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OPINION

SHANE WATKINS: Africa labours under a hefty ‘prejudice premium’

Unfairly negative narrative regarding the continent costs its governments and people billions

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by SHANE WATKINS

Global trade happens not because of low tariffs, but rather because countries have differing relative competitive advantages, says the writer. Picture:123RF

There are many negative stereotypes around Africa and its people. This pervasive and inaccurate portrayal of the continent is unfair, but has also not been dealt with very well by Africans themselves, perhaps because the cost of this negative narrative is not well appreciated.

We imagine that the costs are just reputational, or that we are over-sensitised to the real problems in Africa that we see around us every

The Guardian newspaper estimates that Africa loses as much as £3.2bn a year on inflated interest payments on sovereign debt alone, due to mispricing risk. It suits lenders to exaggerate our problems so that they can charge us more.

And this is only one aspect of the cost of the unfair and inaccurate way in which Africa is portrayed. Research by Africa Practice consultancy suggests media reports focus disproportionately on corruption, conflict, violence, disease and bad leadership, perpetuating a negative narrative.

If the only effect of the misreporting of African events was to hurt our feelings, we could ignore these patterns and move on. But there is unmistakable evidence this negative narrative has a financial effect that perpetuates the problems in Africa.

Heightened and exaggerated perceptions of risks are priced into agreements with lenders, causing the entire continent to overpay for borrowing. In addition, negative perceptions have the effect of hiding the true opportunity of investing in Africa, and in some cases deter investment altogether.

‘Prejudice premium’

Some reports suggest that negative media sentiment influences 10% of the cost of capital, a “prejudice premium” that skews returns unfairly in favour of lenders to Africa.

It is evident that beyond a moral imperative, there are sound economic reasons to challenge the negative narrative inflicted on Africa. There is also the risk that Africans themselves begin to internalise the negative narrative, and that this undermines our identity as a vibrant, youthful and innovative people.

“ Politicians love rhetoric, but ordinary working-class South Africans will bear the costs if our relationship with this important trading partner deteriorates. ”

We need to be more alive to the actual costs of an unfairly negative uncertain, and it is evident that while Africa is growing and improving in many areas, elsewhere things are deteriorating rapidly and in unexpected ways.

Not content with dismantling an alliance system that has served the West for decades, in the past week US president Donald Trump has unleashed a trade war with every country in his sights. He has focused on tariffs, tax policy and trade deficits and launched a coercive campaign to redress what he perceives to be decades of wrongdoing against the US.

In financial markets his actions have had a dramatic impact, first because the tariff war will slow global trade and growth, but also because the heightened risk mean global discount rates are higher. One week into April and equity prices globally are 10% lower. In the year to date US equity markets are down 15% and Japan (a large exporter) is down 20%.

Wilful ignorance?

But Trump ignores two major economic issues that are not in dispute. Global trade happens not because of low tariffs, but rather because countries have differing relative competitive advantages. It is better to let the French make and export wine and let the Japanese make and export electronics.

Also, while countries such as China have exported huge volumes of consumer goods at extremely low prices to the US, it has in general not repatriated those profits but reinvested the proceeds in US treasuries. China is both supplying the US with cheap and high-quality goods, and financing them at the same time.

The global supply chain is integrated, and SA will not be spared in this trade war if the US and China cannot resolve this amicably. In SA we need to overlay two additional risks. The friction between the government of national unity partners and (unrelated to the trade wars) the poor relationship between the US government and SA.

Hit by local political uncertainty and the tariff war, the rand has already weakened by 5%-7% this month. So despite lower SA growth, interest rate cuts look less likely.

Politics is the art of the possible, and whatever our feelings towards Trump, the US is an important trading partner and its economy dwarfs that of SA. For context, the US grows every six months by an amount that is equivalent to the total size of the SA economy.

Many of our exports to the US are from labour intensive industries such as agriculture. Research suggests that over 100,000 jobs are now at risk. Politicians love rhetoric, but ordinary working-class South Africans will bear the costs if our relationship with this important trading partner deteriorates.

In these uncertain times, what interventions can fund managers effect to add value? In a crisis, asset prices tend to all move together. Our job is to buy high quality companies where the prices have declined excessively. In every crisis there is opportunity, and our job is to identify and monetise these opportunities.

• Watkins is chief investment officer at All Weather Capital.

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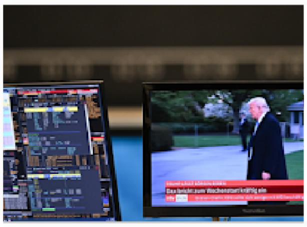

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