

# Africa: when the roaring African lions match the pace of the Asian tiger economies

by James Benoit (CFA), AfrAsia Bank Limited



At the beginning of the 21st century, the World Bank issued a report entitled: 'Can Africa claim the 21st century?' Well, Lions are roaring as they awaken from their long savannah catnap, infusing the continent with a new commercial vibrancy. While offshore financial centres in the northern hemisphere were struggling with the repercussions of the global financial crisis, Mauritius weathered well this situation and maintained its offshore vision as a window of investment opportunities. Its enviable strategic location is actually a bridge between two worlds - Africa and Asia.

## Africa's impressive growth

The Economist magazine, which about a decade ago carried the cover line of Africa as a 'Hopeless Continent' is now celebrating it as a land where the 'Sun Shines Bright'. From Ghana in the West to Mozambique in the South, Africa's economies are unremittably growing faster than those of almost any other regions of the world. In the five years before the financial crisis, Africa grew faster with more than 40% of its countries enjoying an average annual GDP growth rate of 5% or more (Africa Progress Report 2011). The prominent Boston Consulting Group nicknamed the top eight African countries driving continental growth - South Africa, Algeria, Botswana, Egypt, Mauritius, Libya, Morocco, and Tunisia - as African lions (BCG Focus Report, African Challengers, 2010).

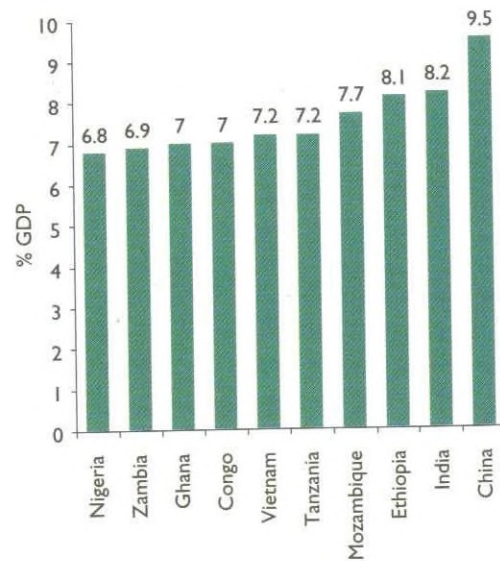
A dozen African countries have expanded by more than 6% a year for six or more years - for instance, Ethiopia - once a byword for famine and poverty - is expected to grow by 7.5% this year and

### Africa today

- US\$1.6 trillion - Africa's collective GDP in 2008, roughly equal to Brazil's or Russia's.
- US\$860bn - Africa's combined consumer spending in 2008.
- 316 million - the number of new mobile phone subscribers signed up in Africa since 2000.
- 60% - Africa's share of the world's total amount of uncultivated, arable land.
- 52 - the number of African cities with more than 1 million people each
- 20 - the number of African companies with revenues of at least US\$3bn.

Source: Lions on the move: 'The progress and potential of African economies' (McKinsey Global Institute, June 2010).

Figure 1: A snap-shot of the world's 10 fastest growing economies (2011-2015)



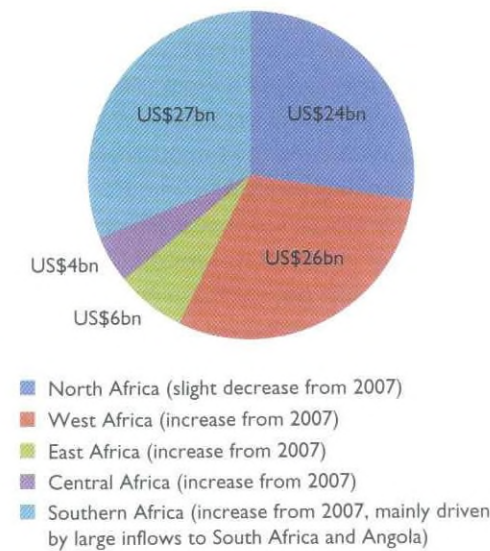
Source: IMF

has actually become the 10th largest worldwide livestock producer. Total FDI for 2000-2010 exceeded US\$50bn and an increase in trade with BRIC countries was noted.

Over the past decade, the simple unweighted average of countries' growth rates was virtually identical in Africa and Asia. But investor perceptions have improved in the last three years, with a substantial 74% saying that Africa has become more attractive (Ernst & Young's 2011 Africa Attractiveness Survey).

Over the next five years, however, Africa is likely to take the lead, i.e. the average African economy will outpace its Asian counterpart. This is incredibly exciting, not only for investors, but also for ordinary people to live on the very brink of an economic take-off.

Figure 2: Regional distribution of FDI in Africa



Source: Africa Progress Report 2011

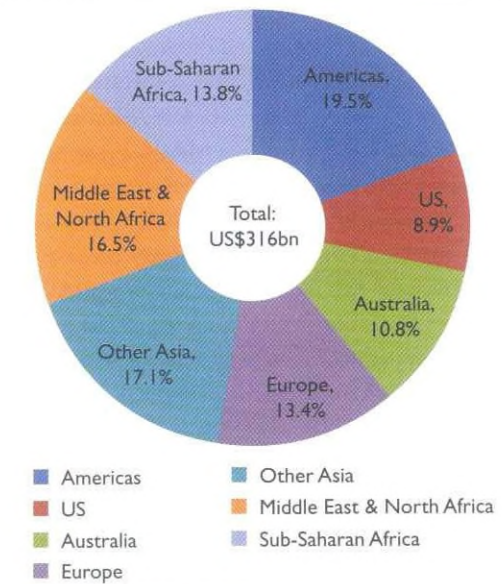
## African lions on the move, keeping pace with the Asian tigers

There is no doubt that China and India have become Africa's most important economic partners, and their growing footprint on the continent is totally transforming Africa's global relations. While bilateral India-Africa trade has grown from about £620m in 2001 to £28.5bn in 2010 and will most probably reach £43bn by 2012, China says its two-way trade stands at £75bn, a 43.5% increase on the previous year. Africa is benefiting from the China-driven 'super cycle', which is reinforced by India's emergence ('The Rise of China and India: What's in it for Africa', 2006). Moreover, the internationalisation of the renminbi welcomed by Africa is moving pretty fast and is in turn offering Chinese firms the opportunity to 'go out' in RMB. Standard Bank estimates that there are about 1,500 Chinese firms operating in 18 African nations and by 2015, more than 40% of China's trade with Africa will be made in China's renminbi. Another reason for the Asian tigers to carry on with bagfuls of investment opportunities with the lions economies which will in turn render transactions more efficient and resilient as well.

## Mauritius - a springboard to Africa and Asia

Having long been the tried and trusted investment route, Mauritius is reckoned as the epicentre for offshore financial services and banking centre in the southern hemisphere. Boasting a very good business environment in Africa and deservedly ranked the best sub-Saharan economy for ease of

Figure 3: China's outward investment\* (2005-2010)



\*Non-bond transactions over US\$100m  
Source: Heritage Foundation (The Economist - April 20, 2011).

doing business by the World Bank, Mauritius is making a huge impact in overseas markets, revealing in turn positive spill-over effects in the Africa-Asia trade corridor.

Both China and India are using Mauritius as their investment holding company for banking and treasury management jurisdiction, as well as a base for key professional staff doing business across Africa. Mauritius is indeed long-established as a leading banking intermediary for foreign investment into India, due to close cultural ties with the sub-continent and favourable double taxation agreements. Over the past decade, it has administered more than US\$50bn in foreign direct investment (FDI) flow to India and holds about 40% market share of total global FDI inflow to India.

Mauritius has developed very strong economic and cultural ties with both Africa and Asia over the years, and is now becoming increasingly well-known and utilised as a trade and financial gateway to these continents. Mauritius was, in fact a founding partner of a number of regional preferential trade areas and political organisations, including the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Commission (SADC), the Indian Ocean Commission and the African Union. Furthermore, we already have tax treaties with 13 African States (Botswana, Lesotho, Madagascar, Mozambique, Namibia, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tunisia, Uganda and Zimbabwe). We have also signed treaties with Congo and Zambia which are awaiting ratification.

Treaties with Egypt, Malawi, Kenya, Nigeria and Ghana are currently awaiting signature. Coupled with this extensive network of DTAs, Mauritius has 36 Investment Promotion and Protection Agreements (IPPAs), of which 18 are with African countries. IPPAs are crucial between countries because they are international bilateral agreements with governments, designed to protect and encourage investment overseas.

The Indian Ocean Island is gradually becoming a major financial hub in this region of the world and is already a direct beneficiary of trade and investment flows, with the entire region being on the verge of substantial transformation.

Organisations such as AfrAsia Bank Limited, with offices in Mauritius, Cape Town, Johannesburg and Durban, have been created in the last four years to specifically sustain this growth. However, even just four years ago, naming ourselves 'AfrAsia' was viewed as a risky strategy, with people wondering if the Africa part would jeopardise our ability to be taken seriously in India, South East Asia and Europe – all of which are important markets for our regional boutique bank. Increasingly, banks like AfrAsia Bank Limited and many other finance, services, logistics and similar economic operators are training ourselves to assemble the world's deepest and broadest teams of African specialists. And where we cannot do it alone we hire, subcontract or invest in the relevant people, products and processes to do that. It is no easy business being in the ring with the hungry lions so you need to have strategies and tactics. Just like lion taming!

### The potential of Mauritius as a private banking and wealth management destination

Mauritius is not a tax haven. It differentiates between local companies and those that carry an offshore business licence, but it does tax all companies at a rate of 15%. Mauritius remains an ideal platform to capitalise on economic growth and FDI into Africa. The island has all the right ingredients to make it an international financial centre par excellence - well regulated, politically and economically stable, low tax regime, ideal time zone, hybrid legal system, guaranteed confidentiality, investment protection and fiscal incentives.

Recent figures show that the number of wealthy individuals in Africa grew faster in 2010 than in any other region. Africa's total of super-rich (people with investable assets of US\$1m or more) grew by 11.1% in 2010, considerably faster than the global growth of 8.3% and also faster than the Middle East's growth rate of 10.4%. On the other hand, the Asia Wealth

Report predicts that the number of HNWI in Asia will reach 2.82 million by 2015 and the report 'The Chinese HNWI Market in 2012: Meeting the Challenge of Client Expectations' reveals Beijing as the most attractive market boasting 170,000 HNWIs with a growth rate of 13% for the year 2011.

### Key reasons for using Mauritius as a private banking platform

- Availability of legal, accounting, finance professionals and highly credible banking institutions with global links.
- Political stability guaranteed by a parliamentary democracy based on the Westminster model.
- An efficiently regulated financial services centre committed to investors framework modelled on the industry's 'best practice rule' and compliant to internationally accepted norms of supervision.
- A committed jurisdiction cooperative with such organisations as the Organisation for Economic Cooperation and Development (OECD), Financial Action Task Force (FATF) and the UN which is an added attraction to businesses all over the globe engaged in cross-border investments and trading.
- One of the unique elements that make Mauritius a competitive investment location is the preferential market access to the EU (under the Cotonou Agreement), US (under the Africa Growth and Opportunity Act – AGOA) and Africa (under the Common Market for Eastern and Southern Africa – COMESA and under the Southern African Development Community – SADC).
- Strategic time zone (GMT+4) – business can be transacted with the Far East in the morning, Europe around midday and with the US in the late afternoon.
- A hybrid legal system based on English and French laws. The highest Court of Appeal is the Privy Council of the UK.
- Membership of the International Court of Justice, the International Center for the Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA).
- Guaranteed confidentiality for those engaged in legitimate business. Frequent air links to major European, African and Asian cities.

### Mauritius accolades

While fully belonging to Africa, Mauritius is a reference in the region:

- First for the second successive year in the African Region and 23rd overall in the World Bank Doing Business Survey 2012.
- First in the Mo Ibrahim Index 2011 for good governance in Africa.

- Achieved an economic freedom score of 76.2, making its economy the 12th freest in the World Index of Economic Freedom 2011 of the Heritage Foundation.

- Ranked among the top 25 global offshoring platforms in the At Kearney Offshoring Index.

In line with these accolades, it is hence imperative that our home-grown banks such as AfrAsia Private Bank take the lead to truly establish a diverse and long-term service in line with pursuing an 'audacious' strategy to tap into the growing trade, investment and capital flows between Africa and Asia. Global banks are a vital pillar of course, but strong domestic players bring our own unique perspectives and commitment to the market. It is a fascinating time to be a banker in this heaven.

### What lies ahead?

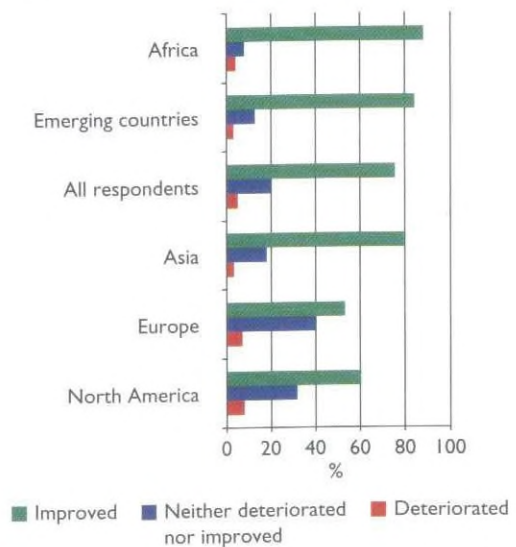
Will Africa be able to sustain this momentum? What do 2012 and the years that follow have in store? Africa is changing fast – and for the better. While huge challenges linger, there is a new sense of optimism across the continent. Unless something really unexpected crops up, it is expected that Africa will definitely show an uptick and promises to be an unflinching successful growth story. It is undoubtedly true that China and the BRICS economies will be the drivers of this growth. Research from Oxford Economics forecasts strong growth of new FDI into Africa from 2012 onward, reaching US\$150bn by 2015.

### Africa tomorrow

- US\$2.6 trillion – Africa's collective GDP in 2020.
- US\$1.4 trillion – Africa's consumer spending in 2020.
- 1.1 billion – the number of Africans of working age in 2040.
- 128 million – the number of African households with discretionary income in 2020.
- 50% – the portion of Africans living in cities by 2030.

Source: 'Lions on the move: The progress and potential of African economies' (McKinsey Global Institute, June 2010).

Figure 4: Will Africa become more attractive in the next three years: investors' perceptions by locations



Source: Oxford Economics/FDI Intelligence (Ernst & Young's 2011 Africa Attractiveness Survey).

Africa is the next big thing, and especially as India and China continue to engage with it and whereby Mauritius is well poised to be the financial gateway to Africa. Some may be a bit cautious, fearful even, that our idyllic island with a talented, but small population size can truly convert on this opportunity. But we can and we are. Banks like AfrAsia Bank offer a strong regional economy looking for dynamic capital market and banking solutions to facilitate phenomenal expansion and participate in this African growth story.

As the wounded eagle struggles to fly again, lions are starting to show their prowess. Africa's lions are roaring and the global economy is responding to their call. While Africa sits pretty on its resource treasure trove, let's gear up for a promising 2012!

Author:

James Benoit (CFA), Chief Executive Officer  
AfrAsia Bank Limited

Bowen Square, Dr Ferriere Street

Port Louis, Mauritius

Tel: +230 208 5500

Fax: +230 213 8851

Email: james.benoit@afriasiabank.com

Web: www.afriasiabank.com