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AFRICA AND THE GEOPOLITICS OF TUMBLING OIL PRICES

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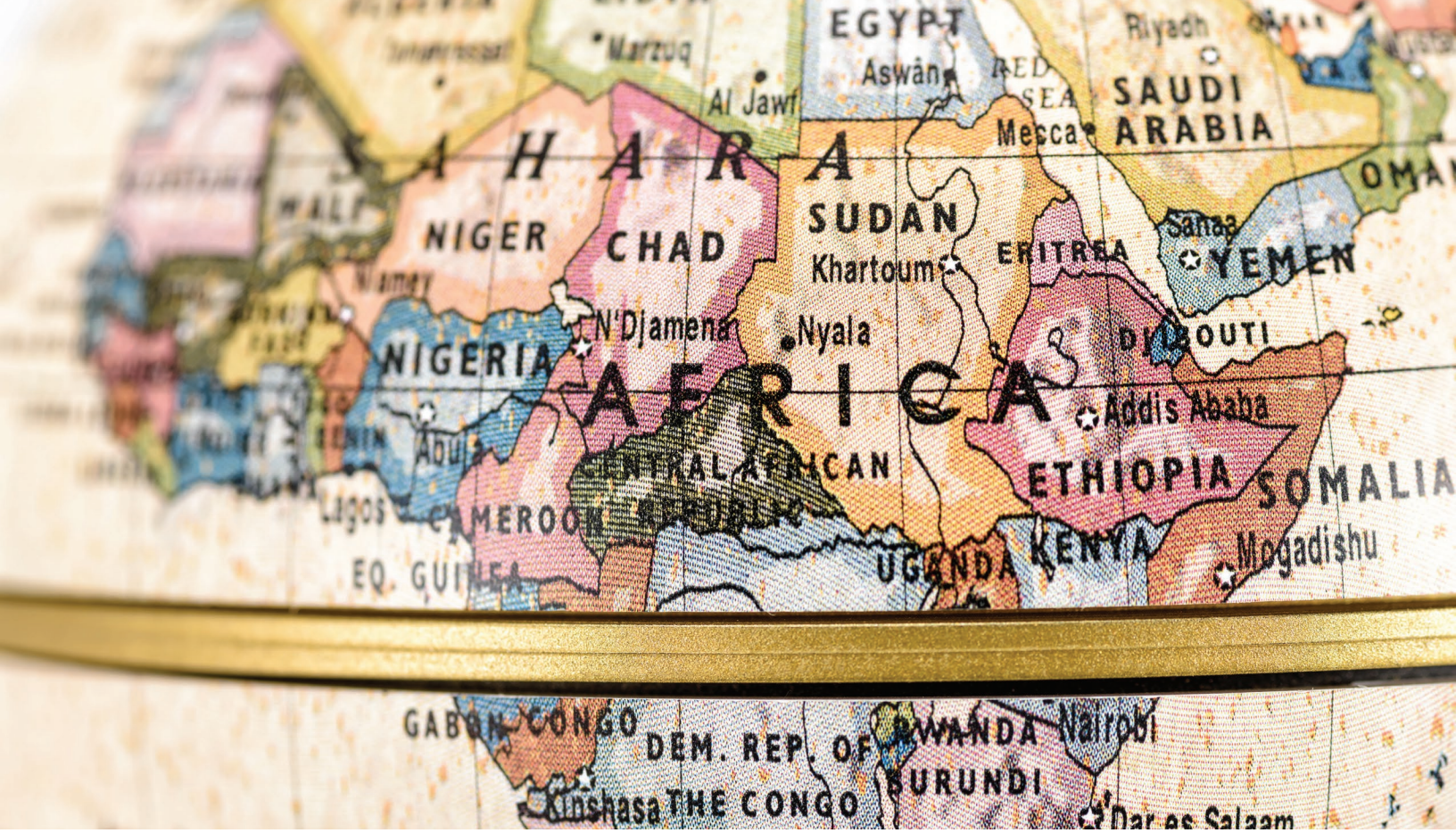

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THE CURRENT SLIDE IN OIL PRICES underscores the importance of the complex interplay of economics, geopolitics and technology in the global energy architecture. This continues to impact policy choices across the world. Where does Africa stand? According to the International Monetary Fund, 22 countries are expected to grow by at least 7 percent a year on average in the 2014-19 period; 14 of these will be in Africa. If it grows every year at 7 percent, an economy can be expected to double its size within a decade – that's how significant a 7 percent growth rate can be.

Africa continues to make giant strides on many fronts; it now boasts one of the fastest growing economies in the world. The continent's external financial inflows have quadrupled since 2000 – estimated at over $200 billion (B) in 2014. Foreign Direct Investment in Africa is estimated at over $80B for 2014; its resource-rich countries remain prime destination for investors. The continent's stellar economic growth and global trade performance have prompted many in the international trade and development circle to predict that Africa will surpass China through what has been termed the "leapfrog effect" – the notion that an exogenous factor, powered by the rise in new technologies, would fast-track trade and entrepreneurship on the continent.

The importance of energy as a major driver of economic activity, and by implication a basic denominator of growth, is well explained by history. Changes in oil prices and availability continue to affect the economic growth prospects, international security and political stability of consuming countries. To a large extent, many contemporary regional energy-driven contentions – among producing, transit and market states – determine the world's energy security architecture. While many industrialized economies are working aggressively to develop alternative non-oil based energy sources, their emerging counterparts continue to rely on relatively cheaper hydrocarbon-based energy sources, their emerging counterparts continue to rely on relatively cheaper hydrocarbon-based energy sources to increase their productive capacities, at least for the foreseeable future.

According to the International Energy Agency (IEA), global demand for energy is expected to rise by one-third in 2035 as economies in both developed and emerging countries continue to grow and standards of living improve. In the past – and perhaps for years to come – the global energy security architecture has been geared to the needs of the Western market. However, with recent population forecasts showing Asia and Africa as centres that will host a significant chunk of the world's urban population, with a noncommittal increase in oil consumption, the gradual shift of global energy trade to these regions will have many geostrategic implications.

Global oil prices have continued to fall sharply since June 2014, closing at a five-and-a-half year low as of the end of December, 2014. This has led to significant revenue shortfalls in many oil-exporting nations, thereby hurting their economies. The impact is even more devastating for many fragile African economies that rely on oil for their sustained growth. Chief among these are Algeria, Libya, Nigeria, Angola, Sudan, Equatorial Guinea, Gabon and Egypt. If care is not taken, these economies may soon be on life support – as a result of chronic trade deficits and sluggish economic growth.

Many factors explain the current global slide in oil prices, chief among which are increased American production, increased energy efficiency, economic stagnation in Europe, slowing economic growth in China and Saudi Arabia's refusal to help stabilize price by cutting production. The Organization of the Petroleum Exporting Countries (OPEC) has resolved to continue to produce at the same rate, in an effort to squeeze out some of the marginal producers in the fast-growing U.S. oil industry.

Given the weak state of the global economy and increased domestic energy supplies in the U.S., tumbling oil prices continue to drain hundreds of billions of dollars from petroleum producers, exporters and oil companies. In the contrary, lower prices play to the advantage of many European countries, the U.S. and Japan by shifting hundreds of billions of dollars into stimulating their economies as household demand continues to pick up.

The IEA said recently that about $900 billion per year in investment will be required in the upstream sector to meet energy demand between now and 2030. Interviews and surveys from many oil and gas headquarters around the world show clearly that the current environment is unlikely to encourage that level of capital investment, given the oil wealth transfer to consumers from current low prices. It doesn't stop there. A lower-than-expected level of investment has far-reaching economic implications, including the likelihood of a global economic slowdown further down the road when global oil prices may rebound to yet higher levels than earlier this year in order to incent oil investments. Again, understanding the geopolitics of energy is strategic to escaping the conundrum just presented above.

From Moscow to Baghdad, from the Middle East to Asia, recent happenings show that regional disagreements that ordinarily would have been handled by regional powers have now begun to increasingly attract global interest, with some of the most powerful countries in the world intricately involved. The reasons for this are obviously not far-fetched. For instance, the recent crisis in Ukraine explains the importance of energy in the global geopolitical matrix, as well as why and how energy will continue to be a fundamental indicator of national power. Russia remains one of the world's most resource-endowed jurisdictions – it is the largest natural gas exporter and one of the two largest producers of crude oil. While the country's oil resources constitute an economic lever, Russia uses its abundant natural gas to remain politically relevant in the global sphere.

Elsewhere, the Saudis are taking charge in the rapidly changing face of the Middle East. As the world's largest oil exporter and second largest producer, Saudi Arabia's unique position allows it to dramatically influence global economics and politics. While Saudi Arabia, Kuwait and United Arab Emirates have the financial muscle to voluntarily reduce oil production, the other OPEC members – Nigeria, Libya, Algeria, Iran, Iraq and Venezuela – rely on maximum production and high prices to finance their budgets. For instance, the Saudis are not interested in a nuclear deal for Iran, and neither are they happy with the U.S. for endorsing this policy choice. Because Israel is very sensitive about a nuclear deal with Iran, the Israelis and the Saudis have a common destiny here, notwithstanding the divergent views of the Americans on this issue. This might explain, in part, while Saudi Arabia will always prioritize a greater market share over higher prices.

The U.S. continues to import oil from the Middle East, despite its rising domestic production. The Americans maintain that increased domestic production is not enough to deter America's strategic relationship with the Middle East. Oil imports by the U.S. from Africa have also taken a nosedive, and again, America says that its interests in Africa will not change despite the dramatic fall in oil imports from the region. To minimize the economic and fiscal costs of reduced exports to the U.S., major African oil-exporting countries like Nigeria, Algeria and Angola have diverted their oil to other growing Asian countries and European markets. Although the U.S. says it cherishes a free and uninterrupted flow of energy to its allies and trading partners, these happenings all have significant geopolitical implications that will manifest in the years ahead.

Suffice it to say that these are not the best of times for some entrenched leaders in Africa, as the seemingly most potent tool for holding on to power – petroleum – is being threatened. Falling oil prices deplete regular resource rents used to subsidize basic

goods and services, reward political allies, woo the opposition –and ultimately – consolidate power at all cost. The rapidly changing global energy picture will continue to determine what policy and strategic choices producing, transit and consuming countries make. It has become clear that U.S. foreign policy –which sways global economics and politics – is significantly influenced by energy security, as demonstrated by the continual shifts in markets.

Increased domestic oil production has changed the position of the U.S. in the global energy markets. In turn, this has huge implications on European policies, maybe not so much with respect to its strong and traditional allies – but at least with Russia and its neighbours. Rapidly growing Asian and African population, which places a huge burden on hydrocarbons, portends grave concerns on climate change concerns. Again, countries will have to rely on the interesting, but complex, interplay of economics, geopolitics and technological changes to successfully navigate these waters.

African governments need to understand that the global commodity status of oil makes regional economic growth more a function of global economics, geopolitics, security and technology than any other thing. They will have to consider the centrality of the key tenets of development: law and order, governance, education reform, property rights, fiscal discipline, infrastructure investment and industrialization. Economic development should be seen as a process, not a high-oil-prices-driven phenomenon. It requires vision, leadership, hard sacrifices and transparency.