



Markets for Africa's Resources in a Global Context

A Typical Oil Field

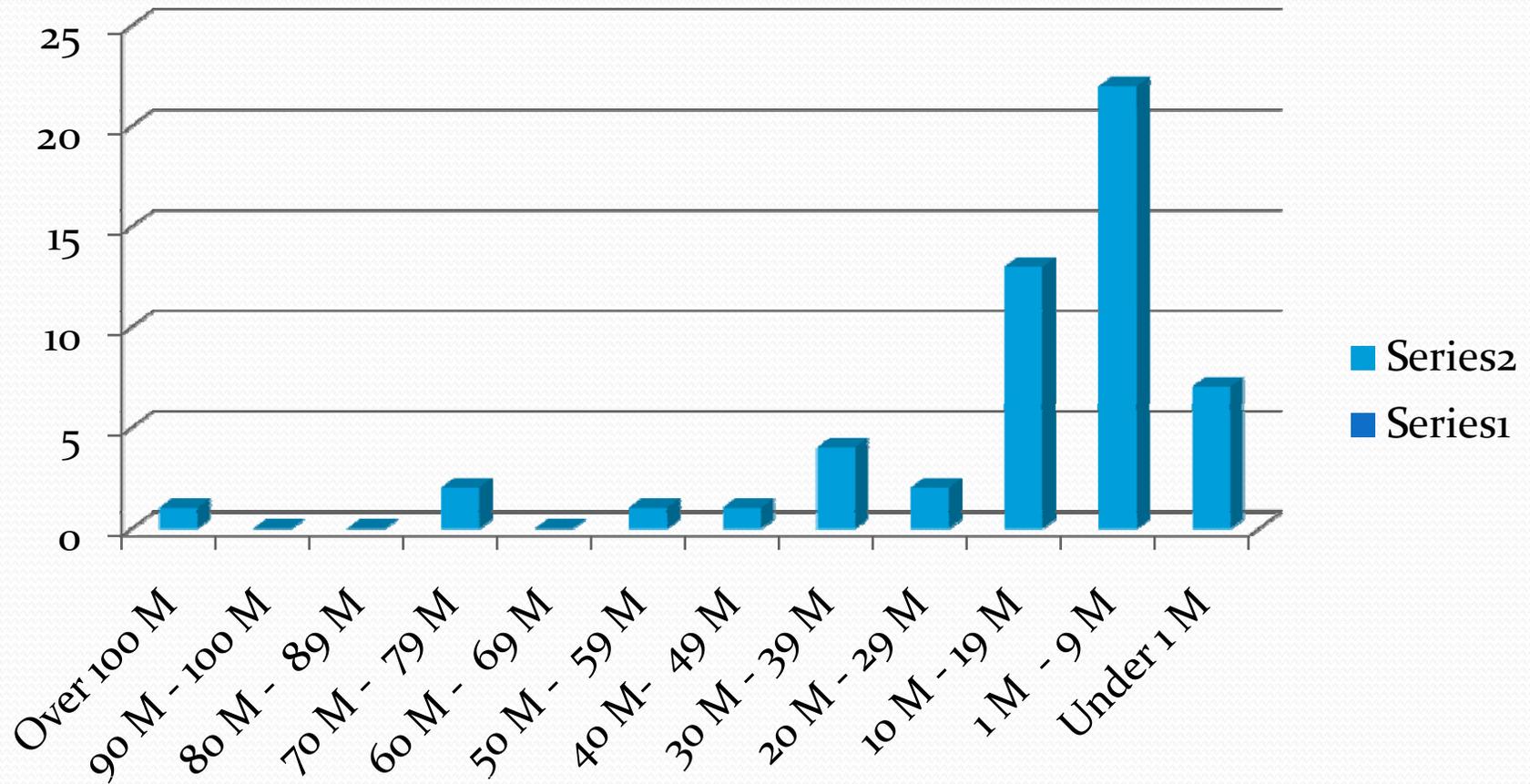




Africa Demographics

- **Africa is the second largest continent, occupying about a fifth of the Earth's land area.**
- **Total Population: 922 million**
- **Number of Sovereign states: 54**

Size of African Markets





Upstream Internationalization

- **The multimillion dollar question is:**
- **Does Africa invest in the mining and exploration of its own natural resources?**
- **Due to the capital intensive nature, high risk, specialized skills, high technology and know-how as well as delays in realizing return-on-investment, FDIs who accept these challenges dictate the markets for such resources. Eg. Oil, gold, diamond, platinum etc.**

Global Demand for Resources

- Presently much of the global demand for raw materials comes from China and India.
- These emerging economic powers account for almost 40% of world imports for precious stones and 30% for crude oil.
- 86% of African exports to China and India are oil, metals and agricultural raw materials.
- Only five oil and mineral exporting countries account for 85% of exports to China. South Africa only accounts for 68% of exports to India.



Africa's Natural Resources

- It is widely held that natural resource-based sectors exhibit lower productivity growth, are less dynamic in international trade and encompass fewer linkages with the rest of the economy, thus having lower multiplier effects.
- Africa produces 56% of the world's chromium, 54% of its diamonds, 35% of its gold and 48% of its platinum.

Gold

- **Demand for gold is widely spread around the world. East Asia, the Indian sub-continent and the Middle East accounted for 72% of world demand in 2007.**
- **55% of demand is attributable to just five countries - India, Italy, Turkey, USA and China, each market driven by a different set of socio-economic and cultural factors.**



Resource Curse

- In many African countries the discovery of natural resources has led to conflicts because proceeds from the rents have not been invested in the people or infrastructure,
- Elsewhere the same discovery has been a “blessing” rather than a curse, as economies have flourished building on the income generated by natural resource exports.



FDIs in Africa

- **According to the UN World Investment Report, 2008, FDI cash in Africa was concentrated in a few industries, notably oil, gas and mining and six oil-producing countries — Algeria, Chad, Egypt, Equatorial Guinea, Nigeria, and Sudan — hogged around 48 per cent of it.**



Western Markets

- **U.S and European firms represent roughly two-thirds of the total FDIs in Africa.**
- **More than half of European investment originates from the UK and France, going mainly to countries with which they have historic ties.**
- **French oil companies such as Total, locked out of the Middle East through France's opposition to the Iraq war, have sought solace in Francophone Africa such as Cameroon, Chad, and Gabon.**

China

- **China looks to the Democratic Republic of Congo (DRC) and Zambia for copper and cobalt,**
- **To South Africa for iron ore and platinum,**
- **To Gabon, Cameroon and the Republic of the Congo (Congo-Brazzaville) for timber.**
- **For oil, it has been wooing Nigeria, Angola, Sudan, and Equatorial Guinea and of late Ghana.**
- **China is now the second largest consumer of crude oil after the US, and was responsible for 40% of the global increase in demand between 2001 and 2005.**
- **Indeed, it imports 25 per cent of its crude oil from Africa.**



Africa Trade with the East

- **During the last decade there has been a rapid increase in trade and investment flows between Sub-Saharan Africa and Asia, especially with China and India.**
- **India has a long history of trade and foreign direct investment in especially East and Southern Africa with its many expatriate Indian communities.**



Botswana

- **Thirty years ago Botswana and Sierra Leone had the same level of per capita income. Then they both received enormous diamond income.**
- **The government of Botswana succeeded brilliantly in harnessing these revenues for economic growth for many years Botswana was the fastest growing economy in Africa.**



Sierra Leone

- **Sierra Leone had a dramatically different experience. The diamond revenues fomented violent political contests which destroyed the society.**
- **The economy collapsed, and now the country is at the bottom of the Human Development Index.**
- **The differential between the two countries in terms of per capita income is now an astonishing ten-to-one.**



Co-operations Among Countries

- **There is no uniformity in Africa to tackle the issue of trade with the West. If a unified approach is taken, Africa will command a very strong role in international trade.**
- **They will control the price mechanism rather than the price for Africa's goods and raw materials being set from outside and not from within.**



Blame Game

- **Raw materials of Africa are sold out to foreign investors because of the kickback received by the leaders.**
- **Africa cannot continue to blame the West for the imbalance in international trade, which favours the West.**

Civil Society

- **Looking at the Botswana example, The magic ingredient that makes the difference is scrutiny of government by the country's citizens (transparency).**
- **Unfortunately, scrutiny is a 'public good' – that is, if it is provided, the whole society benefits.**

Legal Framework

- **World Bank economist Harry G. Broadman writes that Chinese firms can help African countries tap into global value chains, giving them a "chance to increase the volume, diversity, and worth of their exports."**
- **But African governments must enact a series of reforms—of basic market institutions, investment regulations,**
- **infrastructure, and tariffs—to realize these benefits.**



Environmental Impact

- **The environmental impact is also alarming. The clearing of forests for timber exports increases vulnerability to erosion, river silting, landslides, flooding, and loss of habitat for plant and animal species.**
- **Gas flaring from oil production, where unusable waste gas is burned off, pumps large amounts of carbon dioxide into the atmosphere.**

Conclusion

- **Markets for Africa's natural resources abound but the major problems confronting Africa are the lack of Value-addition, lack of negotiating and bargaining skills, lack of vision by leaders, corruption, and sound policies and legal framework.**
- **With transparency with its citizenry, Ghana's oil find will be a "blessing" instead of a "curse".**