

Congressional Black Caucus Foundation African Globalism Committee (CBCF-AGC) Forum

Beyond the World Cup:
Investment and Cultural Opportunities between Africa and the U.S.

Panel:

International Dynamics:
The Role of the American Private Sector in African Development

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BEYOND THE WORLD CUP:

The true legacy of the 2010 FIFA World Cup will emerge from the successful showcasing and the world's realization of South Africa's and Africa's hospitality, security, ingenuity and capacity to deliver on its promise.

There is little doubt that the world harbors negative perceptions about the continent, much of it created by decades of one-sided media coverage solely focused on Africa's incapacities and calamities. The continent thus came to be associated with chaos and civil unrest, starvation and death.

Hosting the world's greatest sports spectacle on the continent with an army of 20,000 fans and half a million tourists in tow presents an unprecedented opportunity to showcase the other mostly unheralded side of Africa: bustling cities, world class facilities, thriving commerce and industry, a spirited, driven, enterprising people that are alive with possibility. A positive shift in perception arising thereof, however slight, is likely have significant and far-reaching outcomes that will be felt beyond 2010.

On this score, as regards mega-events and the impact of ensuing perceptions, the 2000 Olympics hosted by Sydney, stands out as a case study. Leading to and during this Olympic event, Tourism Australia executed a strategy focused on promoting Australia through an intensive global media relations program in which the American private sector played a critical role.

As part of this campaign for instance, US broadcaster NBC agreed to promote Australia by linking Brand Australia with the Olympic Brand, a campaign that projected Australia as a vibrant, friendly, colorful, free-spirited place that offers a sophisticated lifestyle. Visa, on the other hand, launched an aggressive marketing campaign in 1999 in partnership with Tourism Australia, promoting Sydney and Australia to a worldwide audience using the '*Australia prefers Visa*' platform. This platform colorfully featured and highlighted both the destination and Visa's sponsorship in the minds of millions of consumers globally and generated an estimated US\$40 million in annual marketing value for Australia.

The success of Australia's tourism branding campaign was reflected in the steady rise of Brand Australia in the Nation Brand Index (NBI) over a period of five years, until it was voted the most favorite tourism destination by international audiences in the second quarter of 2005. Ten years later, the campaign is still going strong and registering notable impact. Visa and Tourism Australia have just recently launched the *Australia Prefers VISA 2009* campaign in Beijing. The campaign provides offers of unique travel experiences to Australia to Visa's 500,000 Platinum and Infinite credit cardholders in China.

South Africa and Africa must - and can - grasp the opportunity provided by the 2010 FIFA World Cup to do the same, to change the stifling and encumbering negative perceptions of the continent to that which will inspire greater interest, imbue confidence and ultimately attract long-term investment. As was the case in Australia, the American private sector can play a critical role in enabling this objective through drawing up innovative positive associations. It is worth noting that in the small

exclusive club of FIFA World Cup sponsors are four key American enterprises—Visa, Coca Cola, Anheuser-Busch and McDonalds.

In addition to providing a potent platform to counter longstanding negative perceptions of Africa, World Cup 2010 encompasses another key catalyst for investment and long-term growth. Preparations for the 2010 FIFA World Cup have necessitated massive public investment through construction of public infrastructure—stadia, roads, railways, airports, security apparatus—and has stimulated increased private investment in hotels, media, communications amongst other sectors. In the short term, these vital and timely undertakings have played an integral part in dampening the negative impact of the global recession on the South African economy, helping to keep a floor under the precipitous economic fallout witnessed in the past few quarters. Consequently, it is expected that South Africa will stand as one of only a few major emerging markets in which gross fixed capital formation will remain in positive territory in 2009. Further, the World Cup event in 2010 is expected to be instrumental in leading to a relatively strong economic recovery by stimulating investment, service export growth and private consumption.

Beyond 2010 the installed infrastructure is expected to continue to contribute to economic expansion. According to the World Bank Development Report on Infrastructure for Development (1994), an investment in infrastructure has a positive correlation to GDP growth. The report contends that a total infrastructure stocks increase of 1 percent results in 1 percent increase in per capita GDP. Availability of requisite infrastructure allows for greater efficiencies in production and facilitates the redistribution of wealth which in turn helps sustain the continued improvement of a people's quality of life. Such fostering of a favourable environment spurs increased private investment, employment creation and productivity improvement, culminating in regional and national economic growth.

There is evidence from previous mega-events indicating that the host city or nation can reap long-term benefits by linking and integrating the infrastructure requirements for the event to the broader development programs of region. In this regard, the Summer Olympics in Barcelona 1992 – now touted as the best model of running successful mega-events – is said to have transformed the city from a decaying manufacturing centre into a services hub of modern commerce.

Looking at some proxy metrics, the figures show that consumption of cement in Barcelona between 1986 and 1992 went up by 250 per cent as the city prepared for the Games. More crucially, consumption did not stop after the Games and by 2001 it had risen to 350 per cent and growing. The knock-on effect was felt in the hotel sector too where the number of beds went up from 18,569 in 1990 to 46,391 in 2004. In 1992 Barcelona was ranked 11th as a European city in which to do business as noted by the annual *European Cities Monitor*. By 2004 Barcelona was ranked 4th, just behind London, Paris and Frankfurt and was noted for having the best expatriate accommodation. What Barcelona did during the two weeks of the 1992 Games was important. What Barcelona did when the two weeks were over, was even more critical.

Beyond the World Cup, Africa is poised to leverage the ensuing uptick confidence and perception and the upgrade of infrastructure stock, especially in South Africa, to build on the positive economic growth and investment pattern that has been observed on the continent over the past decade leading to 2008.

Foreign Direct Investment in Africa

According to the report, World Investment Report of the UN Conference on Trade and Development (2009), Africa has in the past decade experienced a surge in FDI while recording high rates of return. FDI inflows into Africa rose to \$88 billion in 2008, another record level, despite the global financial and economic crisis. This increased the FDI stock in the region to \$511 billion. Cross-border M&As, the value of which more than doubled in 2008, contributed to a large part of the increased inflows, in spite of global liquidity constraints.

The booming global commodities market the previous year was a major factor in attracting FDI to the region. The main FDI recipients included many natural-resource producers that have been attracting large shares of the region's inflows in the past few years. As a result of the commodity price boom, income on inward FDI grew by 31 per cent in 2007, and the rate of return on investment in Africa was the highest among developing regions in 2006 and 2007.

In 2008, FDI inflows increased in all sub regions of Africa, except North Africa. While Southern Africa attracted almost one third of the inflows, West African countries recorded the largest percentage increase (63%). Developed countries were the leading sources of FDI in Africa, although their share in the region's FDI stock has fallen over time.

Despite higher inflows, Africa's share of global FDI remained at about 3 per cent, with transnational corporations (TNCs) from the United States and Europe being the main investors in the continent, followed by African investors, particularly from South Africa. There is also growing investment from Asia. UNCTAD's World Investment Prospects Survey 2008-2010 showed that almost all TNCs plan to maintain or even increase their current levels of investment in Africa.

In terms of policy measures, a number of African governments and their partners have continued to adopt various new laws and taken additional steps to increase trade and attract more FDI, which continues to gain in importance as a form of international economic engagement and as an instrument of economic development.

The globalization of trade and foreign investment over the past decade, as expressed in the World Trade Organization (WTO), have significantly exposed African economies to competitive pressures of the global economy. New global trading rules under the WTO present both steep challenges and fresh new opportunities to national economies on the African continent. In other parts of the industrialized world, individual country realignment to the new trading conditions have been complemented by regional trade blocs such as the North American Free Trade Association (NAFTA), European Union (EU), ASEAN and so forth to lower the cost of regional trade of member countries.

In pursuing this objective, there are a variety of trade instruments that countries in recent years have begun to develop – the most common of which are Economic Development Zones (EDZ), Free Trade Zones (FTZ), Export Processing Zones (EPZ) and Special Economics Zones (SEZ). Although all these instruments are differently structured and operated, they share a similar objective in the promotion of trade integration and are widely accepted as one means of increasing the ability of African countries to attract new foreign direct investment into specific locations.

However, although the objective is noble, the resultant proliferation of small economic zones is counter productive. Africa now has over 60 economic zones located across 30 countries. Most zones are in fact very small operations covering a land area of less than 1000 hectares, with very specific economic focus usually centered on access to a natural resource.

The complexities and limitations of market fragmentation increase exponentially when the details of a myriad of bilateral arrangements and economic partnership agreements (EPAs) with outside parties such as US agencies and the European Union are taken into account.

The South African Department of Trade and Industry, through The Enterprise Organisation, has long supported the notion of stronger links among the various economic free zones in an effort to maximise collaboration in terms of policy development and marketing initiatives. Africa needs to construct economies with different and a more attractive market size with supporting structures to enhance integration.

American Private Sector View of Africa

The US through its respective agencies and also its private sector has notable influence on markets and associated policies around the world including Africa. In this regard the American private sector can contribute the discourse and actively engage in promoting and enabling efforts to consolidate markets on the continent.

Writing in the company's Global Outlook Report (2007), Samuel J. Palmisano, Chairman and Chief Executive Officer IBM Corporation notes that, "the kind of economic change taking place in Africa today has the potential to affect every company, organization, and individual on the planet. As such, steering that change in positive directions requires adaptability, innovation, and the collaborative participation of many constituencies. Through the Global Innovation Outlook, IBM is already working on market initiatives and thought-leadership projects together with business leaders, policy makers, academia, and the non-profit sector."

Select and significant players from the American private sector are evidently already on the ground and working in partnerships to enable Africa to consolidate and enhance the economic gains and market advancements of the past decade.

However, if one were to go by recent findings of a study commissioned by the American Chamber of Commerce and published in a report titled "*Inside the Boardroom: How Corporate America Really Views Africa*" the American private sector is still highly skeptical of Africa as a market.

The study reveals that five factors influence the decision of U.S. corporations to invest in Africa:

- § Rule of law—A strong consensus exists among the respondents that the rule of law does not prevail to the degree required to make Africa an attractive investment destination. This applies to corporate, societal, and criminal law.
- § Attraction—Africa does not offer a sufficiently large middle class of consumers or show consistent economic growth that could promise a future market. Most African countries are small and have poor markets, and there are barriers to regional markets—such as taxes and the freedom of movement of people and goods.
- § However, Africa does offer enormous natural resources and that is an attraction.
- § Risks versus rewards—U.S. corporations look at “risk adjusted ROI” when considering Africa as an investment destination. Given the currently perceived risks in Africa, the rewards have to be very high to make it worthwhile to invest. Presently, U.S. corporations say that there are very few visible promises of high future returns to justify significant interest in investing.
- § Supportive business framework—Transportation and communications infrastructure, trained or trainable human resources, and equitable trade and employment practices are essential elements to support corporate investment. Currently, these elements are insufficient.
- § A welcoming environment—In order for U.S. companies to employ locals, African countries must do a better job of providing education and health services to the potential workforce. By making it easy for companies to set up and do business, African countries will show a willingness to encourage FDI.

Overall, U.S. businesses do not view Africa as an attractive place to invest. The image of lawlessness, corruption, unstable governments, an inadequate infrastructure, uneducated or untrained people, and an unwelcoming government attitude toward business serve as major deterrents.

Investment Impediments

Respondents to this survey honed in on three major impediments to American investment on the African continent:

- § Difficult business case—Planning for investment in Africa is fraught with uncertainty because the risks seem too high and the returns too inconclusive to merit significant capital allocation. Executives find that any investment in Africa needs a lot of hard selling within a corporation—the push-back is that it is too much trouble for an unreliable promise of return.

- § Corruption and uncertainty—The main problems concerning investment in Africa relate to corruption and the apparent lack of political will to curb it. U.S. businesses believe that these practices handicap those who will not or cannot “play the game” by these rules. In addition, returns are not reasonably ensured or sustainable because costs can often escalate for reasons unrelated to business operations and the rules can change unexpectedly. This means that the time and resources already invested could be lost.
- § Opportunity cost—Executives do not yet believe that they are at a competitive disadvantage because they are not investing in African countries. With no competitive traction, there is no sense of an opportunity being missed. Furthermore, since Africa is not selling itself overtly by asking for investment, the continent does not attract enough attention amidst competition for investment from other developing countries or regions. The only exceptions to this are China and India.

U.S. executives point out that Africa is only one of many possible destinations that American corporations consider for investment. Investment is highly competitive, and many countries are vying to become the destination of choice for capital. U.S. corporations need a strong and specific draw from Africa to make investment worthwhile. This can be the pull of a big market or a big source of critical raw materials or a belief that there is a competitive advantage to early entry into African markets. The survey data show that few of these pulls exist or are not sufficiently strong to be effective in the near term.

China’s Mark of Confidence in Africa

Though a foundation exists for this noted risk aversion with respect to Africa, credit is all due to the change taking place on the continent and the increasing realization of its vast potential. In an article for the online journal *allAfrica* in February, Oxford University economist Paul Collier and Witney Schneidman, who advised President Obama on Africa during his presidential campaign, noted that Africa now offers the world's highest rate of return on investment. "Africa, usually the poorest performing region in the world economy, is now likely to be among the best-performing," they wrote. "Moreover, the region has been largely immune from the current banking crisis...The continent's financial institutions did not venture into derivatives or sub-prime mortgages."

Shanta Devarajan, the World Bank's chief economist for Africa, says the current downturn might be unfair to the continent, since it is "not remotely Africa's fault," but it should not alter the underlying trend: "There has definitely been a transition in the last few years. The continent now has huge potential."

Perhaps the most compelling evidence that Africa is now a business destination is China's new love for it. While the old superpowers still agonize over Africa's poverty, the new one is captivated by its riches. Trade between Africa and China has grown an average of 30% in the past decade, topping \$106 billion last year. Chinese engineers are at work across the continent, mining copper in Zambia and cobalt in the Democratic Republic of Congo and tapping oil in Angola.

Nor is this merely exploitative? China has bought its access by agreeing to create a new infrastructure for Africa, building roads, railways, hospitals and schools across the continent. The current global economic crisis is not expected to affect China's march in Africa: on the contrary, with the West's plans in Africa on hold at best, Beijing views it as an opportunity to extend China's lead. "We will continue to have a vigorous aid program here, and Chinese companies will continue to invest as much as possible," Chinese Foreign Minister Yang Jiechi said in South Africa in January. "It is a win-win solution." Dambisa Moyo, who wrote *Dead Aid*, says those who need convincing about Africa should ask themselves if they are convinced about China.

Time Magazine has recently published a list of the "*10 Ideas Changing the World Right Now.*" Sitting at center of this list is: **Africa, Business Destination.** The idea is that foreign investment is finally overtaking foreign aid in Africa, thanks to a high potential return on investment and the fact that Africa largely escaped the economic crisis that is crippling the developing world.

The problem in Africa has never been growth potential, but rather, translating that potential into real results in FDI inflows and GDP growth. Poor macroeconomic environments, political instability and conflict, all of which have afflicted the African continent, can scare investors and cause countries to fail to live up to their potential.

However, despite all this, there are positive changes and gain on the continent; something today that should create optimism about the continent's ability to transform potential into reality.

Cognizant of this, the Chinese State and Chinese companies have been investing heavily in Africa for the past few years and building the infrastructure needed to support their investments. Beijing recently announced plans to increase its Africa Investment Fund, to fill the gaps as Western investors leave the continent due to the financial crisis. A recent New York Times article suggested that China is using the economic downturn as an opportunity to strengthen and restructure its domestic economy, that China's leaders are turning the economic crisis into a competitive advantage. The country is using its nearly \$600 billion economic stimulus package to make its companies better able to compete in markets at home and abroad and increasing its investment in principal target markets; this means that Chinese investment in African markets is set to continue and grow.

It is the kind of conundrum that keeps company executives and investors in the West stumped; Africa is the world's last untapped market, but the continent's reputation for corruption, lack of infrastructure, and instability make investment look risky. A steady stream of negative news from the continent doesn't help and for a long while it seemed like there was no opportunity cost to staying out of Africa. However, recent success stories of choice industries and Chinese investors are beginning to focus minds. Many large multinational corporations are beginning to wonder if they are missing out on the next big thing.

To this end U.S. companies in some sectors, particularly technology, now regard Africa as the last frontier for growth. These companies, such as Google, believe that Africa, with its market of about 1 billion people, can no longer be ignored and are proactively working to advance the markets and grow their interests therein.

Although IBM has been doing business in Africa for more than half a century, the reality of global integration is changing the way we think about the opportunities available to our company in Africa, about the continent's potential for growth and progress, and about the role that Africa can play in the global economy and society of the 21st century.

It wasn't long ago that this contemplation would have seemed irrelevant to a business audience. Most of the world considered Africa an economic backwater. Just a decade ago, economists would have scoffed at predictions of steady, five-percent growth for the continent. Civil war and corruption made the emergence of stable, open government seem doubtful.

Today, the conversation around Africa is changing dramatically. Many regions are thriving as trade with China and other nations increases at double-digit rates, democracy and open elections are more widely embraced, and infrastructure improvements connect Africans to the rest of the world. For these and other reasons, Africa became the logical focus for IBM's 2007 Global Innovation Outlook™ (GIO), one of our company's premier vehicles for collaborative innovation

The results of our "deep dives" in Africa, covered eight factors critical to the continent's future: skills; value chain; infrastructure; wireless; informal economies; women; finance; and non governmental organizations. Each factor presented both challenges and opportunities.

Prompted by this year's GIO, we are stepping up our own presence, working with key partners, and exploring the potential for game-changing innovation. In the end, the reason for this is pretty simple: We believe that our company and our people can make a significant difference in accelerating economic progress in Africa, and that doing so will benefit both IBM and the entire planet. Speaking for my fellow IBMers, we are eager to join with others who share that hope in pursuing this historic opportunity.

Samuel J. Palmisano
Chairman and Chief Executive Officer IBM Corporation

Foreward for IBM Global Innovation Outlook Report 2007