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The best time to invest in Africa is now

Amid trade tensions between the U.S., China and Europe and the U.K.'s departure from the European Union, African leaders are moving in the opposite direction to establish the world's largest free-trade zone. This year, 54 of the continent's 55 states, with Eritrea as the only exception, signed up to the African Continental Free Trade Area. The deal encompasses a market with 1.2 billion people and a combined gross domestic product of more than $2.5 trillion. This and other trade-facilitating measures should increase intra-continental commerce by more than 50 percent in four years, according to the UN Economic Commission for Africa.

That there is still much to be gained in mutual trade is demonstrated by the fact that only 18 percent of African exports are traded within the continent, compared with nearly 60 percent for Asia and 70 percent for Europe. African countries have agreed to cut tariffs to zero on 90 percent of goods. Too many countries are stuck in colonial-like trading arrangements, exporting raw materials and importing manufactured goods. The free trade area should encourage both specialization and higher value-added exports. More trade also helps in cranking up industrialization because a market with 1.2 billion consumers in a properly functioning free trade area will attract investors. Africa needs more manufacturing, from canning fruit to assembling mobile phones.

Luckily Africa's youthful population contributes to an abundancy of labour, which is one of the region's highest potentials for labour-intensive industrialization and lowers production costs. The hourly wage in Africa is less than 50 cents (for example $0.27 in Mozambique, $ 0.34 in Nigeria and $ 1.62 in Morocco) compared to $ 10.49 in the UK, $ 7.25 in the USA and $ 6.57 in Japan.
In contrast to an aging population in most other regions, Africa's growing population constitutes a formidable market. The continent's population is predicted to quadruple from 1.19 billion in 2015 to 4.39 billion by 2100.

Africa's large deposits of natural resources promises a bright future for developing value chains. For instance, the Democratic Republic of Congo alone accounts for 58 percent of the world's cobalt production (used in electric vehicles). Agriculture and the extractive sectors are linchpins of national, regional and global value chains. Furthermore, Africa hosts 60 percent of the world's uncultivated arable land.

Yet there are many obstacles for a trade zone. The greatest is effective implementation. The African Union has a history of grandiose pronouncements but poor follow-through. The next phase will be to make vital agreements on non-tariff barriers, rules of origin and dispute resolution. Members need to build the infrastructure to facilitate smooth trade, linking their countries to with road, rail and interconnecting power grids. They also need to streamline customs procedures, often maddeningly slow.

However, there is also confidence that it will work. According to the IMF, Africa's growth prospects will be among the highest in the world between 2018 and 2023. Of the twelve fastest growing economies in the world, six are in Africa (Ethiopia, Democratic Republic of Congo, Ivory Coast, Mozambique, Tanzania and Rwanda). Despite the promising outlook, African stocks are relatively cheap. The price/earnings ratio of the Frontier Emerging Africa Index (ex-South Africa) is only 10.45 compared to 13.51 for the Emerging Market Index and 18.51 for the World Index (developed markets).

Finally, to quote President Cyril Ramaphosa of South Africa during his opening speech at the Africa Summit in London last month: "there has never been a better time to invest in Africa".

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Sources:

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- Financial Times: Free trade is the best change to remake Africa - November 4, 2019
- New Africa Magazine: Why the best time to invest in Africa is now – August 30, 2018
- TCM Investment Funds & MSCI factsheets – 31 October 2019