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# POTENTIAL OF THE AFRICAN CONTINENT IN THE UPDATED STRATEGY OF DEVELOPMENT OF THE RUSSIAN FEDERATION

*PLENARY REPORT*

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At present, the horizons for the development of the Russian economy are largely constrained by the narrowing potential and gradual exhaustion of the current model of economic development, still largely based on the exports of raw materials and other primary products. The mistaken choice by post-Soviet reformers of the unlimited reliance on future foreign investment and the good will of the global market brought about broad-scale deindustrialization and historically unprecedented outflow of national wealth and capital, aggravated by the ever increasing external political and military pressure and western economic sanctions.

According to expert estimates, the combined costs of financial sanctions and the fall in oil prices cost Russia about 0.6 trillion dollars over 2014–2017 period. In these conditions the goals of development strategy outlined by the President of Russia underscore the indispensability of an undelayed real restructuring of the economy on the basis of its innovative modernization and diversification. A significant role in the formation of such a mechanism can be played by the intensification of economic activity in the markets of those countries which today are more open and inclined to cooperate with Russia, on the one hand, and have significant resource and growth prospects, on the other. In my opinion, African countries belong to such category.

So far, the current Russian strategies of economic development have been employing the opportunities provided by the African direction for the purposes of the recovery and diversification of the domestic manufacturing, the construction industry, the infrastructure and the services sector to rather a small extent. Meanwhile, the African track opens a window of opportunity to restore and boost industries other than of primary sector in Russia, as well as to sharpen skills and upgrade mechanisms of penetration into highly competitive developed and transition economies. This is exactly what China did in the 1980s and 1990s when it was only about to become the global economic power.

Over the recent years the leading world powers and the centres of economic power have come to realize that resource, human, and economic potential of Africa is of high value for the world economy and the new model of global development now in formation. It follows that all the countries which claim to be global actors in the international arena and future world economy are expanding into the African market, rich in resources and mineral reserves. Their objective is to secure their global positions by investing into the emerging economic chains. Such an approach allows to go beyond trade relations with African countries, and to gain a foothold in Africa for the future, guaranteeing an inflow of a substantial amount of the continent's exclusive resources for their own, including innovative development in the new economic environment.

Today the old and new actors of the world economy are engaged in a tough geo-economic and geopolitical scramble for Africa. The apple of discord are natural resources, growing markets, human resources, and the sympathy of the most rapidly growing continent. Political gains also matter as they add to economic co-operation with Africa. African states make up almost one fourth of the voting members in the UN and other organizations. Their support is an important strategic reserve in the global diplomatic arena, vital for the establishment of a joint force in the process of restructuring existing institutions, mechanisms and structures of global governance, and changing the balance of power in the world.

The economic weight of Africa is on the rise. Over the last two-three years, major think tanks, consulting and rating agencies, investment banks and research centres from a range of countries have repeatedly stated that the 21$^{st}$ century will see Africa as the most rapidly developing region – the region that will define the pattern and the growth rate of developed countries. This will also have a bearing on the issues of raw materials, energy resources and human capital. The penetration into African markets and the synergy between the Old World and Africa is one and only, if any, option for Europe to retain its geopolitical weight and keep living standards on the same level in the 21$^{st}$ century. For China, Russia and other BRICS countries, as well as the US, both resources and geopolitics rank high on the national agenda, which makes it a must to co-operate with Africa.

In recent years, Africa has no longer been considered a backward region on the periphery of the world. Globalization accounted for a rapid growth of size, diversity, inter-connectedness and inter-dependence at the level of state and people-to-people alike. This resulted in a shift in the world economy, with countries swapping their roles and inequality being fossilized as a new global economic model takes shape.

The reality and the relevance of the widely known “African” threats and challenges cannot go unheeded. Many of them are here to stay and even to worsen. However, the study of traditional challenges should not impair the view on the new main developmental trends on the continent, which are of global value. One cannot blindly adopt geo-economic notions about the situation and development dynamics in Africa. With such an outdated approach and in view of the rapidly changing balance of economic, military, political, and resource potential of the leading global powers, our country and the whole globe alike will incur the heaviest losses ever.

As the competition with new stakeholders stiffens, the USA, the EU and their allies assign to Africa a much more significant role in ensuring the manageability of the international political globalization in the mid- and long-term than before.

Under the new geopolitical and geo-economic reality the leading world powers pay more heed to new emerging alliances and convergent geo-economic constructs which are known in the Western specialized literature as “economic megacollaborations” which include promising and rapidly developing regions. The West considers this phenomenon as one of the fundamental innovative characteristics of the transformation of the world economy and international relations within the “Next (New) Production Revolution” The given processes prove the hypothesis that the main global trends are getting reversed and a new basis for world order is emerging.

The monitoring and analysis of publications by leading think tanks, consulting and rating agencies (Brookings, RAND, CSIS, EY, FUTURES, Standard & Poor’s, Breugel, just to name a few) and applied and fundamental works by Western and Chinese researchers reveal that in the decades to come the leading role in such constructs will also be attributed to African countries. The choice of African countries as prospect partners in the world economy is accounted for by the fact that their economic growth is consistently above the world average; the labour growth is impressive and its quality is developing rapidly, the middle class is growing at an unprecedented rate, and that

African countries are ready to plug into the global value added chains under the terms offered to them. China and the West, in their turn, are ready to offer financial and technical developmental support, including selective transfer of innovative technology and the creation of technological, economic, information infrastructure. What proves that the aforementioned trends are valid is the documents of G-7 and G-20 and the programs of leading powers which are already being implemented. In 2017, the Taormina G-7 summit decided to develop a plan on how to integrate Africa into the NPR (New/Next Productive Revolution), which is currently being designed by the West.

Brought by globalization, the current trends in the world economy put African countries on the back foot. With the changes in the late 20$^{th}$ century, the role of Africa saw no changes for the better. What makes it worse, the African share in the international markets shrank even further and the continent stands little chance of plugging in the world economy on an equal footing. As developed countries transitioned to post-industrial and innovative development model, Africa's economy was dragging along and things did not improve. True, as for macroeconomic indicators and HDI, most African countries are still lagging behind (in the early 21$^{st}$ century the share of the continent constituted just below 2% of the global GDP, the figures for trade and investments being 3% and 5% respectively).

At the same time, in the 21$^{st}$ century, especially in the late 2010s, amidst a global financial and economic crisis, Africa's role in the world economy started to change.

Over the period from 2001 to 2004, Africa's economy grew at one of the highest rates in the world. Even the considerable global economic slowdown in 2007–2010 had only minor negative impact on GDP growth in most African countries.

In terms of GDP growth, over the last 15 years Sub-Saharan Africa (SSA) was second only to East Asia. From 2001 to 2014, 9 Sub-Saharan economies grew by at least 7% annually. In 2013, Sub-Saharan GDP grew by 5.2%. In 2014 it increased by 4.7%, the slight slowdown due a fall in fossil fuel prices. Meanwhile, the Sub-Saharan growth rate was far above the average for the world (3.5%) or the developing countries (4.3%).

2015-2016 saw less optimistic macroeconomic performance on the African continent, which could be explained by the global slowdown, a further fall in prices for raw material and fossil fuel, and a decline in demand for African products, combined with a slew of political crises and a rise of terrorist threat.

The average growth rate in SSA fell to 3.1% in terms of nominal prices and to 3.3% in terms of PPP in 2015, with the corresponding figures (estimates) in 2016 being 1.5% and 1.7% respectively. A number of SSA countries, namely Ethiopia, Cote d’Ivoire, Tanzania, and Rwanda, managed to retain a rather high, if lower than before, growth rate of 7–9%.

Over the past two decades, the countries of SSA have formed an economic area that in terms of its pace of development and growing political and economic influence is approaching that of "emerging" countries with developing market economy, BRICS a case in point. An array of Western think tanks (MSCI, Economist Intelligence Unit, McKinsey, Ernst and Young) hold that the investment climate in Africa is gradually getting more attractive compared to the Chinese and Indian ones. The forecast of the World Bank predicts that "just like China 30 years ago and India 20 years ago, the African continent is about to "take off". The perception of Africa as a poverty-stricken and backward continent with dire prospects does not correspond to reality any longer. True, a lot is yet to be done. Yet, step by step SSA is catching up.

The rating agency Standard & Poor's list markets with the most favourable investment climate. The section Frontier Emerging Markets (37 countries in total) includes 8 SSA countries, namely Botswana, Cote d’Ivoire, Ghana, Kenya, Mauritius, Namibia, Nigeria, and Zimbabwe.

Some experts expect the average GDP growth rate in SSA to level off at 5–7% in the forthcoming decade (from 2020 onwards). Western think tanks (EY, RAND, FUTURES, just to name a few) forecast that if the current economic and demographic macro-trends remain in place by 2050, the African economy will stand every chance of soaring from $2 trillion to $29 trillion to overtake the US and Europe combined.

The estimates (Rand, Stanford University, Shanghai Military University and Research Institute) are that from 2030 onwards Africa (as a whole) will turn into the ***global strategic reserve of raw materials***

***second to none***. First and foremost, the issue on the table is reserves of strategic and military relevance, indispensable for the military and strategic development in the 21st century. If we consider non-ferocious and rare metals, indispensable in, say, the production of engines for long-range bombers, we find that the US military industrial complex imports over 50% of rare metals from SSA (DRC, Zimbabwe). In fact, the figure for cobalt is 75 per cent.

Another reason why the relevance of the African economy is on the rise is that ***the African population is growing rapidly and its demographic composition is undergoing drastic changes***. In 2009, the population of Africa exceeded 1 billion to further continue its growth, the highest on the planet. By 2020, the African labour force will surpass 700 million, and by 2050 – 1.5 billion. We have to understand that, in several decades, Africa will define the demographic and social world map.

These are general estimates of Western researchers, clarifying why the leading economic hubs have engaged into the "scramble for Africa" since the early 21st century.

All the countries which follow the trend and have already been yielding or are just at the point of starting to yield "the African dividend" (as they benefit from their co-operation with countries of the African continent) will manage to avoid marginalization in the world economy. Let us give more thought to the words of one of the former Chinese leaders, who said that 15% of China’s economic success comes from the efficient co-operation with Africa.

Africa has embarked on the way of attracting foreign investors, ensuring more and more favourable investment climate. The estimates are that in the decade to come foreign investment-oriented policy will add about 2% to the African GDP. Western countries, which had been the first to gain foothold in the region, changed the discourse on co-operation with Africa. The focus was shifted from "development aid" to "partnership", i.e. joint exploitation of resources to tap into the potential of the continent on a mutually beneficial basis. New actors go neck to neck with the Western economic centres.

Africa is highly attractive for foreign investors since the return on investment in Africa is tangibly higher than that in other developing countries.

In 2015, the African share in the global foreign direct investment (FDI) accounted for 8%, with the number of investment projects implemented on the African soil reaching 705 (4% from all the investment projects in the world).

The 2010s are showing a trend towards a higher share of SSA in the total FDI, with Nigeria, South Africa, Mozambique, Cote d'Ivoire, Senegal, Cameroon, Kenya, Ghana, Uganda, and Tanzania contributing the most.

Transnational companies from developing countries build up their activities in Africa, with developed countries still ruling the roost. In terms of total investment, in 2015 the first place went to Italy, which was followed by the US and Great Britain. With its FDI relatively small, China, however, stands out for creating new jobs for Africa. Thus, 32 investment projects implemented by China in 2015 created 14,127 jobs.

When it comes to how investments are distributed between industries, new trends take shape, i.e. the share of fossil fuel is in decline and the share of manufacturing and service is on the rise, with services sector accounting for over 75% of the total FDI. A graphic example here is investments in energy, mostly renewable, which in 2015 matched those in mining in absolute value and in percentage alike.

As far as the structure of FDI is concerned, the biggest part is made up by manufacturing, IT, and education – the branches vital for economic modernization and catching up with the emerging model of the world development.

However, the mining industry is still there to attract FDI, since it takes time to diversify investments and switch to cutting-edge industries. Urbanization coupled with the emerging middle class brings to the table wholesale and retail trade. Presently, over 150 projects are being implemented in the sectors of IT, telecommunications, trade, and consumer goods, and further 120 – in the financial sector. All in all, these account for a hefty 50% of all the projects funded by FDI.

China is a role model for other governments to promote national companies across Africa. Unlike European states, which are focused on financial and credit services and ODA, China places emphasis on trade and investment.

A rising economic power undergoing a trade and investment boom, China has become a competitive alternative to Western countries. At the second international conference on the development of African markets convened by UNDP in Abidjan on 28-30 March 2017, most African leaders, ministers and businessmen mentioned the immense Chinese contribution to the socio-economic development of Africa.

China's active and highly beneficial co-operation with Africa pushed other developing countries to build up their activities on the continent. In particular, these include India with trade turnover with Africa of over $60 billion, and Turkey and Brazil with $20 billion and $17 billion respectively.

In general, our foreign partners have set up effective state institutes and foundations designed to support national business on the African soil. Until recent times, France had the Ministry of Co-operation with former colonies. The US set up the United States Agency for International Development (USAID), with a range of programmes hammered out and put into practice – a case in point is a programme on improving trade relations with SSA (African Growth and Opportunity Act – AGOA). China, India, and Turkey developed state concepts and financial agencies aimed at developing and encouraging co-operation with African states. This is how the public-private partnership serves the national interest.

These days African states are shaping new approach in their relations with the rest of the world, pursuing more beneficial international economic co-operation. African leaders came to realize that given the current population of the continent and the population growth there is an opportunity to transform Africa into an influential economic union and an immensely big common market, but for that they to develop a synergistic approach.

It is high time that Russia followed the suit with a clear understanding of how it can benefit from this co-operation in geo-political and geo-economic terms, how such co-operation may help Russia to achieve its objectives, i.e. to strengthen its position in the international arena, to boost its economy, and to raise the living standards of Russian citizens.

It is feasible to achieve all these goals on the condition that we arrange political and economic co-operation with the African continent in a wise and sensible manner. We should design a sensible state policy and keep our fingers on the pulse. *Conditio sine qua non* here is that experts monitor the process on a regular basis and that we not seek quick return.

Russia is further building up co-operation with African partners on a wide range of global and regional issues, namely ensuring international stability, strengthening the role of the UN, fighting international terrorism, seeking ways to prevent regional conflicts. What testifies to Russia's urge to develop relations with African countries is that in 2014 the Russian Ministry of Foreign Affairs set up a post of a Special Envoy for the relations with African regional organizations.

Russia supports the Africans in their desire to tackle domestic challenges (related to security and economic development) on their own and to actively engage in the shaping of the new global architecture. Clearly, social and economic progress on the continent correlates with long-lasting peace and stability. It is a pity that a slew of terrorist organizations are building up their activities in their pursuit to destabilize the situation in many states across the African continent. Among the most dangerous one are the Islamic State (IS, ISIS), Boko Haram, Al-Shabaab, Al-Qaeda in the Islamic Maghreb, Al-Mourabitoun, just to name a few (all banned in Russia). In this regard, we should remind that Russia supports the efforts of the Africans to lay the foundations of collective security and regional peacekeeping potential.

A premium is put on the diversification of relations with integration structures. A good example here is the African Union (AU), which has granted Russia the observer status in 2006. Both Russia and the AU are deeply interested in further co-operation in line with the Memorandum of Understanding (MoU) signed in September 2014 between the Russian Ministry of Foreign Affairs and the Commission of the African Union regarding the procedure of political consultations.

Conflict and crisis resolution is high on the agenda. However, despite the aforementioned MoU and active political dialogue. our trade and economic co-operation leaves much to be desired. The same holds true for political co-operation in science and education, humanities and culture, in spite of regular consultations with the African Union on how to involve Russian companies in large-scale projects, in particular within the New Partnership for Africa's Development(NEPAD). Co-operation in education is a good example. Within the framework of humanitarian co-operation, 10 thousand African students are currently studying at Russian colleges. The exchange is to be multi-lateral since the AU has set up the Pan-African University, which unites leading African universities. This is an asset for future co-operation with prominent Russian universities. On top of that, Russia and the AU have set up a public-private partnership, with Russia donating $60m toward the fight against Ebola, development of a corresponding vaccine, construction of hospitals, administration of medical aid, and carrying out quarantines.

Active effort is taken to strengthen relations with the Southern African Development Community (SADC). Different options on improving political, trade, economic and humanitarian co-operation are being considered. Accordingly, for instance, in 2003, Russia and SADC signed a MoU on co-operation.

It is crucial that the co-operation between the Eurasian Economic Union, the African Union, and SADC is well under way, which is partly due to the joint participation of Russia and South Africa in BRICS programmes and structures.

Apart from already existing institutionalized relations between the African Union and SADC, new opportunities emerge to co-operate with regional and sub-regional structures and institutions. Russia (the USSR until 1992) as a founding member of the UN has been always actively co-operating with the UN Economic Commission for Africa (UNECA). For instance, it sent its experts and specialists to work at UNECA. Russia welcomed the adoption of the Lagos Action Plan, which pursued the establishment of the pan-African common market. The co-operation with the regional integrational group Common Market for Eastern and Southern Africa (COMESA) is coming into force, with the Economic Community of West African States (ECOWAS) and the Economic Community of Central African States (ECCAS) soon to follow.

Russia has signed a range of agreements with the League of Arab States, a pan-Arab organization which encompasses a wide range of issues for co-operation, i.e. politics, economy, social sphere. The agreement stipulates regular consultations on political issues, including the Middle East Conflict, a dialogue between civilizations, economic and humanitarian co-operation, the fight against terrorism, just to name a few.

Under the current integration processes, a plethora of inter-African co-operation institutes came to exist. For Russia, it would be most beneficial to join the African Development Bank. The estimates are that Russia would have to pay the initial membership fee of about $300m paid in three instalments over the period of 3 years. This move would provide Russia with access to the African Development Bank's loans.

We believe that co-operation with regional and sub-regional groups may benefit Russia in many ways. First and foremost, this holds true for the economic co-operation.

***Regretfully, we have to acknowledge that Russia is currently lacking in a full-fledged coherent foreign economic policy towards African countries.*** Russia's presence on this land of opportunity is mostly limited to the growing co-operation with South Africa within BRICS format, as well as to the activities of major Russian companies, which seldom have a vision of business development in Africa. In those cases when they do have a strategy, this strategy is not really a part of any concrete national action plan for the African continent.

So far Russian-African trade co-operation leaves much be desired, with the total trade turnover hovering at about $10–12bn per year (in 2015, the figure amounted to $11.1bn, or 2.2% of the Russian foreign trade).

Noticeably, North Africa is the main Russian partner (with trade turnover at the level of $7.7bn, or 1.5% of the Russian foreign trade), while Russian exports to the Sub-Saharan Africa amounted to $2.1bn in 2015, or 0.6% of the Russian foreign trade. This figure lies within the margin of error.

Overall, our co-operation is of one-sided character, with oil products, chemical fertilizers, pulp-and-paper products, and wheat constituting a hefty 70%. In certain years, sale of military equipment came to the fore. The prospects for the Russian exports in the military and other segments are traditionally contained by a low level of economic development in Africa, long distance between our markets, and China's edge over many traditional Russian exports.

The Russian business in Africa is represented by both public and private sector. With economic co-operation encompassing more and more areas, Africa accounts for around 1.5% of all Russia's FDI over the last 12 years (2003–2015), or $15bn. Between 60% and 70% of the investments are allocated to exploration and production of oil, gas, uranium, bauxites, and iron ore, just to name a few. Some 30 Russian companies have become engaged in this field.

Having lost a number of mineral deposits after the collapse of the Soviet Union, Russia experiences relative or absolute deficit of some mineral resources. A case in point here is manganese, chrome, bauxite, zinc, tin and some other minerals, including strategic ones.

Many Russian deposits are depleted and no longer profitable, while others are struggling to break even. It will take lots of money to develop fields beyond the Urals and in the Arctic, as new technologies and infrastructure are required. Russia desperately needs manganese (100%), chrome (80%), and cobalt, just to name a few. Production costs in Africa are usually much lower than in Russia. Russia and Africa complement each other in some mineral reserves. The bauxites imported from Africa account for over 60% of the Russian aluminium production.

Another argument for further co-operation in this sphere is Russia's solid position in the global market of raw materials. Africa's share of oil reserves and oil production makes up 14% and 12% respectively. Over the past decade, African countries have discovered new oil and gas reserves. Our relations in the energy sector are a blend of co-operation and competition. Hopefully, the former will prevail.

Not least, there is another major reason why Russia has to build up its presence on the African continent. In the long term, Russia-Africa co-operation may contribute to the diversification of the Russian economy and the improvement of the structure of Russian exports by granting access to sustainable and reliable markets. The energy sector has the highest potential (nuclear and hydro power come first), mechanical engineering, chemical industry, including fertilizers, pharmacy, cutting-edge IT, co-operation in the space. The African military sector is also growing rapidly. Around 11% of the heavy weaponry exported by Russia is sold to Africa. The Russian exports of heavy weaponry to Sub-Saharan Africa and North Africa account for 27% and 30% of their military imports respectively.

Russia should base its co-operation with Africa on the pursuit of clear-cut national objectives, while tackling various challenges in the way of this partnership. We have to consider not only what we can offer right now but also what we could offer in the future. What is certain is that it is high time for us to develop new forms of economic co-operation, including marketing and finance. If Russia wants to penetrate into African markets and stay there, it needs to set up a consistent diplomatic, political, and financial infrastructure. The point is that the Russian business needs state support to stand a higher chance in African markets. The new models of Russian-African partnership should combine national and corporate interests to benefit from state and private assets alike.

Russia and African countries are facing a new challenge as they pursue an equitable world order in line with new realities. Africans still consider Russia as one of the best allies in the international arena and as a natural counter-weight to the hegemonic ambitions of a foreign power (or a group of powers). It is time for Russia to consider Africa as a strategic partner. As Mzwandile Collen Masina, Deputy Minister of Trade and Industry of South Africa, put it at the 20thSaint-Petersburg Economic forum in June 2016, “It is not risky to invest in Africa, it is risky not to invest in it”.

We, Russian researchers, believe in the bright future of Africa. We are also aware that without bilateral cooperation Russia’s future will not be as diverse and rich. We need each other to achieve our common objectives of genuine development. We need each other to protect our national interests. We need each other to ensure the prosperity of our peoples. We dare to hope that this conference will contribute to the expansion of horizons for Russia-Africa cooperation by providing it with a solid scientific foundation and will help Russia return to Africa without making strategic and tactical errors on its way.

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***PLENARY REPORT***

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