AfricaHardball
POLITICAL RISK PERSPECTIVES FOR THE AFRICAN ENERGY INDUSTRY
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Local and global markets, not 'big men', start to drive policy

The *AfricaHardball 2007* meeting in Hamburg got its edge from feisty debate over China's impact on the continent's commercial and diplomatic relations, how markets rather than 'big man' politics can drive policy, the cost and complications of dealing with donors, and how to tackle current and future conflicts that continue to blight an otherwise improving continental picture. *AfricaHardball 2007* opened with the established format of a team of experts giving their *Upsides* and *Downsides* – key trends that marked their perception of the evolution in African affairs. *Hardball*'s Analyst *provocateurs* met their match in delegates, who included a strong team of African officials and industry players.

China's high-profile entry into Africa's resources industries has encouraged Beijing to adopt a development agenda whose potential benefits will substantially outweigh any governance and other concerns, if it can be used to the maximum advantage by African governments.

Those governments now being courted by China should benefit from playing off Beijing, **India**, **UAE** and **Qatar**-based entrepreneurs and other new players against their traditional commercial partners when structuring deals and seeking financial assistance.

That was one of the more striking conclusions of the *AfricaHardball* analyst team, who in Hamburg on 27 June helped to stimulate debate over how politics impinge on the power and other African infrastructure industries.

One aim of *AfricaHardball* is to give African decision-makers a feeling of how leading Western analysts – who make the headlines that affect them – assess risk. Another aim is to help international corporates better understand how risks are assessed by those they seek to advise them – and how those risks are perceived by their African partners.

Taking stock of political and economic trends that affect African infrastructure development, the *AfricaHardball* team – moderator *Cross-border Information Ltd* chairman **Jon Marks**, Gulf of Guinea expert **Antony Goldman**, Brussels-based Central Africa specialist **François Misser** and *Africa Confidential* editor **Patrick Smith** – were asked to cite two positive developments that have impressed them in the past year and two negatives.

Below is an amalgam of their answers and the debate that followed.

Markets – upsides

Trend of financial flows: viewed from hedge fund heaven in Greenwich, Connecticut, or by private equity investors looking to high-risk/high-reward deals, sub-Saharan Africa has become 'sexy' – the focus for an apparent increase in investor interest, following debt reduction and global markets' reassessment of their attitude to African asset classes. This is bringing a dizzying array of new players into African markets, including bulge-bracket banks (New York giants have been searching around for analysts and other talent who can

Playing Hardball: the rules

The second **AfricaHardball** meeting brought together a select group of policy-makers, analysts and executives in Hamburg, **Germany** on 27 June 2007. The aim, once again, was to discuss critical political issues affecting the African energy industry in frank and open terms.

As with the first meeting, held in Lille, **France** in June 2006, it was a private meeting held before the annual *Africa Energy Forum* formally opened, convened by ***Cross-border Information Ltd*** with our good friends at *AEF* organiser ***EnergyNet***.

AfricaHardball is played out under the *Chatham House Rule*, as defined by the London-based ***Royal Institute of International Affairs***: "When a meeting, or part thereof, is held under the *Chatham House Rule*, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed." The meeting's title promises a 'no holds-barred' discussion – referring to the American phrase for adopting a tough approach to issues: 'playing hardball'.

This document is principally intended to round up the Hamburg **AfricaHardball** meeting for those who participated in it. It is not exhaustive, but we hope it helps to shape the agenda for further events and discussion.

The meeting broke up with a consensus that more focused debate should follow on several key issues. We propose convening another meeting – preferably around a table, but if not online – before next year's *Africa Energy Forum AEF*, looking at one of these themes: **cross-border politics**. This would examine the political, economic and societal blockages and advantages to regional and continental integration, and to projects that can move the agenda forward.

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develop this 'new asset class'), new players like **Russian**-based ***Renaissance Capital*** and local banks, notably in **Nigeria**, who have significantly raised their performance. Investment funds and corporate debt/equity plays are proliferating, so rejoice!

Newcomers mean business: in a similar vein, the entry of new players, return of developers and some other old friends into the African power and other infrastructure sectors is opening up a range of opportunities that African decision-makers can exploit. The growing appetite for cross-border deals, and the fact that such critical players as Nigeria are starting to deliver on the promise of new capacity are a practical consequence of reform.

China offers huge opportunities: the ***African Development Bank***'s Shanghai meeting in May was a "huge wake up call" – indeed, China's (re-) emergence as a major player in Africa is arguably the most important trend to hit the continent since independence. With ***OECD*** data showing that 50% of the contractors working in sub-Saharan Africa are Chinese, bidding prices 20-30% cheaper than their competitors (Western and local) this is "a great opportunity".

Another *Hardball* analyst commented that China was helping to revive Africa's importance in Europe. Noting that the Chinese were under-represented at the *AEF,* he observed that in most European meetings "China is absent but always present in debates". The huge debates over China's role were positive, as they had a "domino effect", forcing other trading groups to up the ante. The Chinese effect will be very visible when the ***European Union***'s Lisbon summit in December places African energy high on its agenda.

Improving international environment: there has been a "revolution in citizenship", as well as in the investment environment. **Kenya** is an example of this: all sides saw that improved governance was good politics. The impact of a more assertive civil society, as well as more rigorous governance standards in partners (which were questioned), has raised the cost of "dodgy deals" much higher.

Lobbyists, like supporter of reform from within for global capitalism **Raymond Baker,** are raising the profile of the 'dirty money' debate, along with traditional governance campaigners.

Corruption is a huge business. It is calculated that capital flight costs the continent $150bn/yr, compared with a global aid budget of about $30bn.

Changing context: the new investment paradigm/governance imperative changes the context for business. In Nigeria, the ***Kellogg Brown & Root*** investigations over *NLNG*-1 show how governance questions became globalised: out of investigations that started with investigating magistrates in Paris, the questioning spread to the **United States**, **United Kingdom**, Nigeria, **Switzerland** and well beyond. It "cast a shadow over how companies do business".

Now, companies "are looking to understand how their partners work". "Deals have gone astray that five to ten years ago might have happened." In this symbiotic relationship, African governments and companies "have to factor in how companies do business".

Energy security: Russian pressure on **Ukraine** and other countries, and Europe's general feeling of vulnerability has created an unprecedented situation in the EU. Europe is willing to offer unprecedented opportunities – but it needs a robust response from African leaderships so the EU carries through on its commitments, such as the Infrastructure Initiative.

Telecommunications: the extraordinary growth of the telecoms market has been a "quiet revolution" that has changed everything – including the way people do politics. Twenty years ago a Nigeria minister told a *Hardball* analyst: "Telephones are not for ordinary people." Now they are defining behaviour across the continent.

Markets – downsides

Trend of financial flows: talking to hedge funds, private equity players etc, there are signs that this is 'hot money', or at least that some deals could prove very expensive. Those talking up the market are determined that there is no 'correlation' threat – where a financial collapse in, say, China would lead to investors pulling their money out of, say, Nigeria.

But the jury is out on this. All members of the *Hardball* team feared some degree of hot money investment was going on, and despite the upturn in many African economies, they remained very vulnerable to market volatility.

Beware of strangers: New players bring changing attitudes but does this mean that new players are always to be welcomed? The Chinese seem set to spend big, but is it all healthy? Less beholden to the ***International Monetary Fund*** and traditional Western partners, some countries (particularly oil and minerals producers) are cutting loose from conditionalities (**Angola**, **Chad** etc), not always for the best.

In some cases, very dubious players are working their way into deals (helped by the British libel law (!). Investors, companies and bankers must do due diligence – and be brave enough to drop tempting deals.

Beware of markets: investors have piled into resources-related assets; in some cases international markets need to clean up further to protect investors and other stakeholders. Are we really happy about *AIM* and other markets where frontier resources companies raise capital?

Lack of interest: there are too many countries that are just ignored – **Mali** has a terrific record of delivering proper democratic responses but is ignored because it seems to have too little to deliver international capital. **Guinea** has major resources but its crises have been rather overlooked – we need to treat such cases more seriously, to overcome double standards.

Self-interest: all the talk of change should be handled with care. The aid industry (but also hedge funds) are talking up the extent of change, and their role in it. NGOs as well as private equity are earning substantially from their insertion into Africa.

Cyclical returns: when it comes to commercial entities, there is a good case to argue that returns are based on the commodities cycle, rather than reform. Several analysts argued that although the West is very critical of China, at least the Chinese have made a long-term commitment.

Countries – upsides

Nigeria: the recent elections were appalling, but that is not just what contemporary Nigeria is all about. The judiciary have shown great independence – "the context has shifted". The problem in President **Olusegun Obasanjo**'s last years was that "political factors were sometimes disguised in key decisions", as crony capitalism took over despite a good clean-up start.

Popular culture remains a top-down phenomenon, with a few power-brokers deciding how the masses should act, and milking the hugely problematic oil sector. But this might yet change under President **Umaru Yar'Adua** *(see below)*.

Countries – downsides

Sudan: the recent Paris conference showed all that is wrong – no Africans involved in the Sudan issue were invited and the conference came up with nothing. It was a "huge failure of will" – not more than a photo op, with no *African Union*, no troop numbers. Yet Darfur is a huge issue to resolve: it will define what happens in Sudan in the next ten years. It is a political issue that must be resolved by governments. Robustly.

Somalia: the **US/Ethiopian** engagement in Somalia is an "almost unmitigated disaster". It is a reflection of the new Cold War – a global ideological conflict that has been fashioned out of an historic dispute between two countries, Ethiopia and Somalia. The best solution so far was by the former *UN* envoy **Mohammed Sahnoun**: to treat the dispute by dealing with clan leaders, who are central players in Somali politics (**Bin Laden** is a smoke screen).

North Africa: rule by old men. Most North African leaders are ageing, and there remains a real problem of circulation of elites across the region *(discussed below)*.

Discussion round: issues arising

In discussion of the markets *Upsides & Downsides* outlined above, the *AfricaHardball* group immediately focused on two questions:

(1) does the influence of private equity and hedge funds mean new financial instruments are being mobilised for development?

(2) are these flows 'structural' (and thus sustainable) or 'cyclical' (doomed to exit as fast as they entered)?

Are they 'correlated' to what happens in other markets (creating a 'hot money' situation) or non-correlated?

Infrastructure as an asset class

One of the several regulators present observed the urgent "need to define infrastructure as an asset class" – which emerging markets/project finance investors can relate to, as they will then have an underlying asset into which to channel funds.

Instruments like the planned **Nigerian** infrastructure bonds will help to achieve this. These bonds will be backed by the government and traded on the bourse, creating an infrastructure investment instrument and helping to give depth to what is now a shallow market.

The recent inflow of funds into sub-Saharan Africa – with the reported deal flow suggesting much more to come – offers a great opportunity. But, Hardballers asked, are these flows 'structural' (sustainable) or 'cyclical' (hot money)?

The fear is that the question – “do hedge funds have staying power?” – is unanswered.

(Private equity investors should have some durability, one friend of Hardball commented later, because they are often activist investors looking to scale up the companies and projects they invest in – and often have the muscle to do so.)

Asia versus the West?

One Hardballer commented that this view of the contemporary world was a false. China/Asia and the West are competing though – the chair commented that African governments have never been so well placed to exploit this competition, playing each side off to the maximum advantage. Unlike the Cold War, it is not a zero-sum game (with a country allied to either the **USA** or **USSR**), but rather a market-based competition in which multiple players are involved.

It was observed that the two models (Asian/Western, in this case Bretton Woods) clash sharply when it comes to investment: “Go to the [*International Finance Corporation*] *IFC* and there are 240 steps to follow – try to get one penny out of them,” commented one of the utility chiefs present. Meanwhile, the Chinese are willing to come with a 30-year commitment.”

Angola desperately needed help after ending 27 years of civil war, and still needs support to help it create a sustainable economy based on an oil sector which last year delivered 15.7% GDP growth (meaning that power demand increased at 12%/yr in 2003-06); there is huge suppressed demand.

However, “donor and investment conferences were continually cancelled [a reference to Luanda’s strained relations with the *International Monetary Fund*, USA etc]… In the end came the Chinese and they are helping to fill gaps in the infrastructure… with a lack of conditions.”

Another potential borrower observed that “global demand is growing and funds are needed to meet it, but donors are obsessed with seeing risks.”

The group mulled the idea of a “Chinese geopolitical model”, which saw risks very differently – and has recently been claiming a political ‘success’ in Darfur.

But what of the governance problems associated with China?

“Good governance is not the exclusive domain of the West,” an African participant observed. The recent scandal involving ***BAE Systems*** and commission payments that back the massive **Saudi Arabian** *Al-Yamamah* arms deal was mentioned.

Not everyone was so charitable towards the Chinese: one southern African participant commented that Beijing’s tolerance of corruption was linked to its own commercial interest. “Africa has to ask what is the cost of dealing with China… we need to crack down on corruption.”

Another southern African participant observed: “We need to worry about the ‘Shanghai effect’ – we need to watch deals on a case-by-case basis.” But, he added, **South Africa** with its very robust capital markets could weather most storms.

Another SA voice chimed in with the argument that the best defence was to build up local content – it had to be built into project specifications, if necessary.

There was general agreement that when it comes to local content the Chinese were less attractive partners – their low labour being a key ingredient in under-cutting the market.

And there was the tantalising observation that in many cases, Angolan officials are finding the cost of Chinese loans very high: outside credits with a political underpinning, it is not necessarily cheap money – and restructuring loans is also expensive.

Local markets emerge

Local companies must be given space to develop – in Nigeria 21 have applied for IPP licences. The model should be for “a triangular dialogue”.

Local institutions and instruments are evolving fast. The emergence of African local currency markets is a notable trend of the last year – with issues such as the recent *Namibia Power Corporation* bond setting the pace.

Also important is the evolution of local corporates. Consolidation in the Nigerian banking sector, *Guaranty Trust Bank*’s five-year $350m Eurobond, and the introduction of more sophisticated instruments to the Lagos market, have created a dynamic unthinkable only a short time ago.

Noting that the Chinese were under-represented at the multi-national *Africa Energy Forum*, a *Hardball* analyst observed that in most European meetings “China is absent but it is always present in debates”. This ‘presence’ is forcing rival trading blocs to raise their performance.

Critics say countries like Kenya lack the ‘capacity’ needed to develop their economies, but huge progress has been made in promoting human capital, where 40 years ago ‘there were no human resources’. The advent of democracy means this capacity can be mobilised to much greater effect.

Indeed, with ever more international banks and investors making the trip to Abuja and Lagos, Nigeria banks are proving one of the most effective channels for persuading decision-makers than the nation really has changed.

Human resource-building

An East African participant observed that “40 years ago there were no human resources”. Now, a country like **Kenya** has very good human resources capacity – another factor that is making African economies more robust – and these more qualified people are helping to accelerate growth.

Single party government meant in 30 years Kenya had only 4-5% rural electrification (15% overall), but with elected governments politicians are all of a sudden very keen to catch up – and keep their seats in parliament/government. In Kenya, “each of the 210 constituencies must have power.”

But the high level of investment needed to ‘electrify every constituency’ means more funds are needed, and once more – building on a theme apparent throughout the morning and then on into the *African Energy Forum* thereafter – there was criticism of the slow pace donors work. “When we are looking for funds we have found the ***World Bank*** to be very slow, but in come the Chinese and things happen very quickly.”

COUNTRY FOCUS

The meeting discussed a number of key issues affecting African states. Below is a round-up – more was said by both analysts and participants.

Nigeria after the elections

The judiciary’s increased independence – as discussed in *Upsides*, above – points to some of the positive developments that emerged during the **Obasanjo** presidency; the problem was that some trends that started well, such as the anti-corruption campaign, in the end became politicised.

The new president thus comes to power in a poisonous atmosphere.

Crony capitalism took over as Obasanjo allies came to dominate swathes of business, undermining genuine earlier efforts to clean up after the **Abacha** years. The earlier clean-up campaigns represented a shift in governance that meant **Nigerian** banks were encouraged to invest and develop to an extent inconceivable under the military dictatorship. The later muddying of the waters with cronyism and other abuses – which has created huge problems in the oil sector, to name one among many arenas for business shenanigans – has set up a huge challenge for incoming President **Umaru Musa Yar’Adua**.

Nigeria politics remains a top-down affair, with a few power-brokers sending down orders about what the masses below should do. ‘Big men’ have been gathering round Yar’Adua trying to maximise their position in the new presidency.

Delays in naming the new cabinet – a government was still awaited as this report went to press – points to the ‘pork barrel’ nature of Nigerian political deals.

Yar’Adua will be measured by his ability to challenge vested interests and other abuses of the Nigerian system.

Delta opening

It is most hopeful that he has started with a clear commitment to dealing with the Niger Delta – his conciliatory opening received an early boost when the rebel ***Movement for the Emancipation of the Niger Delta (Mend)*** offered a one-month truce. The appointment of Bayelsa State governor **Goodluck Jonathan** (with a PhD in zoology) as vice president places an Ijaw in a key position. The 14 June presidential order to release prominent militia leader **Mujahid Dokubo-Asari** was widely approved in the Delta as a gesture of goodwill that could facilitate dialogue.

All this is positive because it is essential that the authorities deal with serious players in the Delta – which means talking to the militias.

The *Africa Energy Forum* heard ministers looking to exploit the improved investment climate and promise of more capital flowing into the power and gas sectors. *Hardball* discussed the politics needed to make this happen, including moves to tackle 'big man' rule.

On the governance front, Yar'Adua understands that he starts the job with one advantage: that he never wanted to be president in the first place; he is the first head of state to come from a wealthy family – he has a degree (indeed, taught chemistry) and is "at ease with money" – which is just as well as the president officially earns only $27,000/yr. To benefit from his presidency, "others are obliged to him".

This will thus be a different kind of presidency. Critically, Yar'Adua must quickly graduate from his image of being a hick provincial governor with few national credentials.

Although his personal probity is welcomed, he is not personally comfortable with the elite; neither is he well-travelled, and critics observe that in 1999 he introduced sharia law to Katsina state. All these are "issues to explain to the **United States**".

Another problem is overcoming the "booby traps" left over by Obasanjo – such as commitments to increase prices. The deal Yar'Adua negotiated to avert a general strike suggests he won't be bound by Obasanjo-era commitments.

If Yar'Adua can keep his health, beat off aggressive vested interests and deliver development, with wealth trickling down through society, his presidency will be considered a success. It is a big ask. Obasanjo was lauded abroad, but his policy was framed to please creditors; this succeeded, as the debt was mastered and funds flowed in. But it did not necessarily bring 'development' – the elusive concept Nigerians know they need.

They are waiting on Yar'Adua and his still largely elusive team to deliver.

Nigeria commentary

In subsequent debate, it was observed that Nigerians are either "very rich or very poor, with nothing in between". One chronic problem to overcome is the lack of a middle class.

One participant commented that markets and technology had played a role in reshaping Nigerian politics. Emboldened by mobile phones and the internet, but also by signs that civil society and legal institutions are getting more robust, "people are starting to believe they can participate."

Of course, people were angry about the April elections – they were looking for more (a genuine election, not a PDP plebiscite), but that will come. The fact the elections were held at all should be considered a plus point.

Foreign direct investment, linked into local companies, is becoming more apparent – as in the Geometric Power IPP, which is seeking carbon credits – and this too will have an impact on political behaviour.

Reform is a slow process: of course, electricity and other prices should rise, but you have to regulate against price shocks. Bearing this in mind, the Ministry of Finance decides what levels of tariff are applicable – it is a political decision. The problem remains that "decision-making is still very opaque".

DR Congo more stable despite the rebellions

With only local elections remaining to be held, the DRC seems to be in a remarkably healthy situation compared to one year ago. President **Joseph Kabila**'s rival **Jean-Pierre Bemba** is in **Portuguese** exile and poses no military threat. A government is in place in Kinshasa and says it is getting down to work.

Thus, on the surface, things bode well for Kabila – with peace across large parts of the country opening up the hydropower potential of Inga and, potentially, the hydrocarbons potential of the Cuvette Central (Central Basin).

But trouble spots remain, with residual rebel activity a threat. Persistent violence in Ituri is destablising and could derail the work by ***Tullow Oil*** and partners in Lake Albert (with knock-on effects for **Uganda**).

More serious still is the situation in North Kivu, where the ***Tutsi*** warlord **Laurent Nkunda** has been active; also to take account of are some 15,000 **Rwandan** troops and the rump of the Mai-Mai uprising.

The state remains chronically weak and prone to corruption. Some 50% of the state budget is underwritten by donors, but the *International Monetary Fund* has suspended support. In September there will be problems paying civil servants.

Soldiers are now paid, but their wages (up to $25/month from $10-12) are nowhere near enough to buy stability.

There is "a winner takes all" mentality, which adds to tension; this was apparent following rigged Senate elections when there was trouble in Bas-Congo.

DRC commentary

Commenting on these developments, another *AfricaHardball* analyst commented: "DRC flatters to deceive".

The zero-sum game, sending Bemba to Lisbon, can work in the short term, but the pacts Kabila has set up to consolidate his rule are showing signs of breaking down.

There remain huge issues of how the centre works with the periphery. "There will be an almighty bust-up over the Kivus" and the Kasais are also marginalised.

This will have major consequences for business. Already, parliament is scrutinising some 60 mining and other contracts. It is a very volatile situation.

Local politics and the neighbourhood

Even after the planned local elections, provincial politics will remain highly competitive – not least because in two years time the country's 11 provinces are expected to be divided up to become 26.

This will pose problems, as interest groups in the new jurisdictions manoeuvre to gain the maximum advantages – the meeting saw uncomfortable echoes of **Nigeria** here. "Bas-Congo will be looking to more from Inga". In Katanga, differences between the north and the Copper Belt will become even more apparent.

Neither is the wider neighbourhood particularly settled, although some things have improved – relations with Rwanda are on the up, encouraging co-operation over Lake Kivu and diminishing the potential for trouble-making.

Angola has cosied up to Kabila even while border disputes persist. There have been **Zambian** incursions.

The wider region is looking to Inga to power southern Africa, but even if the money is put on the table – which seems increasingly likely given multilateral and bilateral supporters' enthusiasm for the Western Corridor and Grand Inga schemes – many of the planned projects are still unlikely to go ahead. DRC state utility *Snel* is in crisis – its finances are as far from resolution as ever – and there is a lack of trust, notably between some of the Westcor governments.

North Africa: rule by old men

With the exception of **Morocco** – where King **Mohammed VI** is in his early 40s and seems committed to reform, with the implication that the monarchy increasingly devolves power to Morocco's increasingly complex civil society – most North African leaders are ageing. There remains a real problem of circulation of elites across the region.

Algeria's President **Abdelaziz Bouteflika** is ill but wants to carry on regardless, potentially into a controversial third term; this is triggering new in-fighting. President **Zine El Abidine Ben Ali** shows no sign of relinquishing his very tight hold on power, which means **Tunisia** is widely perceived as a human rights and political risk problem, rather than as the economic and social success story it can claim to be.

Hosni Mubarak is homing in on his ninth decade, with the big issue whether his son **Gamal** succeeds him (as his wife **Susan** would very much like), or whether the **Egyptian** president's peers get one of their number in the senior political/security elite, such as Defence Minister General **Tantawi** or security chief **Omar Suleiman**.

Colonel **Muammar Qadhafi** is proposing a ***United States of Africa*** based on his ***Jamahiriya (State of the Masses)*** model, but despite its post-WMD reintegration into the global economy, **Libya** remains a poorly managed polity, where the main emerging players are the Revolutionary Leader's children; severe governance problems persist.

North African leaders also have plenty of unfinished business to address. Despite direct talks sponsored by the **United States** between Morocco and the ***Polisario Front***, the Western Sahara dispute is far from resolved and will continue to put a brake on regional integration.

Also of concern is the piecemeal nature of economic reform: in some sectors economies like Egypt, Morocco and Tunisia have made real progress; a move towards more efficient government in Algeria has seen long-stalled projects like Algiers International Airport get implemented. But in most countries, key sectors need much more work – agriculture in Morocco, financial services in Algeria – meaning governments must show more appetite for tackling the hard stuff.

Southern Africa: 'comrades in business' play electoral politics

Elections were an abiding theme in East and southern Africa, although their direct impact on business may be minimal.

It was observed that during the whole potentially destablising **Jacob Zuma** affair – which underlined the delicate balance of forces in South African politics – the *Johannesburg Stock Exchange (JSE)* and rand exchange rate were hardly affected.

The emergence of "comrades in business", such as **Tokyo Sexwale** and, potentially once more, **Cyril Ramaphosa**, as major players in African National Congress politics points to a wider theme (discussed at greater length during the meeting) that South African politics is highly personalised but "there is not a huge range of ideological belief".

The balance of forces in the southern region is evolving. Fuelled by oil rents, **Angola** has increased power.

Zambia and others are rising in importance too, creating a more balanced region after South Africa's long domination,

FEEDBACK: Africa challenges the G8

These comments were submitted by one of *Hardball*'s industry members following the meeting: "If it were not for **China**, the ***G8*** leaders at their recent meeting in **Germany** would have been lecturing from atop their customary high horse about how African countries should behave. Instead there was some soul-searching on how the aid promised at the previous meeting had not materialised. 'Power corrupts and absolute power corrupts absolutely'. The G8 leaders found their power taken away by China, whose willingness to engage Africa on Africa's terms is threatening.

"At stake is a huge economic opportunity and large natural resources, both of which the western world is greedy for. If China, and to a smaller extent **India**, were not on the playing field, the western world would continue their approach of colonial masters. Now they feel the need to compete with China and India – and competition is good.

"The need to compete seems to be waking them up. When you are not starving, you might be inclined to choose between organically and otherwise grown food. When you are starving any food is acceptable. Similarly one has to apply ethical and environmental standards in the context of the living conditions."

typified by Thabo Mbeki's driving vision for African renaissance.

Zimbabwe's descent into political turmoil and economic chaos shows how far even the most successful economies can fall. Opinion in the room was somewhat divided over whether South Africa's constructive engagement had worked.

A senior southern African decision-maker concluded: "People shy away from discussing Zimbabwe but we are also affected by its crisis…You can be critical of 'silent diplomacy' [of the sort SA has promoted] but at last pressure is being applied so the *[Movement for Democratic Change] MDC* and government negotiate."

A conclusion: markets are driving politics

Following debate over the above issues, and developments in East Africa, the meeting turned to discuss what the above experiences said about the wider direction of African policy-making. There was a consensus that it seems that "markets are driving politics". However, it was apparent to all present that this trend needs considerable further examination to be better understood, and then to be applied to policy tools.

One regulator from north of the Limpopo commented that "organised business doesn't like instability". He commended the "South African model" because it seemed to have worked.

The need for integration

The other great theme to emerge was the need for integration – which is much more than the traditional slogans and Colonel **Qadhafi**'s recent efforts to rush the *African Union* immediately into becoming a '*United States of Africa*'.

Cross-border power trade and initiatives like the *West African Gas Pipeline* means that smaller economies can be supplied without having to build generation capacity they can't afford.

This process, a friend of *AfricaHardball* later commented, is very apparent in the impoverished Sahel, where the model established by the Manantali dam serving **Mali**, **Mauritania** and **Senegal** is set to be replicated in possibly several other schemes.

Integration and the shared exploitation of resources has such potential that, a West African *Hardballer* commented, "in 15 to 20 years the plan is for Nigeria to become an electricity exporter" – a concept inconceivable until now.

Bad politics are the threat to all this: strong state and parastatal structures and robust international mechanisms are needed (as well as functioning markets) to reinforce the drive towards integration.

"The biggest fear is [the *New Partnership for Africa's Development] Nepad,*" a southern African *Hardballer* said: "Integration has to be based on strong economics, as with South Africa and the SADC, and it needs drivers."

> Even the most cynical of *AfricaHardball* participants could agree with the logic that regional integration holds the key to a more rational application of resources. The problem is how to overcome highly personalised national interests to get there. It was proposed that a further meeting should focus on cross-border politics – looking at what's possible and what's not.

This participant observed that, in 1994, South Africa thought that market-driver growth would follow on from the ending of apartheid, but it didn't. "What we learned the hard way was the need for state leadership," in structuring policy but also in giving parastatal giants like ***Eskom*** and ***Transnet*** a leading role.

This has succeeded in generating growth and rational economic advances – although another South African *Hardballer* concluded the meeting by adding, "but it is also important to have investors and the right environment for them."