Why take an interest in Africa's rise?

Oliver Hartwich | The New Zealand Initiative | 06 June 2016

In 1965, South Korea and Kenya had more in common than they have today. In summary, both countries were poor. And both had a nearly identical per capita GDP of just 105 current US$. Ever since, South Korea's per capita GDP has shot up to $27,900, according to World Bank data. Kenya, meanwhile, has only reached $1,350 - yet.

The word 'yet' is important. As we know from investment advice disclaimers, "past performance does not necessarily predict future results". Indeed. For African countries such as Kenya, the future may well be much brighter than the past. That welcome prospect creates opportunities.

At least, this is the firm conviction an outstanding Taranaki-born New Zealander, Stephen Jennings. Jennings knows more than most of us about development economics, business and emerging markets. Armed with a Master's degree with first class honours in economics from the University of Auckland, Jennings started his career at the New Zealand Treasury before joining share-broking firm, Jarden & Co (now First NZ Capital).

Jennings then transferred to London with Credit Suisse First Boston working on transactions in central and eastern Europe - and then to Russia in 1992. In Moscow, he became a leading broker and, in extraordinary challenging circumstances, one of New Zealand's richest people. He did so by minimising his involvement in government-related activities.

A few years ago, though, he severed his financial ties with Russia and moved his business focus to Africa. He did so not despite but because his experience in Eastern Europe had demonstrated to him that competitive commerce, given enough oxygen, can help lift people out of poverty even when starting circumstances are formidably unfavourable. But of course, as the case of Russia demonstrates, the supply of such oxygen can be tenuous.

"Africa rising" has been a catchphrase since the beginning of this century. It is the idea that Africa, and especially Sub-Saharan Africa, could be to the 21st century what South-East Asia was to the second half of the 20th century. Or, put differently, that countries like Kenya could be the new South Korea.

In a way, our complacency makes it hard to imagine that Kenya might be among the world's leading industrialised nations in another 50 years. But then again, anyone who predicted in 1965 that we would use Samsung and LG electronics and drive Hyundais and Kias would not have been taken seriously either.

The truth is that Africa's per capita GDP is so low that there is enormous catch-up potential via commerce, given the chance. This is increased by the fact that Africa has young and growing populations, whereas many developed populations are entering a demographic winter.

Finally, the growth of competitive commerce can swell the need and pressure for better-government policies and institutions. After all, good market institutions, good governance and liberal democratic values are precisely the values and institutions that previously fuelled economic development in Europe, North America and Asia.

It is odd that this latter factor has been overlooked by Western elites, charities and governments for so long. When they were talking about African development, they emphasised some kind of sponsored development. It was either government aid projects that were supposed to do the trick of catapulting underdeveloped economies into a new sphere. Or, more recently, it was the hope that philanthropic giving would achieve the same goal. This is what Jennings has called "missionary economics".

The failings of government aid are well documented. One only has to read Dambisa Moyo's Dead Aid or any of William Easterly's books such as the Tyranny of Experts. Yet the discouraging story of government aid also points to limits to private aid. Its philosophy is still that outside help is required in order to get some hitherto underdeveloped countries to move forward. The old saying that "trade is the best form of aid" makes an important point.

If the external aid approach was right, no economic development would have ever happened in the first place. Any growth would have always required some external push to get it going - which would not explain much really, it would only end us in an infinite regressive dead end.

A more promising way to think about economic growth is to think of it as emerging spontaneously, albeit from barely propitious circumstances. In other words, countries determine their own fortunes. By creating circumstances that foster healthy commerce, countries can hope to see their people emerging from poverty.

It would smack of racism to assert that Africans will always be reliant on external factors for their development, be it aid or philanthropy. Rather, one should expect the very same factors that fostered economic development in the West to also foster economic opportunities for Africa. But of course, each country has to find its own path towards them.

This is where Jennings' business activities come into play. Jennings is active in Africa for a very noble goal - to make money out of helping Sub-Saharan Africa to grow. Profit is the test of whether a business's customers got more value from the product that it cost to produce. For better or worse, it is a more powerful human motivation than altruism. The profit motive under competitive circumstances is the invisible hand that Adam Smith wrote about - and it is what drove New Zealand and other developed nations to prosper.

In pursuing profit from socially beneficial commercial activities, Jennings and other capitalists can hope to render a greater service to Africa than can government aid officials and private philanthropists. This is not to disparage the best of those activities for addressing symptoms. But flourishing capitalism can alleviate the causes of those symptoms. It can genuinely make the continent much more prosperous, self-reliant and resilient.

To put it another way, Kenyans may be poorer than Koreans but they are not less intelligent. They are less developed than Britons and Americans but given better economic and political institutions, they will not remain so forever.

Jennings has made it his mission to take part - and foster - this African transformation. His company is planning, designing and marketing entire new cities in countries such as Kenya. In doing so, he is enhancing the quality of housing for self-improving Kenyans and, in proportion to his success, encouraging others to invest in Africa. Few if any would say that task is easy.

However, if these are the opportunities and if Africa is indeed the new Asia, then why is it that we do not pay much attention to Africa?

Part of the answer is that Africa has long had a depressing image. When you hear the word 'Africa', you think of malnourished children, poverty and charity appeals. The often well-meaning appeals for help have stigmatised Africa. Another reason for our neglect of Africa may be our closer proximity to Asia. We have been following Asia's rise more closely because it happened on our doorstep (or at least not too far away from it).

It is high time to leave these stereotypes and patterns behind and take a fresh look at Africa - it's opportunities, its challenges and its future. And no one would be better placed to tell a New Zealand audience about it than Stephen Jennings, which is why The New Zealand Initiative is excited to host Stephen Jennings for a dinner lecture in Auckland on 14 July. [Whether or not you are a likely investor in Africa, it's a subject worth learning more about, so do join us - Ed].

Kenya is not South Korea. But it or some other Sub-Saharan country could be the next growth miracle that no-one saw coming - until it happened.

Dr Oliver Hartwich is Executive Director of The New Zealand Initiative, the Wellington-based think tank formed by the merger of The New Zealand Business Roundtable and The New Zealand Institute. www.nzinitiative.org.nz. Dr Hartwich is a member of PortfolioConstruction Forum's core faculty of leading investment professionals. This article was first published in Business Spectator and is reproduced with permission.

Next stop... Africa! The New Zealand Initiative is hosting Kiwi entrepreneur, Rich Lister and pioneer of capital markets in Central and Eastern Europe and Africa, Stephen Jennings, for a dinner lecture on Thursday 14 July. Whether or not you are a likely investor in Africa, it's a subject worth learning more about - so do join us!