AfricaAsia Enterprise

April 19, 2004 No 6

In this issue: Horn of Africa supply problems… Zimbabwe tobacco… Nissin in China… Nedcor… Angola market violence… African Growth and Opportunity Act… EU sugar subsidies… South African election pledges… … Plus market reports and commentary

Food supply problems for Ethiopian regions

There is unlikely to be sufficient food available this year in parts of Ethiopia, says a report published on April 8 by the United States Agency for International Development. It claims that the last seven years have had insufficient rainfall for production, and that traditional ways of surviving single bad years have been exhausted. The position is expected to be better than last year, but almost a million metric tons of food assistance will still be required.

Apart from the lack of rains, the report identifies other factors which adversely affect the food situation. They include declines in world coffee prices, falls in labour wages, and environmental degradation. It argues that breaks may occur in humanitarian supply due to civil conflict, insufficient donor pledges, and the isolation of some people moved in the Government's resettlement plan. Resettlement plans are often motivated by a wish to ensure food security, but in Ethiopia and elsewhere have frequently been controversial.

Elsewhere in the Horn of Africa, Djibouti has experienced severe flooding which has left dozens of people dead, destroyed livestock, and disrupted the electricity supply. The Djibouti to Ethiopia railway was flooded, leading to concerns it may have been damaged. Transport links between the two countries have assumed increased importance since the Ethiopia-Eritrea war, when Ethiopian sea access through Eritrean ports stopped. Recent reports in the Ethiopian press have indicated that the railway authorities were seeking substantial investment for improvements to the line.

New marketing approach delays Zimbabwe tobacco sales

The future of the current Zimbabwe tobacco crop is in doubt, after a new marketing approach left farmers with large amounts of unsold leaves. The approach requires some buyers to have funded fully the crop production, but many buyers have not done so, and producers are unable to sell by other means.

Formerly, the crop was sold by auction. This year, a twin system was introduced, with a proportion of the crop being sold on the fully funded contract system, and the rest on three auction floors. Nine companies were granted the right to buy tobacco by contract. Apart from advance funding, they have had difficulties in raising the US$1 million required for deposit at the Reserve Bank of Zimbabwe, as the country is suffering from severe foreign currency shortages.

As farmers selling under the auction system have already sold large amounts of their crop, simply selling the unsold contracted crop by auction would probably raise significantly less revenue for contracted farmers. Farmers have been in discussions with the tobacco sales regulator in order to reach an adequate conclusion. The marketing problems come at a bad time for the industry, which had major supply interruptions last year relating to farm occupations and transfers.

Instant joy… Nissin is expanding in the Chinese instant noodle market. freefoto.com

Nissin buys into Chinese noodle market

Nissin, the Japanese food manufacturer, announced on Tuesday that it has agreed to buy 33.4% of Hebei Hualong, China's second largest instant noodle maker. The deal values the share at around US$190 million, with the date of the transfer of funds still to be finalised. Nissin said that they hope to be the Chinese market leader within a few years. Hebei intends to use the money for new plants.

Nissin has attempted to gain entry into the rapidly growing Chinese market before, where it presently has limited presence through its Hong-Kong based Winner Food subsidiary. The market for instant noodles is already far larger than the Japanese one, with an annual growth rate of 20%. Nissin invented instant noodles and retails them around the world, so its move into China was a natural step. It will not be alone. Its Japanese rival Itochu recently signed a partnership agreement with the largest Chinese instant noodle manufacturer, Tingyi.

Nedcor in Zimbabwe merger discussions

The South African bank Nedcor confirmed last week that it is in negotiations to merge its assets in Zimbabwe with a local bank. The merger of Trust Bank with the Merchant Bank of Central Africa (MBCA), which Nedcor jointly owns with the insurance company Old Mutual, would strengthen its presence in a market hard hit by Zimbabwe's economic difficulties. The discussions had been speculated on for weeks, and are understood to be at an advanced stage.

Funded from existing assets

The new bank would have an increased share in the corporate and commercial banking sectors, where both MBCA and Trust Bank have historically been strong. Zimbabwean authorities have called for consolidation among banks, so that they can better survive in the challenging economic circumstances. The Central Bank had to support a number of banks during last year's liquidity crisis in Zimbabwe, including Trust Bank. Large banks, it is argued, would give borrowers and lenders increased confidence that the banks can meet their liabilities. Nevertheless, Nedcor does not anticipate a large cash injection from South Africa. A spokesman said that the deal would be funded from existing assets held in Zimbabwe.

Newspaper reports of the merger will be a welcome relief for Nedcor, which has suffered adverse coverage over recent months. In 2003, it saw its earnings plummet and expenses rise, leading to departures among senior management and job losses announced just last month. The new chief executive Tom Boardman has initiated cost cutting measures across the company, and the MBCA deal may not be the last one aimed at rationalising operations.

Lahore SE sustains strong growth

The Lahore Stock Exchange continued its strong performance in the last week with 3.9% growth in the LSE-25 index, following a 3.6% increase in the previous seven days. In the past five weeks, the index has grown by over 11%. Trading volume was also high, with a record 175 million shares changing hands on Tuesday alone. The Karachi Exchange similarly enjoyed record trading volumes and strong index growth.

In Brief

UN support for diamond certification
The UN General Assembly confirmed its support for diamond certification on Wednesday, to prevent trade in diamonds supporting conflict. The current scheme of certification was introduced in 2003.

FAO quarterly African report
The United Nations Food and Agricultural Organisation said sub-Saharan African harvests had improved this year, in its first regional report of 2004. However, local shortages persist throughout the continent.

Exxon to invest in Malaysia gas platform
Exxon Mobil announced on April 11 that it to begin construction of the Guntong E gas compression platform, 130 miles off the east coast of Malaysia. The platform will be built locally, and is due for completion by 2006.

Electrification of Southern African villages
The Union of African Electricity Producers and Distributors held its annual meeting in Angola on Monday and Tuesday. The Union committed itself to bringing electrification to the border regions of Angola, Lesotho, Namibia, and Zambia.

Fire at Mogadishu market
A fire destroyed much of Somalia's largest market on Monday night. The clothing and electronics sections were completely destroyed, but the market reopened on Thursday.

Angolan opposition calls for enquiry into market violence

The Angolan parliamentary opposition party UNITA called for a commission of enquiry on Tuesday, to investigate the violence in the Luanda suburb of Viana. The disturbances followed police attempts to move local traders to a new covered market, as part of the Government plan to regulate informal markets. The small move created major opposition among the traders, many of whom were not registered with the authorities.

"The Government is conscious of its role"

A report on the United Nations news agency IRIN quoted aid workers as saying that inadequate consultation had been undertaken, and that the implementation was heavy-handed. The disturbances will be disappointing, if not unexpected, for the Angolan Government. The new market offers 2,500 places and significant environmental benefits over the old open-air market. The Minister of the Interior Osvaldo Serra Van-dúnem was cautious in his reply to UNITA's call, saying "the Government is conscious of its role and well understands the events that happen in the country, their causes and aims."

The Government has also been active against foreign informal workers, with the arrest of six hundred, mainly Congolese, diamond prospectors from the Benguela and Kwanza-Sul regions. The arrests were undertaken with army support, and were subject to criticism from human rights groups. It has been a bad time recently for migrant workers throughout Southern Africa. Zimbabweans in another diamond producing country, Botswana, were reported in the Government supporting Herald newspaper to have suffered repeated beatings at the hands of government and traditional authorities. Zimbabwe has made official representation to the Botswana Government to act on the matter.

Cairo and Alexandria SE reaches all-time high

The Cairo and Alexandria Stock Exchange CASE-30 index closed at 1493, reaching its highest value since inception at the start of 1998. The market grew by 3.9% this week, following three weeks of growth above 2%. The increase was broadly spread, from growth stocks like the Orascom group, to manufacturers like Suez Cement.

Orascom Telecom is trading on a price/earnings ratio of 11.6. But Suez Cement has a ratio of 73.4, and such valuations indicate that the market already includes considerable expectations of future growth, and may give rise to suspicions that the market is feeding on its own expectations. Two other leading stocks with strong recent performances, Mobinil and Arab Polvara Spinning and Weaving are both trading on ratios above 20. Such ratios are optimistic, but not unrealistic.

The index has grown at an average 6.6% per year since 1998, but the growth has been uneven. The index halved in value between 1998 and January 2002, before starting on a bull run that has resulted in the sustained growth of the last month. Since January 2002, the market value has increased by 235%.

Market Watch

(Week ending 16/4/2004)

Equity market leading indices and (increase in week)

Casablanca MASI	4,591 (1.9%)
Bombay SENSEX	5,863 (0.4%)
Cairo CASE 30	1,493 (3.9%)
Mauritius SEMDEX	625 (1.6%)
Uganda All Share	348 (-2.4%)
Lahore LSE-25	3,104 (3.9%)
Indian National NIFTY	1,869 (0.8%)

Selected currencies value to US$1 and (strengthening in week)

Ethiopia Birr	8.9 (0.3%)
Gambia Dalasi	29.4 (0.0%)
Ghana Cedi	8,850 (0.0%)
India Rupee	44.0 (-1.0%)
Indonesia Rupiah	8,636 (-0.4%)
Kenya Shilling	78.2 (-0.4%)
Malawi Kwacha	110.3 (0.0%)
Nigeria Naira	130.0 (4.7%)
Pakistan Rupee	59.4 (0.0%)
Tanzania Shilling	1132 (0.2%)

Calls for reduced subsidies and open markets continue

New reports from the charity Oxfam and the World Bank have increased pressure on developed nations to improve the trade conditions they give to developing countries. The Oxfam report, released on Wednesday, analyses the sugar industry subsidies of the European Union. The World Bank study, published on April 7, investigates the impact of the much trumpeted US African Growth and Opportunity Act (AGOA). In both cases, the reports conclude the activities of large states are doing little to help the World's poor.

Oxfam's study, "Dumping on the World", highlights European Union subsidies as the reason the EU dumps five million tonnes of sugar every year on to the world market. It argues that this dumping is the cause of market volatility and unfair competition. The cost to Brazilian exporters is estimated at almost US$500 million every year. The calculations also indicate that Thailand loses $151 million a year, which is almost the same amount as the subsidy paid to a single sugar producing company, Tate and Lyle.

"The Initial and Potential Impact of Preferential Access to the U.S. Market under the African Growth and Opportunity Act" finds that African exporters benefit from AGOA mainly if their goods are not too tightly defined by their precise origin. Under the looser interpretation of such rules of origin, components manufactured elsewhere but assembled in Africa might still qualify as an African good. The authors, Paul Brenton and Takako Ikezuki, express concern that there are few cases of such loose interpretations, and call for them to be expanded and extended over the longer term.

African National Congress wins election with work and poverty pledge

The African National Congress (ANC) won the South African election last week, on a platform of poverty reduction and work creation through growth. The ANC has governed South Africa since the first fully democratic elections in 1992, and will treat the result as a sign of confidence in its policies. It received over 70% of the popular vote.

The ANC's own analysis of the votes cast identified increasing support from the South African middle class, and it has been careful not to alienate this group through its policies. It has aimed at the creation of an entrepreneurial spirit among black people, through such initiatives as Black Economic Empowerment, which encourages companies to achieve quotas of ownership by people excluded under apartheid. In a letter immediately after the victory, President Thabo Mbeki outlined policies that would continue the twin approach of inequality reduction through stable capitalism, a balance which has proved difficult to achieve in Southern Africa.

Comment: Steaming noodles

In the West, a takeover of one food company by another would be a routine event – profits would be made through rationalisation, or maybe through a monopoly position. But Nissin's takeover of China's second largest instant noodle maker can not be considered in the same way. China's rapidly growing market is fuelled by rural to urban migration, from agriculture to industry and services. Demand growth for instant noodles substantially outperforms economic growth. Equities in food companies are a countercyclical, defensive asset in developed countries, but in China can be an exciting growth stock.

Definitions of staple and luxury goods must always be made considering income, the nature of structural change, workforce growth, and social factors. Meat is a good example. Meat consumption at lower levels of income increases with rising wealth, but in the West the 1990s saw steadily rising incomes and a static livestock population. People were alarmed by health scares and motivated by animal welfare considerations. Developing countries, on the other hand, saw a 60% increase in livestock between 1990 and 2002, despite outbreaks of avian influenza and SARS. Frequently, restraints exist on NGO and press activities, and health and welfare are weighed against economic growth.

The future of the Chinese meat industry is likely to depend on domestic demand. The West has saturated or declining demand, while export markets like Middle Eastern desert nations are already served by extremely price competitive Australian mutton producers or nearby exporters like Somalia. Other developing nations like South America or Africa have huge livestock populations themselves. When domestic factors stabilise or reduce demand for meat, it will be back to the noodles, an export good with huge possibilities.

Editor and writer: James Waters (j.m.waters@brad.ac.uk). AfricaAsia Enterprise is produced by students of the Bradford Centre for International Development. Any opinions expressed are the writer's own. Every effort is made to ensure accuracy, but no responsibility is taken for the results of use of the information here.