Africa can remind the world of the capitalist way

By Dambisa Moyo

Take a walk in downtown Lagos and you'll see bustling shopping malls and streets populated not just by domestic restaurant chains but increasingly by global brands like KFC, which will soon have 20 restaurants in Nigeria, and Walmart, which is expected to soon open two flagship stores. At Lagos airport you'll see planes owned by more than 20 international airlines, from countries such as China, Qatar and Turkey. You will also see many of Nigeria's nearly 90m mobile phone subscribers who together sustain four major telecommunications companies.

Capitalism is alive and well in Africa. Some observers will worry about the recent violence arising from the removal of fuel subsidies. The truth is that today's Nigeria is strong enough to avoid a protracted crisis. This is down to the growing power of the African consumer. A decade or two ago, the rash subsidies decision taken by President Goodluck Jonathan could have brought the country near to a full political meltdown. But in 2012, Nigerian consumers want to buy their groceries and get back to work; they have too much vested in the economy. It's a pattern mirrored across the continent.

More

ON THIS STORY

- Comment Defeating Dictators by George B. N. Ayittey
- First stirrings
- Tony Judt's 'Thinking the Twentieth Century' reviewed by Tony Barber
- 'A Card from Angela Carter', by Susannah Clapp
- Future shock

Africa is quietly catching up after a period of isolation from the rest of the world between the late 1990s through to 2008. Policymaking has justifiably been criticised for its multi-decade approach of ring-fencing Africa. This created an "us-versus-them" culture, which hinged on one set of development policies – trade, foreign direct investment, capital market access – for certain countries like China, India, Brazil, but prescribed an aid-centric policy for other (mainly African) countries.

This catalogue of policies prompted the economist Paul Collier to caution that many African countries were "shearing off" from the rest of the world. In part, as a consequence, although Africa is home to nearly 1bn people, the continent's share of world trade hovers around 2 per cent. Meanwhile, of roughly $1.12tn worth of total global foreign direct investment in 2010, sub-Saharan Africa received a paltry 3 per cent. However, this is about to dramatically change.

We now see some of the inadvertent benefits from this isolation: Africa is less exposed to the fallout from the radioactive economies of the developed world.

The credit crisis could take a decade to unwind. Already, many investors have been burned entering illusory recovery trades such as eurozone sovereign bonds, emerging market equities, and big financial institutions too early.

It is against this backdrop that African economies look particularly stellar. Sub-Saharan Africa is forecast to grow at 5.5 percent for 2012, according to recent estimates by the IMF, nearly 4 per cent higher than the anaemic growth projected for advanced economies. Most African countries have no massive leverage problem to work through – if anything even good investment opportunities have been starved of capital.

And in some African countries, South Africa being a pertinent example, banking regulation is a model for the rest of the world. While the political risk premium remains relatively high, over the past decade real efforts have addressed many of the reasons for this – corruption, lack of transparency, and nervousness over property rights.

What's more, the story extends well beyond the well-hyped resources sector – the majority of the stocks that trade on African exchanges are non-commodities, including telecommunications and consumer goods, and financial services, where even a relatively small country like Zambia has 18 registered foreign and domestic banks.

Investments will continue to benefit from the Africa demographic story, which is decidedly skewed towards the young. Over 60 per cent of Africans are under 24 years of age. If well harnessed, such statistics portend a boom in local private demand in decades to come. Changing dietary preferences from grain-based to protein-based foodstuffs, underlie a boom in food producers. Africa is home to many of the 2bn people who have a mobile phone but no bank account. The rapid integration between the financial products and mobile telephony creates a myriad of opportunities to directly serve the consumer, and to cut out the bureaucratic middle men.

Through conversations with policymakers from around Africa, including heads of state, the perspective is clear. They see what happened in the rest of the world as a failure of governments not a failure of capitalism. In its true form, capitalism is thriving in Africa, dragging millions out of poverty and into the shops. It is a happy and poignant irony that the isolated continent will succeed by following the rules of the market that the rest of the world forgot.

The writer is the author of Dead Aid, How the West Was Lost and the forthcoming book Winner Take All