Constraints and Deal Breakers

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The Globalization Gap: The Problem of Less Than 3 Percent:

- **Introduction**:
    - At Google HQ, Google Globe was lit up around the world with all of the people's searches, however the continent of Africa was essentially empty other than a few dots in South Africa.
    - All of Africa constitutes less than 3 percent of global Google searches.
    - Despite having 14 percent of the world's population, SSA represents less than 1 percent of US foreign investment and uses less than 3 percent of the world's energy
- **When the Train Has Yet to Leave the Station**
    - Of the top 100 ports in the world, only 1 is located in Africa.
    - Average cost to export a container from SSA was $2,108, almost double latin America's prices.
        - Due to up to 54 borders, lack of railroads, very poor roads, little to no maintenance, and high risk of theft.
    - A railway was planned to span from Kigali to Dar es Salaam, however after 5 years, no track has been laid.
        - The railway was also estimated to be very profitable.
    - According to the World Bank, Africa needs to invest $93billion annually in necessary infrastructure.
        - 1/3rd of this should go to maintenance of infrastructure.
        - Bulldozers are used to clear mud from streets after rains. Some piles climb up to 10 feet high along the sides of these roads. Snowmagedden 2010.
- **Lack of Power to the People**
    - A lack of infrastructure is a lack of a backbone for a functioning economy.
        - Only 32% of Sub-Saharan Africans have access to electricity regularly.
            - That is nearly 600million people without power.
            - Disproportionate impact on women who spend significant amounts of their day trying to obtain fuel for cooking.
        - Africans typically pay for electricity individually, at prices around 3.5 times more than the average American per kilowatt hour.
        - SSA uses less electricity than Spain, while having a population 25 times larger.
        - Electricity often constitutes up to 40 percent of manufacturing costs, vs the usual 10-15 percent of costs in other countries.

        - Over 60million generators in Africa.
            - Almost 90% of businesses use diesel generators, and 30% of households.
            - MTN, the country's telecom company, pays almost $6million per month for diesel for their 6000+ generators.
            - Getting reliable electricity delivery in Nigeria could add up to 4 points to the annual economic growth rate, reaching 10-12percent.
    - **Broadband Basics**
        - Critical infrastructure is no longer just transportation and buildings, but now includes information via the internet.
            - Smartphones are Africa's access to the internet.
                - Broadband is getting more affordable.
            - Samsung alone has over 50% of the smartphone market share in Africa, while the market is expected to grow by 19% annually.
            - Many companies are joining in focusing on the mobile phone market in Africa, which has grown 328% since 2008, reaching a value of $2.3billion in 2013.
        - In 2005, 3% of households had a computer and only 1% had internet. By 2013, it has grown to almost 10% via internet services being 1200% cheaper.
    - **Mattress Banking and Sky-High Interest**
        - Africa lacks the banking to support a general economic revolution.
            - It is estimated that only 1 in 4 Africans has a bank account.
            - Only 5% of adults in SSA borrowed from a bank, however 47% claim to have borrowed from a family member.
            - Many people are part of what is called a savings circle, and as a result, SSA makes less than 3% of global insurance premiums.
            - In 2010, the World Bank reported that only 3% of households in Africa had enough income to support a mortgage.
                - Interest rates are often between 16-18% across 20-30 years.
                - Banks suffering = Private business loans and high interest rates.
            - Changes in macroeconomic management and foreign investments are leading to Africa's chance to break out of the "Less than 3 percent" category.
    - **Whence Upon a Time: Colonialism, Cold War Conniving, and Coups**
        - Understanding why:
            - The triangle trade and "doors of no return".
            - Colonialism

        - Most inner development happened in the colonized areas.
        - The “economic miracle” skipped Africa and went to Asia.
- **A Brief Interlude: Sovereign Debt and Capital Flight**
    - Most companies that seemed interested in Africa during the 70’s and 80’s were primarily resource extractors, rather than long term investments.
        - Oil field exploitation in Nigeria, one of the world’s largest rubber plantations in Liberia, sourcing cocoa out of Ghana, clearing a transmission route through Congo.
        - By 1982, African countries had an average debt-to-export ratio of 262%.
    - Due to the Mexican debt crisis of 1982, many banks pulled their investments in Africa due to fear liquidation.
        - This locked African countries out of the global market.
        - Many S&P 500 companies also pulled out of working in Africa.
    - General consensus of the risk not being worth the reward.
- **Government, Guns, and Gains Undone**
    - The immediate need for jobs led to a Marxist uptick in government, relying on them for driving commerce and prosperity.
        - This resulted in large amounts of borrowing .
        - By 1995, debt in SA was over 240% of its exports.
    - Military governments and civil wars grew rampant in the 1970’s-early 2000’s.
        - Wars in Mozambique and Angola killed 2million people and displaced over 6million, while in Sudan the fighting lasted 39 years and split into South Sudan.
        - The Cold War occupied many other country’s attention at the same time frame.
- **Emergence From the Lost Decades**
    - Government leaders focused on macroeconomic changes.
        - Average inflation shrank from 47% to 10% in just 4 years.
        - Multi-party elections started occurring after independence.
        - 1994, apartheid ends, allowing for multi-national companies to continue operations in Africa.
        - 1995, Africa received 4000% more FDI than 10 years prior at $1.2billion.

Africa's Deal Breakers

- Africa getting out of the 3% (111)
    - Access to roads, electricity, education, and markets expanding
    - Availability of healthcare and medicine
        - Lower infant mortality rate is expected to create a baby boom
- Success is not guaranteed. The three deal breakers.

Deal Breaker One: Failure to Create Enough Jobs (113)

- Cairo Egypt: 50% GPD from informal sector
- Huge youth population. Under skilled, under educated, and little faith in politics (114)
- Youth make up 60% of the unemployed, and 72% of youth live on less than $2/day
- Age gap of government officials and average population age (115)

Sustained Job Creation Requires Broad-Based and High-Level Education (115)

- 10 to 12 million join labor market per year
    - Less than 5% have a college degree
    - 1 in 50 South Africans will obtain a stable job paying above poverty line (~$35)
- Population increase: Kenya and Nigeria 135% and 175%
    - Difficulty of educating and providing employable skills - falls on the government to provide
- Continent average 1:50 teacher to student ratio (116)
    - 54% succeeded primary to secondary school
    - 13% qualify for entry into university
    - Many students drop due to financial issues (cost of uniforms, books, etc.)
- Online education growth (118)
- African Ivy League
    - Focus on student experience and learning rather than research

The Need for Urban and Upwardly Mobile Jobs to Match Youth Aspirations (120)

- Youth have no interest in a village or farm life
- Youth want to experience the joys of life and what wealth can bring
- There are not jobs or opportunities for all the youth
- Government needs to be able to keep up with the aspirations of the youth
- Dissatisfied youth are easier influenced to hate or turn to violence

Deal Breaker Two: Institutional Torpor and the Failure to Adapt (124)

- Institutional stability and maturity
- Work for the public good more than against it
- Healthy government, market, and civil society institutions can determine whether a nation prospers or fails.

The "C"-Word Constant (125)

- Corruption will make an institution fail
- Bad institutions allow corruption to take hold

- Focusing on process, rule setting, monitoring, and evaluation help prevent corruption but don't attract interest

The Need for Separation Between President and State, Person and Process (126)

- Life-long presidents
- Lack of checks and balances
- Vote to raise my own pay
    - If I am well paid I won't need to be corrupt
- Get rich in parliament
- How patient will the youth be with fixing corruption?

When the Press and Private Sector Are Extensions of the State (129)

- Press is often just the mouthpiece of the ruling party
- Activists typically choose emigration over imprisonment
- Social media vastly grants access to information
- Private sector leads are often friends of the government
    - Contracts and deals are often done at golf clubs and in government VIP lounges
- Focus on economic survival over effective functional government

Business as a Counterbalance (130)

- Social pressure, new norms within business community
- Wealthy philanthropists giving back
- Public goods (cement & power)
- Maturing government and involvement. (Debates, budget reports, depoliticalization of judiciaries)
- Improved tax collection
- Institutions create incentives and establish the rules of the game

Deal Breaker Three: Black Swans in the Global Pond (134)

- Global market interruptions
- Need for diversification and internal capability

A Chinese Slowdown, an Indian Stagnation? (135)

- Chinese investment and business is a major contributor to the development of countries and their economies.
- Indian imports a broader set of goods rather than raw materials, as they are a large trade partner a slowdown would have large impacts as well

The Return of Widespread Conflict to the Region? (138)

- Large scale conflicts cripple economies and countries for decades (DRC)
- Small scale internal conflict
    - Militants being paid to lay down arms
    - Oil income doubled after agreement
    - Conflict costs lives, security budget, investment, productivity, and country reputation

- Pandemics (ebola)

An Airborne Superbug? (142)
- Pandemics have massive costs to both public and private as well as the lives it takes
- The World Bank modeled a global disease potentiality
    - Scenario where 70 million die would cost the world more the $3 trillion
- The difference between catastrophic and existential threat is how humans respond to the challenge

Dependence on Brittle Bureaucracies (143)
- Economies centered around government create a dependence on the public sector to provide
- Bureaucracy is slow and crushes creative potential and productivity
- Government does not offer *the* solution, but work to guarantee the rights of its citizens access to *a* solution