The Birth Of African Demand

Joe Studwell
joestudwell@gmail.com

Joe Studwell is the author of books including Asian Godfathers *and* How Asia Works

Since 2000, growth of agricultural value-added in Africa averaged 4.5% a year, the highest rate in the world. This agricultural takeoff is the most important indication that Africa has entered a new era of brighter growth prospects.

In the wake of World War II, African agriculture was the opposite of agriculture in Asia. In Asia, people were many and land was scarce; the region was primed for the labor-intensive, fertilizer-intensive, high-yield "green revolution." A surge in agricultural productivity set the stage for later industrial growth. In Africa, land was abundant but there were few people to farm it or consume its vast potential output. In the 1970s Africa was the only region of the world where per-capita agricultural production fell, declining by about -1pp.

But recent decades have seen a reversal. Rapid population growth has eased the labor shortage, and the rise of cities has created a boom in demand for value-added agricultural products. Many African countries now have the first building block of Asian-style growth: a productive agricultural sector generating sustained surpluses. The question is whether they will be able to move on to manufacturing.

More people, more roads, more food

Africa's population is growing fast—and moving to the continent's cities

Between 1960 and 1980, Africa added 200mn people. Between 1980 and 2000, the continent entered its peak period of fertility and the population rose by 340mn, to 820mn people; today Africa's population is 1.5bn. From 1960, the rate of urbanization was 6% a year, twice that of population growth.

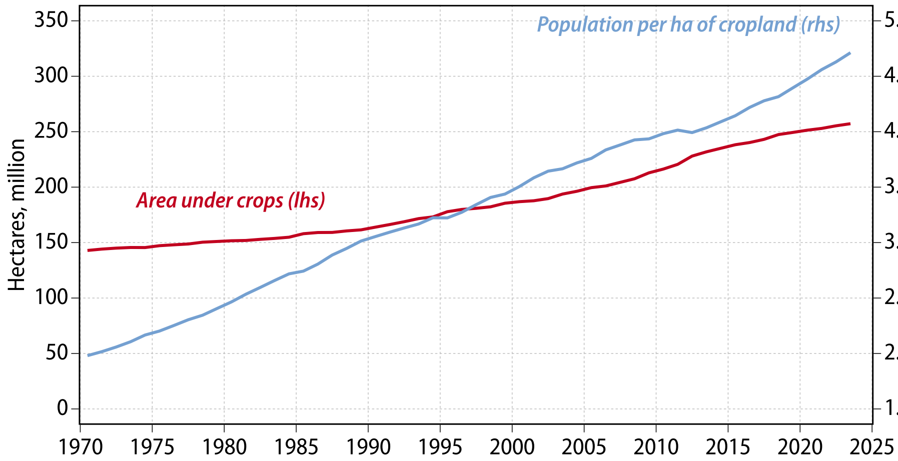
After 1960, African governments did a better job than is commonly acknowledged of building roads in rural areas. By 1980, the cumulative kilometers of all-weather roads tripled. Road density—the ratio of a country's road network to its total area—increased by an average of 82% in 35 surveyed Sub-Saharan states between 1963 and 1997. After population growth, road building was the second essential key to unlocking agricultural potential.

Agricultural output has also grown fast

Agriculture's performance picked up well before that of the overall African economy. Sub-Saharan Africa's GDP contracted more than -1% a year through the 1980s, and growth was fractionally negative through the 1990s. But agricultural output growth, just 1.3% a year in the 1970s, picked up to 2.7% in the 1980s and to 3.1% in the 1990s. The effects of compounding meant that early in the 2000s, African agricultural output was double what it had been in 1980. Further strong output growth is achievable: early this century, the World Bank estimated Africa had 45% of all the world's uncultivated farmland.

Africa has expanded agricultural land and the population to farm it

Sub-Saharan Africa, total cropland (mn ha) and population per ha



FAO, Gavekal Research/Macrobond

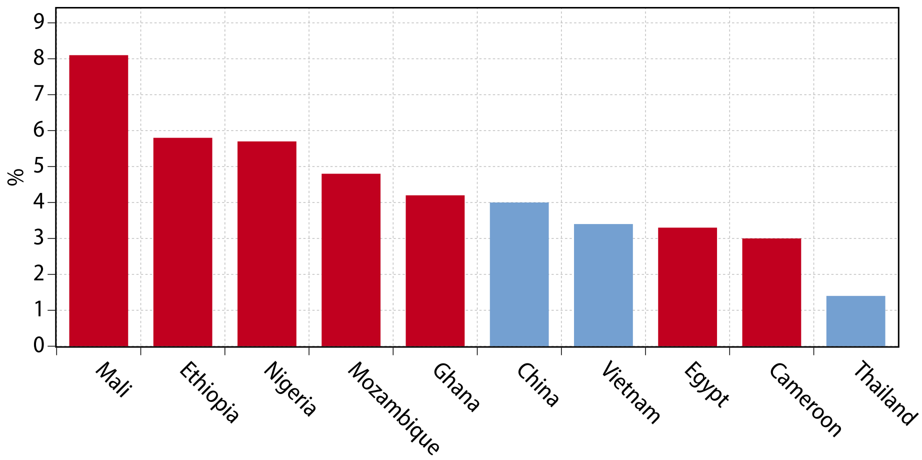
Agricultural output has grown despite deficiencies in governance

Growth was very unevenly spread across countries. In around a dozen states, agricultural output increased 3.5–6% a year. The outperformance of countries including Mali, Niger, Burkina Faso, Ghana, Benin, Nigeria, Tanzania, Malawi and Mozambique could not usually be explained by government competence or a rural policy bias. Some of the strongest gains occurred in West Africa, widely regarded as a particularly badly governed region.

Forces other than good governance were at work. Generally, smallholder-dominated countries did well. States with significant large-scale farming activity, including Zambia, Kenya, South Africa and Namibia, did less well. And countries with particularly high rates of population growth and urbanization, such as those in West Africa, tended to outperform.

Some African countries have had world-beating agricultural growth

Compound annual growth in agricultural value added, 2000-24, %



Unctad, Gavekal Research/Macrobond

Rising agricultural output was due partly to getting more land under cultivation, and partly to yield improvements. Between 1990 and 2020, yields for major staples increased by half, although this still left average African cereal yields below where they were in Southeast Asian countries like Indonesia, Vietnam and Cambodia in 1960. Nonetheless, the process of crop intensification had begun.

Burkina Faso has increased grain output at the same rate as Vietnam

Some of the most impressive gains came in ostensibly surprising places. Burkina Faso, landlocked in the arid Sahel region, increased its grain output 3.7 times between 1960 and 2005, the same as the Asian "miracle" state Vietnam. Mali, another Sahel nation, increased its rice yield by 189% between 1960 and 2015, the same as China. Both Sahel countries echoed the Asian experience in that it was the least land-abundant economies that were incentivized to deliver the earliest and strongest yield gains.

Pressure to intensify agricultural production increased because swathes of the continent ceased to be land-abundant. One study found that in the 2010s the majority of the rural population of Sub-Saharan Africa—which had an overall population density of 50 people per km^2—was living in zones with an average population density of 238 people per km^2. Farmers were congregating on the most fertile land.

Where there's muck there's brass

Sales of processed foods have taken off

Agricultural output growth was driven by urban demand. As the population of Sub-Saharan Africa doubled between 1990 and 2020—from 509mn to 1.13bn—and incomes rose, demand for food tripled. This finally made farming a good business. Much of the new demand was for processed foods. In West Africa, cassava-based convenience foods developed huge markets. In Nigeria and Senegal, packaged, millet-based ready-to-eat meals with separate servings of fermented milk sold in large volumes.

In Ethiopia, teff, traditionally bought as grain and prepared at home, was replaced by teff flour or pre-prepared enjera, the pancake-like flatbread central to Ethiopian dining. In 2015, a survey of shops in the Tanzania's biggest city, Dar es Salaam, identified 487 different processed food products on sale, most of them made locally. The same year, a continent-wide survey suggested that processed foods accounted for 70% of all food purchases in Africa.

New food supply chains have developed across the continent

Surveys show that farmers could increase their earnings between fivefold and tenfold with intensive farming targeting urban areas. By 2010, according to the US-based International Food Policy Research Institute, rural–urban food supply chains in Africa were moving five times more food to cities than in 1970. Some of the supply chains covered enormous distances. The maize chain in Nigeria extends 1,000 km to connect 8mn smallholder producers in the north and center with 160mn consumers, mostly on the coast.

Those with access to urban markets invested in irrigation and fertilizer, enabling them to double-crop, or diversify into high-value produce. IFPRI estimates that smallholder irrigation could expand by a further 82mn hectares. In the 2010s, only 6% of African farmland was irrigated, compared with 14% in Latin America and 37% in Asia.

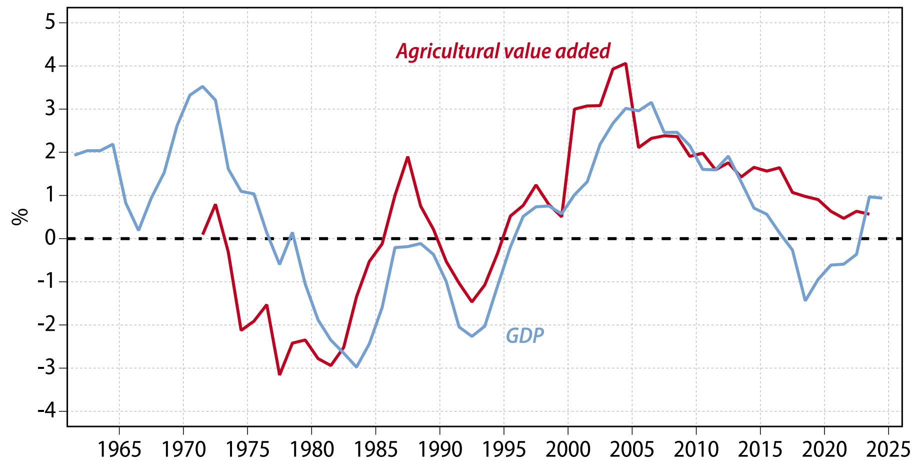
Average fertilizer use per cultivated hectare in Sub-Saharan Africa is a very low 16 kg, but fertilizer sales rose 8% a year through the 2010s and by the end of the decade the East Africa region reported an average use of over 30 kg/ha.

Rising agricultural productivity means falling poverty rates

Agricultural growth gave African economies more stability by reducing poverty and cutting dependence on mineral and hydrocarbon price cycles. One review concluded that every 10% of agricultural productivity gains in Africa translated into a 7% reduction in poverty, versus 5% in Asia. Following the China-centered commodities boom of the 2000s, African GDP growth decelerated, but it did not collapse as it had after earlier cycles in the 1970s and 1980s.

Steady agricultural growth has made African economies more stable

Real agricultural value added and GDP, per capita, YoY % change



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The manufacturing bit of agriculture

The food industry is spawning giant new corporations

As in early-stage developing countries in Asia, the growth of farming and the food industry nurtured Africa's first large private companies, engaged in downstream agricultural processing, distribution, retailing and services. Many such corporations sprang from the era of IMF and World Bank structural adjustment programs in the 1980s and 1990s, when African governments faced debt distress and sold off state assets to private investors.

The biggest company in Tanzania, Bakhresa, was originally a grain miller that bought up state wheat, rice and maize mills in multiple countries. By the late 2010s, Bakhresa's operations extended across eight nations in East and Southern Africa. The group diversified into consumer goods, transportation, petroleum products, television stations, real estate and more.

In Kenya, with one of the highest levels of milk consumption in Africa, a company controlled by the politically powerful Kenyatta family, Brookside, became the leading corporate player in dairy both there and in neighboring Uganda, and began to invest in other African countries.

Agricultural businesses are leading the expansion of African manufacturing. Across the continent, agricultural processors currently account for half the annual capital expenditure in manufacturing activities.

In most African countries, diversified conglomerates will probably emerge from food processing companies—similar to the sprawling groups that sprang from agricultural roots in Southeast Asia, like CP Group in Thailand or Salim Group in Indonesia.

Supermarkets are capturing a growing share of food retailing

The consolidation of food processors enabled the rise of supermarkets, which require large-scale suppliers. South Africa started to develop supermarkets in the 1990s; Kenya, Zambia, Tanzania, Nigeria and Ghana soon followed. In the late 2010s, the supermarket share of food retailing in East and Southern Africa was still only 15%, but it was growing three times faster than local economies.

Will other manufacturing develop?

The growth of agriculture and agricultural processing are now a given. The bigger question is whether African governments will commit to and support broader manufacturing development. With 17% of the world's population, the continent accounts for just 1.3% of manufacturing exports. Two thirds of those exports come from four countries: South Africa, Morocco, Tunisia and Egypt. Manufacturing is just 11% of the average economy and the share is lower today than it was in 1990.

For decades, African manufacturing was hobbled by labor shortages and high wages

In Asia, starting in the 1960s abundant labor moving out of agriculture allowed fast rates of industrial growth at low and competitive wages. Conversely in Africa, with limited labor and relatively abundant cultivable land, the non-agricultural sectors faced high and steep wage curves. Most of the import-substituting industries developed in Africa after independence could only be sustained under increasing protection and were shut down during debt distress in the 1980s and 1990s.

Demographic change is altering this pattern. In manufacturing behemoth China, factory labor now costs at least US$600 a month. In an African country like Madagascar, whose apparel sector already employs more than 100,000 people, labor costs US$65 a month. There are plenty of other African countries, such as Ethiopia with a population of 138mn, that have labor available for one tenth of China's cost. Meanwhile, the boom in African agricultural processing is creating, and growing, domestic businesses that have manufacturing capabilities.

Africa is well placed to capture garment manufacturing moving out of East Asia

Other trends are working in favor of increased African manufacturing. According to the World Bank, 30% of China's garment production and 15% of footwear moved out of the country by 2020. Most of the jobs went to cheaper Asian destinations, but Chinese companies made significant early investments in Egypt and Ethiopia. In 2017, the management consultancy McKinsey estimated there were 4,000 Chinese manufacturing companies operating in Africa, accounting for 12% of manufacturing value added. In recent years, large-scale US clothing buyers PVH, VF Corporation and The Children's Place have committed to switch 15–35% of sourcing from Asia to Africa, mainly to diversify supplies in the face of government trade frictions.

The non-labor source of Africa's high manufacturing costs was traditionally utility and logistics prices. Charges for electricity, water, transportation and security all tended to be higher than in competing regions.

Since 2013, however, China's Belt and Road Initiative has provided tens of billions of dollars of financing for infrastructure developments. By 2020, Chinese banks had made US$153bn of loans to public sector entities in Africa, 80% of which were for power, transport, telecoms and water projects. Some observers warned that debts accumulated in building Africa's infrastructure threatened economies but, as with Asian countries' past debts, the outcome will be decided by the value that is extracted from the new assets. Few African infrastructure investments have been white elephants.

Cheap factory workers have advantages over expensive industrial robots

Other commentators suggest that advances in industrial robotics and artificial intelligence mean that the world will not need another low-cost manufacturing region in Africa. However, this is to misunderstand the flexibility of human labor and its low cost relative to robotics when a large labor surplus is available. With respect to flexibility, labor in developing countries is hired and fired as needed. Robots, by contrast, are a sunk cost for which a firm pays whether a production line is busy or quiet.

Moreover, when production demands exceed expectations, additional robots cannot be conjured into existence. Contemporary robotic production is surprisingly inflexible. In a labor surplus environment, more workers can be hired in hours. In the case of garment manufacturing, for example, an industrial robot costs over US$100,000. And robots generally struggle with handling fabric, so they can perform only limited tasks.

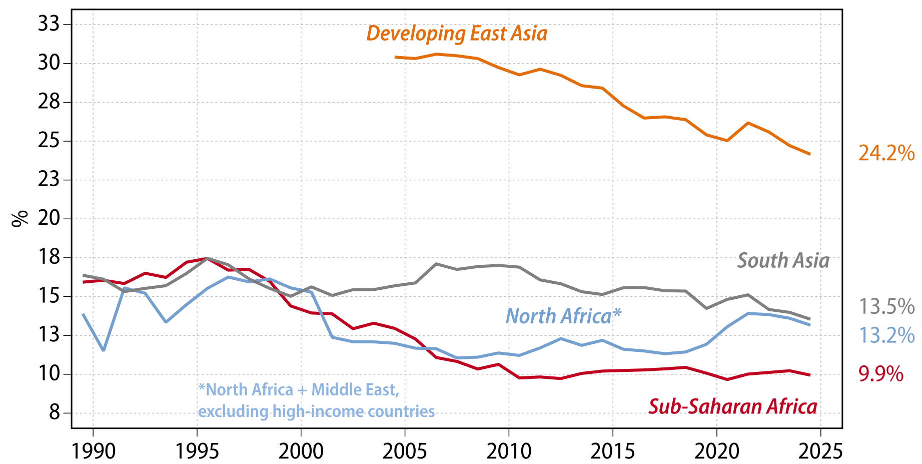
The real problem is the state

Africa lacks Asia's past focus on industrial policy

The biggest challenge to the expansion of manufacturing in Africa is that the state is missing in action. Garment manufacturing enclaves in Lesotho and Madagascar grew up with almost no government support. Elsewhere—for example, in Nigeria and Morocco—industrial policy has been government-led but fitful, haphazard and poorly focused, leading to limited structural change. Africa needs the Asian recipe: industrial policy developed and applied by governments over decades.

Africa's manufacturing sector is very small

Manufacturing value added, % of GDP



World Bank, Gavekal Research/Macrobond

The story of Nigeria's Aliko Dangote shows there is no shortage of industrial talent. Granted a four-year monopoly on the importation of cement in return for an undertaking to develop domestic cement manufacturing, he delivered on the bargain. The owner of flour and sugar mills, he built up cement-making capacity of 52mn tons a year by 2023 and expanded across 10 African countries. Dangote beat out the multinational cement firms that dominate most African markets and went on to build a US$20bn oil refinery east of Lagos and a linked fertilizer plant. The refinery's throughput of 650,000 barrels per day will handle one-third of Nigeria's crude output.

In a major turnaround, African currencies are now competitive

In different African countries, wage rates are now between a half and a tenth those of China. Infrastructure is much improved. Immigrant business communities that were repressed after independence are allowed to get on with business. Exchange rates are far more globally competitive than in the past, when African governments favored strong currencies to increase import purchasing power.

And the African Union is rolling out the African Continental Free Trade Area, or AfCFTA, which has been formally operational since January 2021, but whose full implementation will take place over 15 years. All 55 African states are included in AfCFTA, which the World Bank forecasts will increase exports by US$560bn a year by 2035. Some African states face international debt service pressures but, overall, African economic prospects are better than ever and, as in Asia, it is the success of agriculture that makes future progress possible.