** (defined as "non-traditional") who operate outside major multilateral structures, preferring the route of **bilateral aid**.

New trends and new formulas for collaboration are also emerging:

- partnership between the public and private sectors
- alternative use of international financial instruments
- micro-credit
- together with multinationals, development of local business expertise.

² Please refer to The European House-Ambrosetti study, "The Development of Africa: an opportunity for Europe, Italy and Sicily" – 3rd edition – for the Fondazione Banco di Sicilia.

THERE ARE MANY DIFFERENT AFRICAS

Africa—composed of 53 countries—is complex and varied. There is no single “Africa”, in fact, but many “Africas”, each one with its own particularities, approaches for growth, traditions, risks and prospects.

On an institutional level, African countries present themselves on the international scene as a unified body through the African Union.

This continent is also protagonist in a number of processes of regional integration.

Three major “integrated” areas are in the process of being formed and consolidated:

- ECOWAS - Economic Community Of West African States
- SADC - Southern African Development Community
- EAC - East African Community.

They are in different stages of development with different outlooks and they still have serious infrastructure problems, but they are proof of the commitment of African governments to act in a different way.

As mentioned above, there is a net difference between the countries of northern Africa and those in Sub-Saharan Africa. Traditionally, Italy has looked to those in northern Africa because they are closer to it in all ways, and they are also more developed.

However, Sub-Saharan Africa is in the process of taking on just as significant an amount of weight and the greatest potential for the continent’s development most probably lies in these countries.

THE WORLD IS MOVING INTO AFRICA

Africa’s intrinsic **wealth** and its “**new direction**” have attracted the attention of many foreign countries, giving Africa a central role that is without precedence on the geo-political and geo-economic chess board.

New players have come forward belonging to the so-called emerging countries (above all China, but also India, Brazil and Arab countries), that have provided Africa with opportunities and attention that Western countries have not offered in the post-colonial period. The economic boom of the new developing economies will have increasing need of not only Africa’s resources and raw materials, but also **its market** which, although still embryonic, holds much more promise than the mature markets of more developed economies. In fact, Brazil, India and China are moving systematically into Sub-Saharan Africa in the sale of low-cost consumer goods, thus creating solid “**strongholds**” for the most-skilled African market of the future.

China is the country most aggressively ‘courting’ individual African nations. **China is offering global cooperation:** investment in infrastructure (often performed by Chinese countries), loans at very favorable rates, debt relief, human resource development and training, Chinese tourism, youth exchange programs, technological, health, cultural and environmental cooperation, military cooperation and peacekeeping operations.

In addition, Peking’s ‘flexibility’ on human rights questions has made Chinese investment especially attractive compared with the policy of aid with strings attached adopted by the World Bank, International Monetary Fund and some western countries.

Since the 1990s, the volume of trade between China and Africa has increased **700%**, the goal being, this year, to reach over **110 billion dollars**.³

India has also embarked along the same direction taken by China. It has prepared a **detailed, long-term plan** to bridge the **gap** between India and China in their **penetration of the African continent**.

The **United States** has shown **renewed strategic interest** towards Africa, the result, above all, of the increase in commodity prices, the most important of these being oil.

The National Intelligence Council (NIC) forecasts that within the next ten years, the area of the Gulf of Guinea could replace the Persian Gulf in terms of strategic and oil-related importance for the United States.

Japan’s interest in Africa is also **reawakening**. It has decided to consider Africa a **strategic priority**: the majority of its aid—**80%** of which, until now, went to Asia—will be redirected to Africa.

The **European Union** has created a **strategic partnership** to take on common challenges, such as climate change, development, energy, emigration, peace and security,

³ For more detailed information, see, E. Knoll, “Non solo giraffe. Pechino ha un piano per conquistare l’Africa”, in Limes, vol. 4, 2008.

trade and regional integration, good governance and human rights.

Starting in **2005**, Europe has adopted a comprehensive strategic approach to Africa. The European Union also remains the major donor of aid on a global level.

However, the European approach has not been uniform, with significant discrepancies between Mediterranean Africa and Sub-Saharan Africa; and it has also perhaps been spread across **too many fronts**. In fact, the countries of northern Africa have benefited from numerous initiatives by the European Union. In terms of individual nations, a number of association agreements have been drawn up and, on a regional level, the launching of the “Barcelona Process” has opened the way to the **creation of a Mediterranean free trade zone** by Mediterranean countries, which could start up in **2012**.

Within these framework agreements, individual European countries will develop independent economic relations:

- among developed countries, **Great Britain** is the country which contributes the **greatest share of Foreign Direct Investment in Africa**;
- **France** has further reinforced relations with its former colonies through the launching of the *Nouvel Partenariat pour le Développement de l’Afrique*. In general, it has a **bilateral approach in its relations with Africa**, preferring direct cooperation to multilateral initiatives;
- **Spain** has recently initiated a **Strategy for Africa** based on 7 goals on a multilateral track, while also developing special relationships with some specific partner countries;
- **Germany** stands out for the systemic orientation and completeness of its approach. Its **strategy** is based on three lines of intervention—institutional, economic and formative—and, like China and India, its goals are medium-to-long-term.

Within this scenario, **Italy’s policy** would perhaps seem **less incisive**, especially from an economic perspective. Currently, **cooperation between Italy and Africa takes place primarily through multilateral channels**, i.e., as part of international organizations and through the Italian Office for Development of the Ministry of Foreign Affairs.

OPPORTUNITIES FOR EUROPE AND ITALY

If Africa were able to nurture this positive course of growth, **in the near future it could become the “China of Europe”**—the closest productive geographical and cultural platform to Europe.

African countries offer **innumerable opportunities** for European and Italian companies which could produce in Africa (manufacturing, agriculture and services) utilizing a young workforce that today often feeds the channels of illegal immigration.

Development of this continent will also generate a significant outlet market: at current growth rates, by the year **2025**, Africa will see an **80% rise in per capita GDP**, with an increase in accumulated GDP for the period of over **1,600 billion euros**.

Ignoring this opportunity would be a **serious error in evaluation**, especially for Italy, which for geo-political vocation and long-standing history of positive relations, could play a very significant role in commercial trade and relations with these countries.

In fact, not only could Italy contribute much to Africa, but also bring much home:

1. De-localization in nearby areas with manufacturing plant utilizing traditional technologies requiring less-costly labor.
2. Traditional Italian agricultural crops grown on less-costly land and using cheaper labor.
3. Supply of machinery and equipment typical of Italian industry, throughout all sectors.
4. Supply (at various quality/price levels) of typical “made in Italy” products: fashion, furnishings, products for the home.
5. Tourist activity in various specialized areas (ranging from resorts to culturally-oriented tourism) in areas as-yet untapped.

Those Italian entrepreneurs which have become involved have been very successful.

WHAT MUST BE DONE

African development requires international aid to ease poverty and build infrastructure and institutions, but also business initiatives which involve African entrepreneurs who are beginning to become active on the continent (**business for**

SUMMARY

Africa is a continent that has almost been forgotten

- Minimal contribution to world GDP for almost 40 years (just over 2%)
 - Population in continuous growth (close to 980 million inhabitants), but almost 50% of the total live under conditions of extreme poverty
 - Weight in international trade reduced to approx. 6%;
 - Difficult situation attracts limited Foreign Direct Investment (FDI)
 - Mechanism of aid from multilateral bodies has been called into question.
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Africa is on the move

- Average economic growth in recent years of 6% annually
 - Economic and institutional reform in many countries
 - FDI beginning to grow
 - African companies also in international growth;
 - Emerging countries: new and important "donors"
 - New forms of collaboration and development with public/private sector partnership.
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There are many different Africas

- 53 African countries, all very different
 - Three major "integrated areas" being consolidated
 - ECOWAS - Economic Community Of West African States
 - SADC - Southern African Development Community
 - EAC - East African Community.
 - Northern Africa followed more closely by Italy
 - Sub-Saharan Africa highly problematic, but with tremendous potential.
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The world is moving into Africa

- Intrinsic wealth and "new direction" attracting the attention of emerging countries (China, India, Brazil and countries in the Persian Gulf)
 - China is moving very aggressively and is offering global cooperation. Volume of trade between China and Africa has increased by 700% between 1990 and 2010
 - India has launched a strategy to bridge the gap with China
 - The United States is focusing on African energy resources
 - Japan has declared Africa a strategic priority
 - The European Union, major donor on an international scale, is moving on a general level, as well as on a single country basis, but in a very fragmentary way
 - Italy's policy is less-incisive than that of other European countries.
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Opportunities for Europe and Italy

- Africa could become the "China of Europe": a major productive platform "right outside the door"
 - It will also become a significant consumer market: it is forecast that by 2025, the per capita GDP will have increased by 80%
 - The opportunities for Italy are **conspicuous**: "made in Italy" products, machinery and equipment, agrifood, tourism, production de-localization.
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What we must do

- Not just aid, but also "business for business" initiatives
 - Aim to serve African consumers with products suitable for their situations ("a major industrial challenge") -.
 - Europe must concentrate on focalized initiatives that
 - represent business opportunities for both European and African companies
 - activate Foreign Direct Investment (FDI) in Africa
 - activate local investment
 - are based on strong European competencies
 - have a positive impact on Africa's most serious and important problems
 - are self-replicating: their success will be replicated "autonomously"
 - Agriculture, nutrition and the agrifood sector are examples around which to have Italian and European supply chains invest in integrated pilot projects.
 - Recognize the priorities not only for northern Africa, but also Sub-Saharan Africa
 - For Italy, one possibility could be the system supply chain, as was already the case for construction (e.g., Angola)
 - Italy must reinforce its diplomatic presence.
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Conclusions

- Europe must:
 - play a proactive geo-political and geo-economic role
 - develop forms of intervention that are much more concrete and directly "controlled" by Europe and are not only multilateral
 - push business for business.
- Italy:
 - could be a strategic mediator/facilitator
 - must focus on developing supply chain initiatives
 - must reinforce its presence, including diplomatic presence.

→ "In the uplands, you awake in the morning and think: here I am, right where I should be!"
Isak Dinesen - Out of Africa

business) to launch and extend a positive process of development with an “**energy of its own**” and not only that of the donor. There is a target group of African citizens with a certain buying power (although limited) which could and must be oriented towards products suited to their needs and surroundings. This is a **major challenge for industry**.

Europe must be able, therefore, to play a more active, coherent and united role to balance proactively the diplomatic and economic actions of China, the United States and India. In order to avoid wasting energy, the focus must be on “European” initiatives which:

- represent business opportunities for both European and African companies
- activate Foreign Direct Investment (FDI) in Africa
- activate local investment
- are based on strong European competencies
- have a positive impact on Africa’s most serious and important problems
- are self-replicating: their success will be replicated “autonomously”.

An example could be agriculture and nutrition. Africa is still today a **predominantly agricultural continent**: 60% of its inhabitants and 13% of GDP. But production is oriented in large part to subsistence or local markets and based on small-sized farms. There are, of course, large plantations left over from the colonial era for cotton, coffee, cocoa, tobacco and fruit, but their crops are for export and Africa draws little benefit from them.

As a result, many African states are unable to satisfy the food needs of their populations and are forced to import **25% of their food requirements** (equivalent to 11% of the value of imports, approximately double the world average).⁴ In addition, African agriculture lacks a **processing supply chain**, with only **30% of African products** undergoing initial processing *in situ*.⁵

This weakness represents a major **investment opportunity** throughout the entire value chain: from seeds to agricultural

machinery, from water management systems to infrastructures for energy and transport, from the industrial processing of the products to the ancillary financial services.

Europe should launch **business projects**⁶ involving Europeans and Africans to create integrated **industrial and agrifood/fishing districts** for production and pre-processing for both the local market and export. These districts should be created in **pilot countries** that are favorable.

At the time this newsletter goes to press, Zambia and Uganda have already declared their interest in becoming partners of the initiative.

These districts would include:

- Production: agriculture, livestock, fishing
- Pre-processing
- Product promotion and sales
- Purchase and sale of required materials (e.g., selected seeds, fertilizers and pesticides, agricultural machinery, irrigation systems, etc.)
- Research and transfer of technology
- Training
- Support services
 - logistics (with cold chain)
 - energy generation
 - medical center
 - etc.

A project of this type involves competencies in which Europe can make significant scientific, industrial and management contributions, while responding to basic African needs.

Italy, with its farming and food tradition, could play a major role (including know-how in the management of consortia for small farmers).

More generally, Italy must increase its presence in Africa with its own supply chains (as occurred in Angola for the construction sector), but also with an enhanced diplomatic presence (instead of this being decreased, as is currently being attempted).

CONCLUSIONS

Europe must:

- play a geo-political and geo-economic role in Africa (as China, India and the United States are doing);
- develop forms of intervention that are much more concrete and directly “controlled” by Europe and are not only multilateral;
- push business for business: generate business and trade profitable for Africa and Europe, going beyond the logic of merely exploiting African resources or just providing development “aid”.

Italy:

- given its history, geographical location and nature of its industrial and agricultural sectors, could be a strategic mediator/facilitator;
- must focus on developing supply chain initiatives, taking to Africa companies from strong supply chains which can benefit from operating in that continent.

The message of this newsletter may perhaps be best summarized in a phrase from Danish author Isak Dinesen who in her autobiography, *Out of Africa*, wrote:

*“In the uplands
you awake in the morning and think:
here I am, right where I should be!”*

The next Lettera will be dedicated to “The Strategic Challenge for Italian Universities”.

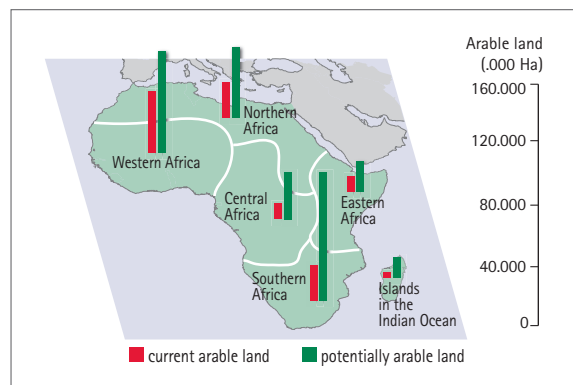


Figure 2 – Potential productive arable land in Africa (Source: FAO)

⁴ Source: FAOSTAT and WTO, International Trade Statistics, 2008.

⁵ Source: African Development Bank.

⁶ Please refer to The European House-Ambrosetti study, “The Development of Africa: an opportunity for Europe, Italy and Sicily” – 3rd edition – for the Fondazione Banco di Sicilia

The European House-Ambrosetti *Lettera Club* draws on the analysis, theses and solutions developed as part of Club activities and, more generally, the professional activity of The European House-Ambrosetti Group. We are aware that we offer an observatory of information and relational network, including on an international level, that is extremely high-level, but at the same time we are cognizant of the fact that we are not the sole “repositories of truth”. In order to be of assistance to Italy and Europe—one of our key commitments—we sincerely hope that each *Lettera* will provide the basis for a large number of critical suggestions, both in terms of content and more generally, from those who receive it. Please send your suggestions and comments to letteraclub@ambrosetti.eu. We thank you in advance for your invaluable collaboration.

If you are interested in the activities of The European House Ambrosetti Club, please contact Silvia Lovati at the e-mail address: club@ambrosetti.eu or call: +39 02 467531.

VOLUME V
NO. 32
Lettera
The European House-Ambrosetti Club
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Printed by: TFM
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Registered with the Tribunal of Milan
No. 493 dated 20.07.06

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