EDGE
Economic Development & Growth in EThekwini

Research Paper

Accessing Africa: What GATE, which WAY?

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Introduction

What once was referred to as the 'great unknown' is fast becoming the African success story. Despite being riddled with corruption, pervasive bureaucracy, political instability, poor infrastructure, poverty and inequality, Africa has moved beyond its historically negative reputation. Africa's economies are on the move. In 2010 the continent's collective Gross Domestic Product (GDP) was US$2 trillion, more than the GDP of India. Between 2010 and 2011 Foreign Direct Investment (FDI) in Africa increased by 27%, while seven African countries are expected to be among the 10 fastest-growing economies in the world for the period 2011-2015.

The so-called 'African Renaissance' has captured the world's imagination, as reflected in growing investor confidence levels and the rising attractiveness of the continent as a place of economic opportunities, while Return on Investment (ROI) levels in Africa are currently among the highest in the world. Coupled with the high average annual growth rates, this places Africa in a highly favourable economic position.

At the same time, economic trends in Africa show that there is an increase in domestic consumption and a rise in the urban middle class, as well as the emergence of accountable and democratic governments. African countries are on the road to reducing poverty and corruption, upgrading infrastructure, diversifying their markets and ensuring regional integration. The African success story shines the spotlight on a continent that was once considered insignificant in global economic terms.

This paper will profile Africa by looking firstly at the economic significance of the continent's 'Big Five' countries, as well as their relative strengths and weaknesses. The following section will explore investment in Africa, followed by a debate on South Africa's position as an economic 'gateway' to Africa. Finally, a city-level approach will be used to look at Durban as Africa's logistics gateway and how the city can use this infrastructural advantage as a point of leverage.

The Big Five in Africa

Angola, the Democratic Republic of the Congo, Kenya, Nigeria and South Africa are the largest economies in Sub-Saharan Africa. This section seeks to analyse the economic significance of these countries and interrogates the notion that South Africa can still be seen as the gateway to the continent.

Ke Nako ('It's time') is a Tshwanian phrase that reverberated around the South African-hosted 2010 FIFA World Cup. It was a bold announcement, suggesting that Africa's time has come. Gone are the decades when the continent was overlooked in terms of investment and trade. Today the continent commands US$55 billion of trade, five times more than it did almost 20 years ago.

African countries are looking more attractive to investors for the following reasons: political stability, infrastructure status, quality and reliability of local manufacturing, an improved legislative and regulatory environment and higher levels of economic expansion.

South Africa has many of the characteristics of a developed economy due to its strong service-based sector, established financial framework, relatively large domestic economy and robust democracy. That said, the indicators analysed show that the country is lagging behind its up-and-coming counterparts in terms of GDP growth rates, labour participation rates and exports. Its significant strengths include its financial system and established infrastructure, while its biggest constraint is the high level of unemployment. Approximately 40% of South Africa's working age population are unemployed (this includes discouraged work seekers). Over the last few years, even prior to the global financial crisis, the economy has been performing at low levels. Growth in GDP has been below the 5% mark, and job creation has been poor. The rate of growth required to create and sustain jobs is estimated to be 7% for the next 20 years. Factors that are currently hampering economic growth include outdated infrastructure, labour unrest, endemic poverty, lack of economic empowerment among disadvantaged groups and a shortage of public transportation. South Africa's major export partners are China, the United States, Japan, Germany and India. Its key import partners are China, Germany, the United States, Saudi Arabia, Japan, Iran and the United Kingdom.

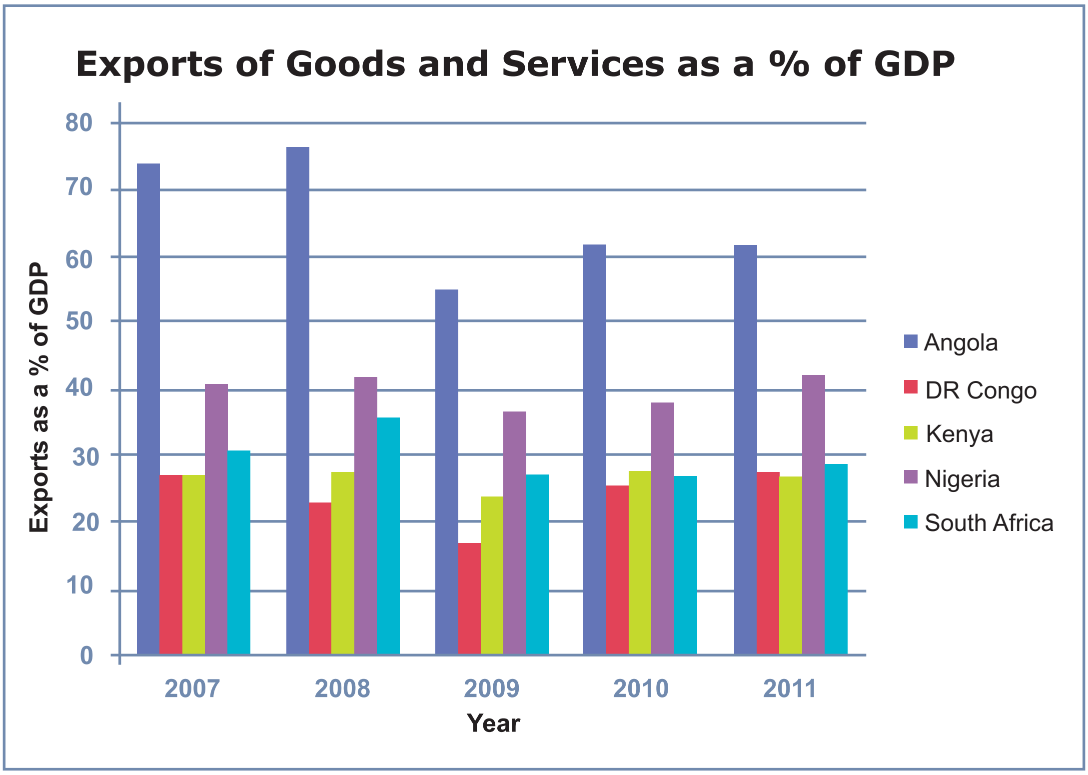
Nigeria, Africa's second largest economy, is rich with large oil reserves and other natural resources. In 2011 the country's GDP grew by 6.7% (compared to South Africa's 3.1% in the same period), attracting US$ 8.9 billion in foreign investment. Nigeria is clearly an economic force to be reckoned with. Riddled with political instability, corruption and poor macroeconomic management under military rule, the country has recently experienced growth in non-oil-intensive industries. Economic reform was instigated, based on the signing of a standby agreement with the International Monetary Fund (IMF), after which the country was able to receive debt restructuring and US$1 billion in credit. Since 2008, the Nigerian government has shown the political will needed to implement the required market-oriented reforms such as modernising its banking system, resolving disputes over the regional distribution of oil industry earnings and removing subsidies. Although crude oil prices remain robust and continue to rise, the economic triumph of Nigeria rests on the ability of its government to increase transparency, improve fiscal management and diversify economic growth. Nigeria's major export partners are the United States, India, Brazil and Spain. Its key import partners are China, the Netherlands, France, the United States and the United Kingdom.

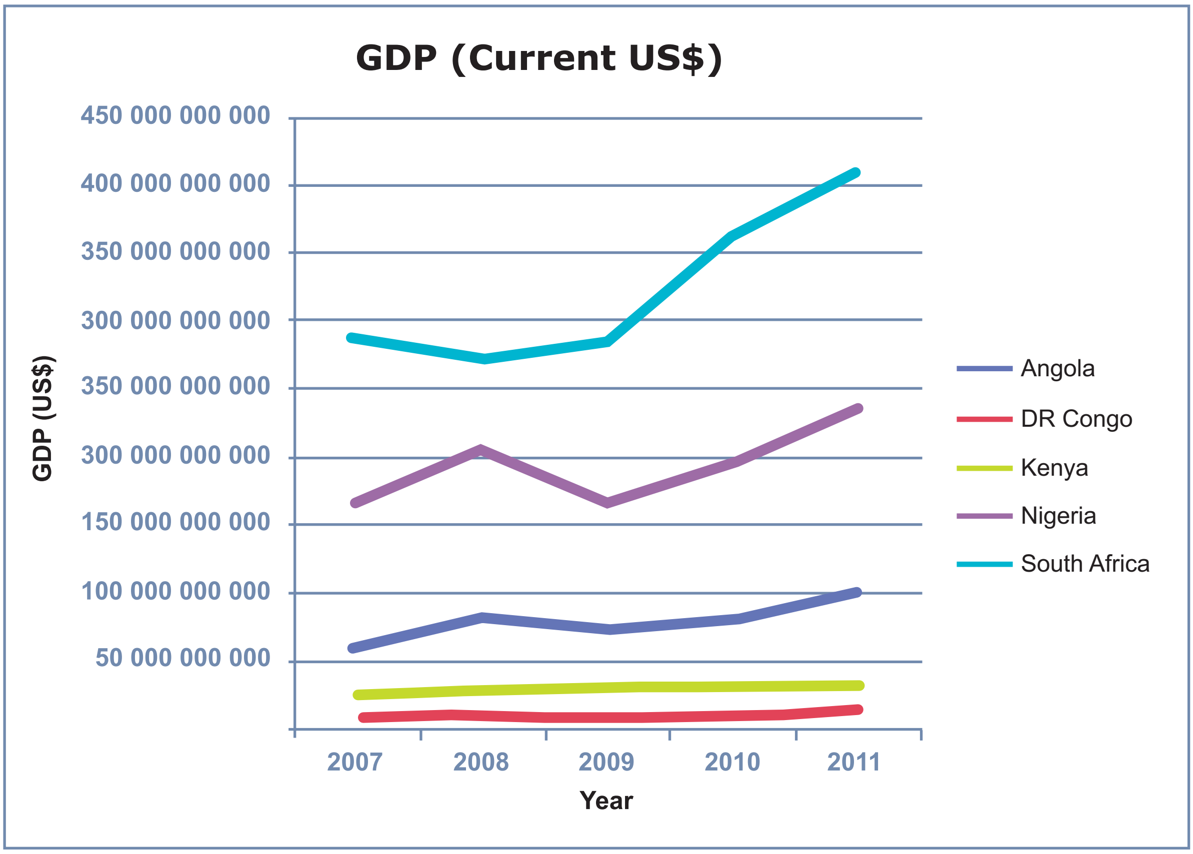
Angola emerged from an intensive 27-year civil war in 2002, leaving infrastructure damaged and underdeveloped. With consumer inflation at the excessively high level of 325% in 2000, the country's future looked bleak. Since then it has become China's largest trading partner in Africa, with bilateral trade rising to US$ 25.3 billion in 2010. In recent years, Angola's high growth has been attributed to the high international prices of oil. Oil production and supporting activities contribute 85% of Angola's GDP, with Chinese construction companies playing a major role in rebuilding the country's infrastructure. Yet much of its population survives on subsistence farming, and imports make up half of the country's food resources. The level of corruption is relatively high in Angola, especially in extractive sectors, and the country ranks low on competitiveness in comparison with 142 countries around the world. Angola's main export partners are China, France, the United States and the European Union. Its chief import partners are Portugal, South Africa, the United States, Brazil, the United Kingdom, France and South Korea.

Kenya is the regional hub for finance and trade in East Africa, although it has been held back in recent years by corruption and reliance on several primary goods whose prices have remained low. Such challenges, as well as low infrastructure investment, are threatening the country's long-standing position as the largest East African economy. In 2008, the country was affected by post-election violence and the global financial crisis, with GDP declining by 1.7%. Kenya's major export partners are Uganda, Tanzania, the United Kingdom, the Netherlands, the United States, Egypt and the Democratic Republic of the Congo. Kenya's import partners include China, India, the United Arab Emirates, South Africa and Japan. Like South Africa, Kenya has large levels of youth unemployment, with the country's youth constituting 70% of the unemployed population.

The Democratic Republic of the Congo (DRC) is a country with an economic silver lining – it is equipped with extraordinary agricultural and mineral resources and has the potential to become one of the continent's key engines for growth. Economic strengths include its natural resources and abundant agricultural land. However, it is still a fragile post-conflict country, with enormous need for reconstruction and economic growth within a heavily constrained fiscal space. The DRC's main export partners are China, Zambia, the United States and Belgium, while its key import partners are South Africa, Belgium, China, Zambia, Zimbabwe, France and Kenya. The country's large informal sector, which employs a substantial proportion of its population, is unfortunately not reflected in its GDP.

Key Indicators





GDP (Current US$)
450 000 000 000
400 000 000 000
350 000 000 000
300 000 000 000
350 000 000 000
300 000 000 000
150 000 000 000
100 000 000 000
50 000 000 000
GDP (US$)
2007
2008
2009
2010
2011
Year
Angola
DR Congo
Kenya
Nigeria
South Africa

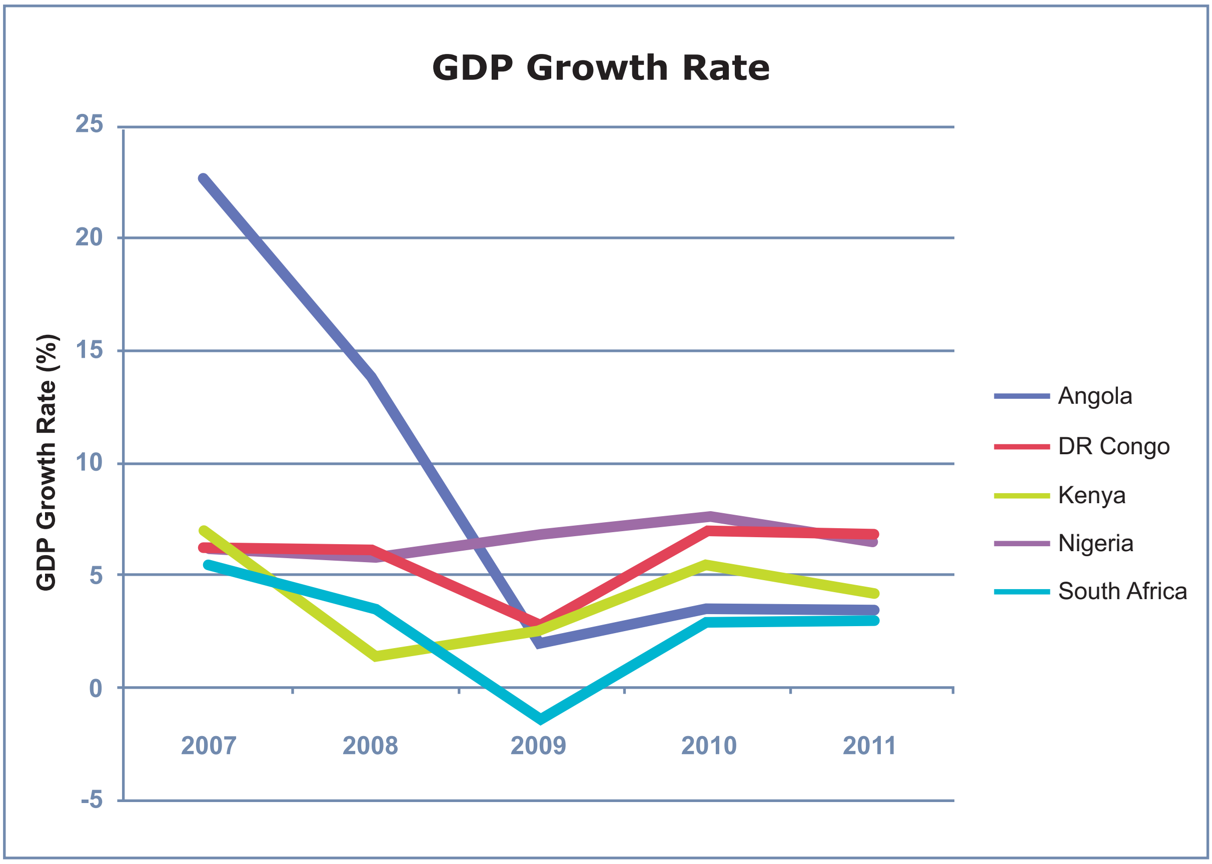
Labour Participation Rate for Population Aged 15 + (%)					
Country	**2007**	**2008**	**2009**	**2010**	**2011**
Angola	69	69	69	70	n/a
DR Congo	71	71	71	71	n/a
Kenya	65	66	66	66	n/a
Nigeria	55	55	55	56	n/a
South Africa	54	55	54	52	n/a

Gross National Income Per Capita in Current US$					
Country	**2007**	**2008**	**2009**	**2010**	**2011**
Angola	4,340	4,690	5,130	5,170	5,290
DR Congo	290	290	310	330	350
Kenya	1,540	1,560	1,580	1,640	1,720
Nigeria	1,860	1,990	2,040	2,140	2,300
South Africa	9,620	10,090	10,040	10,330	10,790

Imports of Goods and Services as a % of GDP					
Country	**2007**	**2008**	**2009**	**2010**	**2011**
Angola	44	51	55	43	41
DR Congo	38	39	30	39	37
Kenya	38	42	37	38	46
Nigeria	26	29	29	31	27
South Africa	34	39	28	28	29

Source: The World Bank

The tables on the opposite page illustrate the economies of the 'Big Five' Sub-Saharan economies. South Africa is the wealthiest and has the largest economy in terms of Gross Domestic Product (GDP) and Gross National Income Per Capita (GNI). The biggest exporter, relative to its GDP, was Angola, closely followed by Nigeria. Interestingly, Angola is also a large importer but has retained an overall positive net trade balance for the period from 2007 to 2010. The Democratic Republic of the Congo has the highest labour participation rate compared to the other states, the definition of which includes employed people and those who are unemployed but looking for employment.



Source: derived from World Bank data

The graph above shows that Angola experienced a major decline in economic growth between 2007 and 2009. Other countries that were hampered by the global recession included South Africa and the DRC. The Nigerian and Kenyan economies were the most resilient and didn't experience negative growth compared to their counterparts. All five economies followed the same upward trend in 2009, but have remained more or less stagnant from 2010 to 2011. (Note that these figures are based on actual fiscal measurements and are not estimates or projections).

Relative strengths and weaknesses of the big five

Strengths	Weaknesses
South Africa	
• One of the most advanced economies in Africa • Significant manufacturing and service sectors • Diversified economy • Least volatile GDP growth • Lowest political risk • Well developed financial, legal, communications, energy and transport sectors • 18th largest stock exchange in the world • Modern infrastructure • Highest GDP in Africa • Relatively well educated labour force • Endowed with substantial resources	• High labour costs • One of the most unequal countries in the world • Low GDP growth of 3.1% in 2011 • High unemployment • Government corruption • High inflation • Highly regulated labour practices and labour unrest • Infrastructure backlogs
Angola	
• Fastest growing country in Africa in economic terms • The world's fifth largest diamond producer • Large current account surplus due to oil exports • Infrastructure-focussed • Rich in natural resources • Oil-rich country • Growing middle class	• Persistent corruption • Underdeveloped financial system • High unemployment rate • Economy almost entirely dependent on oil exports • Inefficient legal and judicial system • Endemic poverty • Extremely high inflation rate (14.3%) • Poor road, rail and port infrastructure
Nigeria	
• Oil rich country • GDP growth rate of 6.7% in 2011 • Strong domestic credit available to the private sector • Relative ease of doing business • Overall government budget balance • Enabling environment for investment • Rapidly growing middle class • Large domestic market • Diversifying economy	• Political instability and civil unrest • Unemployment rate of 21% in 2011 • High inflation rate • Poor quality of infrastructure • Extremely high levels of poverty • Poor education system and low levels of education
Kenya	
• Gateway to East Africa • GDP growth rate of 4.5% in 2011 • Large services industry • Kenyan telecommunications company launched M-PESA (mobile phone transfer service) • Low labour costs in manufacturing • Competitiveness strengths in certain clusters – including cut flowers, coffee and tea • Strong and entrepreneurial local businesses • Relatively well educated labour market • Rapidly growing consumer base	• High unemployment rate of 40% • Half of population living in poverty • Inflation rate of 11% • Low levels of infrastructure investment • Unstable political system
Democratic Republic of the Congo	
• Rapid economic growth (avg 7% per year since 2000) • Controls half of the world's cobalt reserves • Controls a quarter of the world's diamond reserves • Hydro electric power • Vast store of natural resources and mineral wealth	• Lacks strong, stable government and public institutions • Major challenge of youth unemployment • Low human capital • Political uncertainty • Lack of adequate infrastructure • High poverty levels

Investing in Africa

Africa's long-term growth is fuelled by foreign direct investment which has increased to a level almost as large as the investment flow into China. Africa's consumer sectors present the largest opportunity for both local and foreign investors as the consumer market continues to grow at a rapid pace. According to a recent report from the United Nations Conference for Trade and Development (UNCTAD), foreign direct investment inflows declined in 2011 to US$42.7 billion, the third successive year that a decline has been experienced. However, this was largely due to the issues and challenges facing North African countries. Interestingly, Sub-Saharan Africa's foreign direct investment inflows increased from US$29 billion in 2010 to US$37 billion in 2011.

Only three countries in Africa had investment levels exceeding US$3 billion for the year. These countries are South Africa, Nigeria, and Ghana. The top five host countries for investment are, according to ranking, Nigeria, South Africa, Ghana, the DRC and Algeria. UNCTAD measures the success of economies in attracting foreign direct investment by means of its FDI Attraction Index. In Africa, the DRC ranked the highest at eleventh position on the global scale, with Ghana following closely behind the DRC at sixteenth position.

Nigeria, which emerged as the number one global destination for foreign direct investment in 2011, with $8.92 billion in FDI, has attracted investment from countries such the United States, the United Kingdom, China and others. The main sectors that have drawn this investment are the oil and gas sectors. South Africa, which was ranked as the second biggest investment destination in Africa for 2011, with US$5.81 billion of investment, is the only country in the top five that is not an oil and gas-producing nation, instead attracting investment into its mining, manufacturing, retail and renewable energy sectors.

African Competitiveness

The recently released Global Competitiveness Report by the World Economic Forum ranked countries according to competitiveness levels using the Global Competitiveness Index. South Africa was ranked the highest from the African continent, at 52nd position globally, having dropped two places over the last two years. The greatest climb in ranking was experienced by Rwanda, which moved up 17 places in three years, ranking at 63rd place in 2012. Other African countries in the top 100 include Botswana, Namibia and Gabon. Interestingly, of the 10 new entrants to the list, eight of these are African countries. Although Nigeria and Ghana have attracted large amounts of investment in recent years, their rankings in the Global Competitiveness Report sit at 115 and 103 respectively.

According to the index, South Africa is the highest ranked Sub-Saharan African country and is ranked third amongst the BRICS group of countries. The report and the various indices used show that the country has fared well with regards to its measures of institutional quality and factor allocation, such as intellectual property protection, property rights, the accountability of private institutions and efficiency in its goods markets. South Africa has also been praised for its financial market development, business sophistication and innovation capabilities.

Although South Africa may be the most competitive country on the continent, a number of issues need to be addressed in order for it to maintain this position. These issues are mainly in relation to labour market efficiency, where the country was ranked at 113. The recent problems surrounding increased labour unrest have exacerbated this issue. Also related to labour issues in the country are rigid hiring and firing practices, where South Africa ranks at 143rd position, and the lack of flexibility in wage determination by companies (140th position). It is clear that these labour-related issues have impacted negatively on the country's attractiveness as an investment destination and pose major challenges regarding job creation.

The country needs to focus on increasing business confidence levels by encouraging university enrolment and improving education standards, further upgrading infrastructure, reducing barriers to entry and the cost of doing business, as well as addressing crime and the poor health status of its workforce.

The Gateway to Africa

There are a number of questions posed regarding the position of South Africa as the so-called 'gateway' to Africa. Firstly, is South Africa still considered the key gateway to Africa, or is the country's position under threat? Secondly, is there another candidate in Africa for this position? Thirdly, is there a need for a gateway to the continent? And, fourthly, who do other non-African countries view as their gateway into Africa?

South Africa's superiority in Africa has led to it being referred to as the 'gateway' to Africa due to its world class financial systems, relatively good infrastructure, advanced industries and linkages with the rest of the world. South Africa is content with this position, and may perhaps have become complacent. The country has long been seen as the key entry point into an uncertain African market, providing a platform for foreign direct investment inflows and outflows in the continent. South Africa's low barriers to entry in terms of culture, language, communication, technology, financial systems, rule of law, business environment and political and macroeconomic stability have always been the driver of growth in the country, and have worked as a filtering mechanism for investment into other African countries. South Africa displays many of the characteristics of a developed nation, with a strong secondary and tertiary sector being one of the reasons for its dominance and superiority in Africa.

According to a recent World Bank survey on trade efficiency, South Africa has outperformed the rest of Africa. South Africa was amongst a group of countries that had improved

on their previous performance. This is despite the fact that the country has experienced a slowdown in its trade logistics performance in the wake of the global recession. Another factor contributing to the country's position as the gateway to Africa is its membership in several blocs of emerging economies. South Africa has been a part of IBSA (India, Brazil and South Africa) since 2003 and has recently joined the BRIC (Brazil, Russia, India, China and South Africa) group of countries, now known as BRICS. South Africa was allowed entry into the BRICS group due to it being the most developed country in Africa.

There are several counter-arguments for why South Africa should not be considered as the gateway to Africa. One argument is that South Africa is not the only entry point into Africa, particularly with the increasing competitiveness of other African countries in recent years, as well as the diversifying of their economies and the lowering of barriers to trade. Additionally, other African countries are attracting investment globally, have expanded their domestic industries and are constantly improving their infrastructure. Significantly, South Africa does not feature on the list of the fastest growing African countries. The country's growth rate of 3.4% in 2011 compares unfavourably to some other African countries whose growth rates range from 6.9% to 13.5%. *The Economist* recently ranked the world's fastest growing GDPs between 2001 and 2015. Seven African countries appeared on the list, with South Africa not even featuring. The seven countries are Nigeria, Ethiopia, Mozambique, Zambia, Tanzania, the DRC and Ghana.

This has much to do with the fact that two major emerging countries, China and India, who have played an important role in African investments, have been dealing directly with African countries, as opposed to using South Africa as the stepping stone into the continent. African countries have taken advantage of their bilateral relations with these two countries. China is currently Africa's largest trading partner, with a number of bilateral agreements having been signed between China and other African countries.

As a result, countries that did not previously have the capacity to improve their competitiveness within Africa and the rest of the world, have now been granted opportunities to expand their industries and upgrade their infrastructure. If South Africa's position as gateway to the continent is under threat by another African country – if indeed the need for a gateway exists – then Nigeria would be the most serious contender.

Nigeria is one of the countries that made it onto the list of the fastest growing economies in the world. South African companies are continuously facing increased competition from Nigerian companies, currently ranked as the second largest economy in Africa after South Africa. Nigeria could feasibly overtake South Africa if it continues to grow and evolve at its current pace. Nigeria, like South Africa, faces challenges relating to crime and corruption. Yet the country's high growth rates, rapidly growing middle class, expansion of consumer driven markets and increase in domestic industries place the country at the forefront of the race to be the economic powerhouse of Africa.

Others may argue that there is no need for any one country to be regarded as the gateway to the continent, as many countries in Africa are showing great economic potential and other non-African countries are accessing African countries directly without using one specific country as a springboard. Countries around the world with an interest in investing and trading with African countries have also established their own gateways to the continent. Brazil's gateway to Africa is Portuguese-speaking Angola, while China and India, as mentioned earlier, have directly accessed African countries without a need for such a gateway.

Durban: Logistics Gateway to Africa

In a recent article published in *The Star* newspaper, written by Jacqueline Musiitwa and Charles Wachira, a powerful statement was made with regards to hubs and gateways. It stated, "Countries are not hubs or gateways, but rather cities are." This statement focuses on the role of cities within the context of being Africa's hub. Currently, Africa does not have a central hub, as there is no specific city that stands out above the rest. In recent years, the growth of African cities has accelerated, particularly as they compete for capital and investment. As cities start focussing more of their competitive efforts on economic grounds, the continent will be sure to grow in the future.

Given South Africa's current status as the gateway to Africa, cities within the country should be using this position as a first-mover advantage to stake their claim as the region's gateway. Durban is currently regarded as the logistics hub for the region, due to its port and logistics framework. The Port of Durban is currently the 46th busiest port in the world, the busiest general cargo port in Africa and home to one of the largest and busiest container terminals in the Southern Hemisphere. According to the *8th State of Logistics Survey*, the Port of Durban is on a par with ports in India and Brazil, while Durban and Mauritius are also leading in terms of maritime connectivity for the SADC (South Africa Development Community) region.

On the downside, several factors challenge Durban's position as the logistics hub for Africa, particularly the high port-related costs and inefficiencies. The Port of Durban charges the highest port docking fees of the top 100 harbours in the world. According to the Ports Regulator of South Africa, Transnet charges an average container vessel $182 151 (about R1.3 million) to dock in the Durban harbour, more than double the global average of $86 251. In addition, the port faces capacity constraints, although Transnet is seeking to eliminate these constraints and bottlenecks by building the new Dig-out Port. This should assist with the issues around congestion and delays. The Dig-out Port is expected to address capacity constraints up to the year 2040, according to Transnet.

In order for Durban to cement its position as a logistics hub or gateway to Africa, the challenges relating to port fees and capacity constraints need to be addressed. Durban needs to improve its competitiveness and adhere to best practice if it wants to retain this position, as there are other potential competitors in Africa such as Maputo which may one day attempt to challenge that position. Another cause for concern, albeit good for Africa as a whole, is the construction of the Lamu Port in Kenya. This port is expected to act as the main gateway to Africa's Great Lakes region, which includes the Horn of Africa and Eastern and Central Africa, with China and other countries expected to invest substantially in the project. However, hope is not lost for Durban – a first-mover advantage needs to be established and Durban is in a great position to institute this.

Conclusion

The African success story continues. The continent is alive with possibilities and is fast becoming a true 'rags to riches' story. The gap between African countries and their emerging counterparts is closing. The 'Big Five' of Africa have led the pack, with many other African countries following suit. Countries around the world view Africa as a new investment opportunity, and are accessing African countries directly or using the dominant player, South Africa, as the springboard into the continent. Moving forward, South Africa may see its position as the gateway to Africa being threatened and, as such, should cement its position on the continent by leveraging its citys' hub positions as key drivers of growth.

There are numerous challenges facing the continent, the country as well as the city of Durban. It is time that these challenges are transformed into opportunities in order to thrive on a continent rich with possibilities.

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