Sub-Saharan Africa - Special Study Edition

January 14, 2015

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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

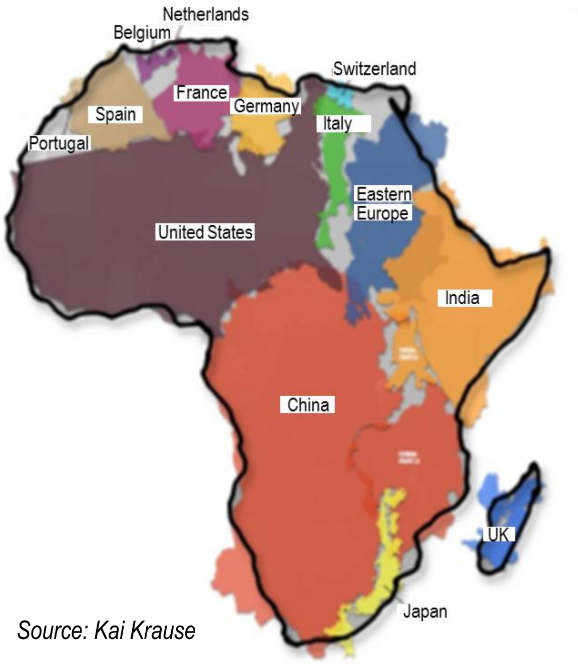
2015 has finally begun and this year too, I would like to introduce up-to-date information to you on Africa. So please bear with me.

The first report this year on sub-Saharan Africa is a "Special Study Edition". It is from a study session we held at Marubeni's Headquarters in Tokyo in December based on the theme of sub-Sahara's macro-economy with the aim of providing useful information to our business divisions. About 15 people participated in the study session, which also included a question and answer segment.

Sub-Saharan Africa Overview

In Marubeni's case, sub-Saharan Africa refers to all 49 African countries in the region south of the Saharan Desert, which would exclude just 5 other countries in Africa; Egypt, Libya, Algeria, Tunisia and Morocco. Approximately half the population of sub-Saharan Africa lives on less than $1.25 a day (the international poverty line), however, the region has been gathering a great deal of attention from the 2000s as the "last frontier, due to its high economic growth.

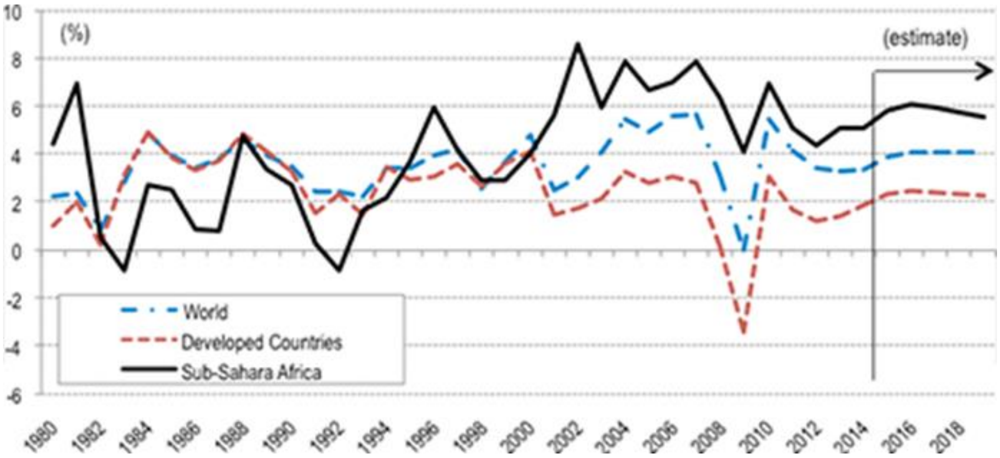
Map 1: The True Size of Africa Map



Source: Kai Krause

In 2015, it is forecasted that the region's economic growth rate will be about 5.8%, exceeding that of the predicted world average of 3.8%, with this high level of growth expected to continue.

Graph 1: Real GDP Growth Rate



As part of the overview of sub-Saharan Africa, I have divided Africa into 5 regions.

North Africa

This area is close to Europe and the Middle East and exchanges thrive between them. There are a large number of Caucasians living in this region, so it has become known as "white Africa". Since 2011, movements known as the "Arab Spring" have taken place in the region, with various forms of democratic progress emerging.

East Africa

Facing the Indian Ocean, Islam permeates this region as a result of the influence of past maritime Muslim traders. Swahili is a common language across the region. It also features such large economies as Kenya, Ethiopia and Tanzania.

Central Africa

This region is located along the north and south sides of the equator. The region is rich in energy and metal and mineral resources, however, regional integration has not progressed and the transport infrastructure is poor.

West Africa

Many of the countries in the region are former French colonies, and strong political and economic ties with France still remain.

South or Southern Africa

The influence of South Africa in this region is extremely strong, as South Africa surrounds both the countries of Lesotho and Swaziland, and another country, Namibia, was a colony of South Africa until the 1980s.

Sub-Saharan Africa has been experiencing eye-opening economic growth in recent years, however, there are key pillars needed for sustaining this growth: “political stability”, “infrastructure demand”, “foreign investment inflows”, “natural resources”, “expanding the middle-class layer”.

Natural resource demand and high resource prices driven by emerging economy economic growth led by China and increased political stability from the advancement of the democratic process that have made sub-Saharan Africa a more attractive investment destination are factors leading to its recent high economic growth. In addition, a domestic market with a growing population and the expectation of rising incomes is becoming a driving force for higher economic growth. So, again, for sub-Saharan Africa to sustain its economic growth from this point on, political stability, infrastructure demand (development), investment inflows, resources (development) and expanding the middle class are all essential elements.

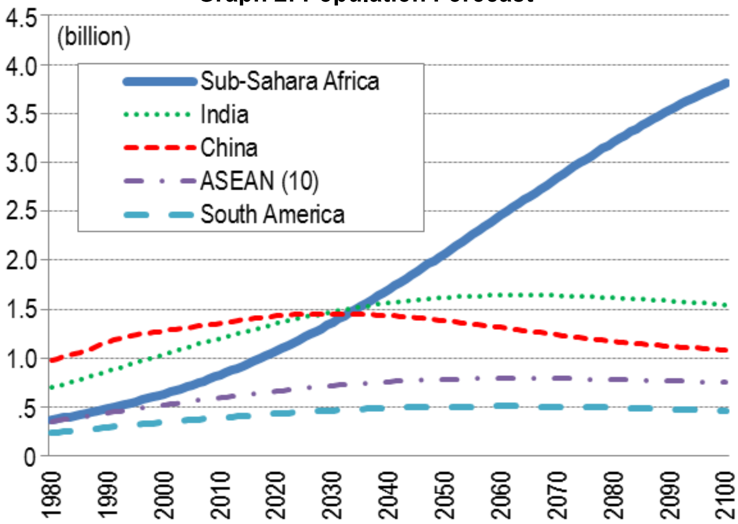
Table 2: Data by Country

		Nominal GDP ($ billion)	Population (million)	Per Capita GDP ($)
		2014	2014	2014
1	Nigeria	594.3	173.9	3,416
2	South Africa	341.2	53.7	6,354
3	Angola	131.4	21.4	6,128
4	Kenya	62.7	42.9	1,461
5	Ethiopia	49.9	91	548
6	Tanzania	36.6	47.7	768
7	Ghana	35.5	26.2	1,353
8	Ivory Coast	34	24.8	1,370
9	Democratic Republic of the Congo	32.7	79.3	412
10	Cameroon	32.2	22.5	1,427
11	Uganda	26.1	38	686
12	Zambia	25.6	15	1,705
13	Gabon	20.7	1.6	13,039
14	Mozambique	16.6	26.5	626
15	Botswana	16.3	2.1	7,750
16	Senegal	15.9	14.5	1,092
17	Chad	15.8	11.3	1,404
18	Equatorial Guinea	15.4	0.8	19,788
19	Republic of the Congo	14.1	4.3	3,302
20	Zimbabwe	13.7	13.3	1,036
21	Burkina Faso	13.4	17.4	768
22	Mauritius	12.7	1.3	9,715
23	Mali	12	17.4	693
24	Namibia	12	2.2	5,467
25	South Sudan	11.9	11.4	1,045
26	Madagascar	11.2	23.5	475
27	Benin	9.2	10.6	872
28	Niger	8.3	17.1	484
29	Rwanda	8	11.1	721
30	Guinea	6.8	11.4	594

Source: IMF World Economic Outlook Oct 2014, IEA African Energy Outlook

The population of sub-Saharan Africa is likely to surpass that of both India and China by 2030 and is expected to make up roughly 35% of the world’s total population by 2100, reaching approximately 4.5 billion.

Graph 2: Population Forecast



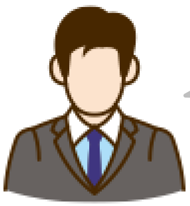
Source: United Nations

With a growing population the sub-Saharan market is likely to expand and with it the demand for consumer goods and services. On the other hand, as progress in infrastructure development has been slow, logistics cost will remain steep, and with low agricultural productivity, the price of agricultural commodities will also be relatively high. Furthermore, the risk from disease in the region, led by HIV, is still formidable and the cost of labor comparatively high. So, Asian-like industrial led development, driven by manufacturing, remains a question mark at this point. Also, sub-Saharan Africa's share of global GDP remains small compared to that of emerging economies in Asia and Latin America. However, as mentioned above, given its rapidly growing population and abundant natural resources the region's potential cannot be overlooked in terms of future business development.

As for Marubeni, sub-Saharan Africa has been designated a priority region under our mid-term management plan Global Challenge 2015. In fiscal 2014 we increased the number of Japanese expatriates in the region in the areas of chemicals, food materials and food products, energy, metals and minerals and in our plant-related business. So, we are focusing more and more of our management resources on the region and we expect business in sub-Saharan Africa to continue to expand.

As each country in the region's market is small, the challenge from this point on is to focus on and think of the region as a whole while doing business in each of these markets.

Questions and answers during the session regarding Sub-Sahara Africa


Person A

Is there a lot of FDI currently flowing into the region? Where is this capital coming from? It is said that China has invested a great deal in Africa, do you know the ratio?

A large portion of Africa's FDI comes from Europe, mostly from their former colonies, and also from the U.S. In recent years, an increasing amount of FDI from the Middle East and India, which are geographically close to Africa, as well as China, has found its way into the African continent. According to the think tank fDi Intelligence, the amount of greenfield (note 1) and brownfield (note 2) investment made in Africa between 2007 and 2013 ranked by country has the UAE on top, followed by the U.K., the U.S., India, France, South Africa and China.


Mr. Tsunemine

Note 1: *Greenfield investment is investment by a company to newly build facilities and/or newly establish distribution channels with new employees, equipment, etc., from scratch.*

Note 2: *Brownfield investment is investment in pre-existing facilities or distribution channels, often through the acquisition of a company and their existing employees, equipment, etc.*

Person B

According to IMF GDP forecasts, sub-Saharan Africa's growth rate will begin to decline from 2016, won't it?

The world's economic growth rate will also fall slightly from 2016, so I think we can say that each of these countries are migrating toward stable growth just as you see in South Africa. Also, the likely interest rate hike in the U.S. will also contribute to slight economic contractions in sub-Saharan countries. On the other hand, countries such as Mozambique and Niger, where resource development is advancing, should see double-digit economic growth from 2016.

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Person C

Including Angola, what is the break-even price of oil in the oil-producing countries of Africa?

I'm not sure exactly what the break-even point is for each particular country, however, to cover Angola's 2014 budget it was assumed that a price of $91 per barrel was required, and for 2015 $81 per barrel is presumed necessary. Also, in Nigeria, sub-Saharan Africa's largest oil-producing country, prices of $77.5 a barrel for 2014 and $65 a barrel for 2015 have been considered the benchmarks. If the current slumping oil prices fall below these standard benchmark assumptions, the national revenues of these oil-producing countries will be reduced and economic downturns in these countries can be expected.

On the other hand, since most of the sub-Saharan countries are crude oil and oil-related product importers, there is the potential for these countries to benefit from the reduced prices. However, it should also be noted that if the fall in oil prices continues, current oil and gas development projects underway could be negatively affected.

Mr. Tsunemine

The sub-Saharan Africa study session lasted about 1.5 hours and as you can see from the above it was quite a lively session. I would be happy if this can be useful for Africa-related business in 2015. We look forward to heartily welcoming everyone visiting Africa.

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