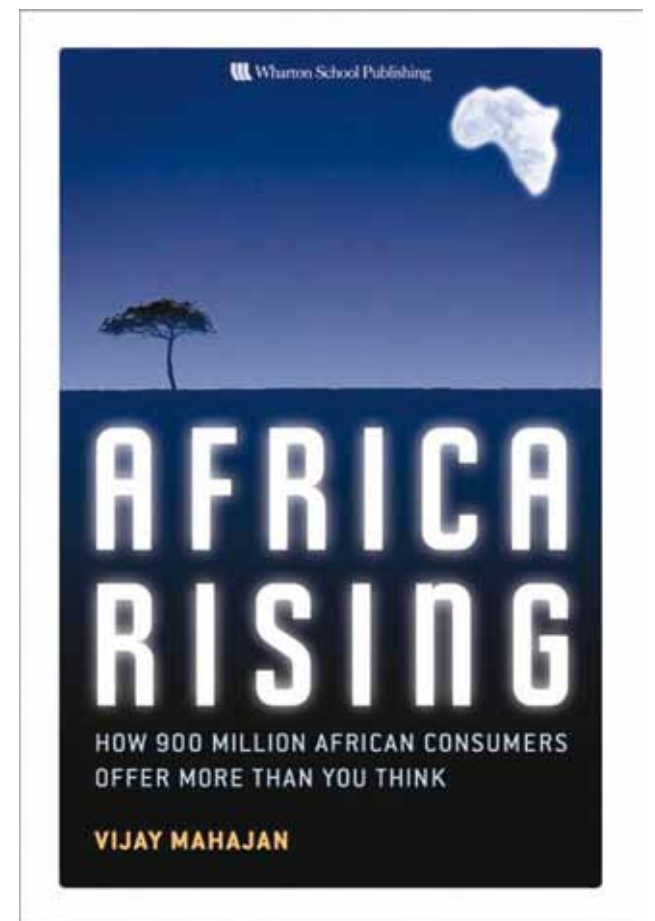


SHINING LIGHT ON THE SHADOW ECONOMY



GROWTH ON THE AFRICAN CONTINENT WILL EXCEED THE GLOBAL AVERAGE THIS YEAR FOR ONE OF THE VERY FEW TIMES IN HISTORY. BUT, WHILE THIS STORY IS LITTLE KNOWN AT A POPULAR LEVEL, THERE ARE SIGNS THAT THE CONSEQUENCES ARE BEGINNING TO PENETRATE POPULAR WISDOM, SHOWING UP IN ODD AND INTERESTING PLACES. ONE SUCH EXAMPLE, WRITES **TIM COHEN**, IS INDIAN BUSINESS ACADEMIC VIJAY MAHAJAN'S BOOK *AFRICA RISING*

In 2003, the *Economist* magazine famously described Africa as “the hopeless continent”, pointing out that almost every country in sub-Saharan Africa was involved in a war or a conflict. Almost on cue, that moment became a pivot point, and the continent started turning around, almost as if to prove wrong the acerbic assessment of a publication emanating from a former colonial power.

As economic growth underpinned by manufacturing prowess started taking off in the East, commodities started to win the kinds of prices in the global supply chain that they have long deserved. The increase in commodity prices since 2003, and also the increased quantity of demand, has provided the ballast to underpin African economies, allowing them to diversify somewhat and improve governance.

Economists close to Africa have been aware of this trend for years, and it has occasionally made its way into the analytical sections of the Western media. De Beers chairman Nicky Oppenheimer wrote in an editorial that appeared in the *New York Times* in 2007 that two years previously, at the Group of 8 summit meeting in Gleneagles, Scotland, the Commission for Africa had described Africa as “a scar on the conscience of the world” and repeated the *Economist's* dreary categorisation.

But since then, Oppenheimer noted, economic growth in Africa had averaged over 5% annually – a development that he said had little to do with aid flows. This growth rate was a step up from the dismal 1980s and 1990s when it managed little over 2%. “And the number of conflicts is an exact corollary of the continent’s better economics – down by two-thirds from a peak of 12 in the late 1990s. Today, for every African failure, there is a steady stream of successes, and for every African autocrat, many more democrats.

January 2009

German Chancellor Angela Merkel unveils an economic stimulus package worth about €50bn (\$67bn; £45bn) to kick-start Europe’s largest economy.



14 January

The UK government unveils a plan to guarantee up to £20bn of loans to small and medium-sized firms, to help them survive the downturn. US Commerce Department figures show retail sales fell by more than expected in December, as shoppers cut back on spending over the Christmas period. The news prompts big falls in share prices in the US and Europe.

15 January

The European Central Bank (ECB) cuts eurozone interest rates by half a

percentage point to 2%. The ECB has now reduced rates four times from 4.25% in September as it continues efforts to bolster the eurozone economy.

16 January

The US government reaches an agreement to provide Bank of America with another \$20bn in fresh aid from its \$700bn financial rescue fund. The emergency funding will help the troubled bank absorb the losses it incurred when it bought Merrill Lynch. Struggling US banking giant Citigroup announces plans to

split the firm in two, as it reports a quarterly loss of \$8.29bn (£5.6bn).

24 January

President Obama pledges that his economic recovery package will be at the centrepiece of his administration. Obama says that 80% of the spending will take place within 18 months.

28 January

World economic growth is set to fall to just 0.5% this year, its lowest rate since World War II, warns the International Monetary Fund (IMF).



It now projects the UK will see its economy shrink by 2.8% next year, the worst contraction among advanced nations. The International Labour Organization said that as many as 51 million jobs worldwide could be lost this year because of the global economic crisis.

Sound domestic policy always counts more than external assistance in creating the conditions for growth, stability and prosperity. More and more, that is the African norm. Failure is the deviation."

After Oppenheimer spoke, economic growth actually grew even higher in many Africa countries, reaching really eye-popping rates of over 20% a year in Angola, for example, before swooning in 2009 as their customers in other parts of the developed world started paring back during the economic crisis and commodity prices came off. Yet growth on the African continent will exceed the global average this year for one of the very few times in history.

Despite the dramatic turnaround these developments have brought, this story seems little told at a popular level. Partly, the world is consumed with more pressing issues. Yet, there are signs that the consequences are beginning to penetrate popular wisdom and they are beginning to show up in odd and interesting places. One example is Indian business academic Vijay Mahajan's book *Africa Rising*.

Mahajan's perspective is interesting for all kinds of reasons. First, he comes at Africa not from a political perspective but from a business perspective. In three years of travelling around the continent, he says he did not speak to a single politician. Neither is he particularly enamoured of aid agencies, which, he says, are run by people with big hearts but no accountability.

Second, he sees Africa from an Indian perspective. In the introduction to the book, he notes that he was very conscious of the fact that the very same negative things people used to say about India, they now say about Africa. Yet his experience of travelling around Africa on what he calls a "consumer safari" showed him something entirely different.

Third, his area of expertise in business education is marketing. There is obviously something about the way Africa is marketed which irritates him as inadequate and ham-fisted. At a function talking about the book in Johannesburg, he kept repeating: "It's celebration time in Africa. If you don't tell this story, shame on you."

His basic argument is that Africa has reached some kind of unnoticed inflection point. It is much larger, much more populous, much richer and much more profitable than most international companies recognise – apart from a handful of extraordinary international operators who actually do operate very successfully on the continent.

A good example is the sales growth of Coke for example, which has steadily increased volumes on the continent without fail since 1985, rising from 400-million cases to 1.4-billion cases in 2006.

The most contentious part of Mahajan's approach is his determination to see Africa as a place. He announces with fanfare, for example, that if there was a United States of Africa, it would be the world's tenth largest economy with 900-million consumers. That's a bit like saying, South America is a big economy; so what?

The characterisation of Africa as a place seems to play

into the particularly irritating habit that outsiders have of generalising African problems. Hence, problems in Zimbabwe, for example are typical in an African context, where no one would say Burma's problems are typical of Asia, even though autocracy is generally more evident in Asia than it is in Africa.

Mahajan himself is amazed at the sheer size of Africa, as foreigners often are, which seems to run counter to the argument that it is a place, although you do have to wonder how many Africans actually know that Europe, the US, China and India could all quite easily fit into Africa with masses of room to spare.

Yet Mahajan raises these issues because he wants to surprise people. "Africa is full of surprises," he keeps saying in his book. He also acknowledges that it would be difficult to get Americans particularly to sit up and take notice without making the comparison with China and India.

But there is a more substantive part of his argument too. He meets the pessimistic argument that Africa is filled with problem regimes, disease, cultural and religious tensions with what is happening on the ground.

Take the argument that Africa is made up of small, complex, disparate and discrete markets. On the ground, cellphone companies roam across borders, there is the growing emergence of regional groupings, and the increasing gravitation toward English as the one African language.

But the best parts of his book are those parts derived from his own experience of how India emerged. Africa is richer than people think, he says. Although about 20 of the 25 poorest countries in the world are on the continent, 13 Africa countries have a higher per capita GDP than China and 22 are higher than India.

But the important thing is that most of the wealth is tucked away in the shadow economy which he estimates constitutes between 40 and 60% of the economy as a whole. Nigerians often pay for their cars with cash. This was nothing new to Mahajan, who recalls that in India, there was for years the same kind of undercurrent economy.

The "sick states" argument is another example. Mahajan says this is not so different from India; five or six states in India are called "bamaru" or "sick" states. "Every economy has its trouble spots, and the entire opportunity cannot be judged by the outliers." The "problem" of diversity and linguistic difference should also, says Mahajan, be turned on its head. Africa's differences in language culture and religion can be troublesome but they also force cultural mingling, mutual understanding and mutual respect. Likewise, the Africa diaspora might be a depressing fact, but it is infusing Africa with money and new ideas.

Mahajan says he was amazed by the "inexplicable optimism" across the continent. Yet this optimism is an odd thing, and does not necessarily have to do with concrete life experiences, and many African countries remain some of the toughest places in the world to live. This optimism has to do with self-belief and taking charge of your life, he says.



Vijay Mahajan

The crux of this argument lies in a phrase that Mahajan picked up from Ghanaian economist George Ayittey, who distinguished between the "cheetah generation" and the "hippo generation". The hippo generation is slow moving and mired in the past, while the cheetah generation is fast moving, modern, democratically-minded, anti-corruption and pro-transparency. The hippos are fixated on colonialism and imperialism, but the cheetahs are "not only a force that is changing political and driving economics, it is also redefining the future of the African consumer market".

The demographics, and the consequences of the demographics, are really astounding. A little over 40% of Africans are younger than 15, compared to 33% in India, 28% in Brazil and 20% in China. What this means is that by 2050, five African countries will be among the world's most populous 15 countries in the world – Russia, Japan and Germany will drop out of that list.

At root, Mahajan is engaged in a process of marketing Africa, lowlighting the problems, highlighting the opportunities. But what a refreshing take. It's a view that, for all its marketing puff, has more of a ring of truth about it for the people who actually live on the continent than "hopeless continent" characterisations.

February 2009

5 February

The Bank of England cuts interest rates to a record low of 1% from 1.5% – the fifth interest rate cut since October. South Africa's Reserve Bank cuts its influential repo rate by a full percentage point to 10.5%.

17 February

US President Barack Obama signs his \$787bn (£548bn) economic stimulus plan into law, calling it "the most sweeping recovery package in our history". The plan is aimed at saving or creating 3.5 million jobs and boosting



consumer spending and rebuilding infrastructure.

11 February

Finance Minister Trevor Manuel sounds a sombre note about the effect of the global crisis on South Africa, despite reassuring the country that a sound banking system and good regulation has insulated the country, and announces a Budget deficit to fund the country's infrastructure programme, a counter-cyclical move to cushion the blow of recession, and predicts low growth in 2009 but a recovery in 2010.



February 20

Anglo American Corporation announces 19,000 job cuts, most of them likely in South Africa. Around

10,000 of those would be cut from subsidiary Anglo Platinum, the world's largest platinum producer.

February 24

The global economic crisis has resulted in declining demand for South Africa's

commodity exports, putting the country's mining and motor manufacturing sectors, in particular, under increasing pressure.