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LAUREN FOSTER: Hello, everyone. Welcome to the Take 15 podcast from CFA Institute. I am Lauren Foster, and this is the show where we bring you an unbiased lens on investing and capital markets through short conversations with some of the world's most interesting and accomplished people. Today on the show, we explore sub-Saharan Africa with a guest who is uniquely positioned to offer perspective on the continent from the continent.

Herman Warren is Africa Director for *The Economist* corporate network, and is based in Johannesburg. If you are an emerging markets investor or just happen to be interested in Africa, you'll find the content fascinating. Of course, I'm biased. As some of you may know, I was born and raised in South Africa, so I really appreciated hearing Herman's perspective.

There's been a lot in the news lately about the South Africa coronavirus variant and vaccines. Herman discusses the impact of the COVID-19 pandemic on the region, particularly on South Africa. We also discuss whether a new commodities supercycle is looming, and what this could mean for the commodity-producing economies. We wrap up with what Africa can expect from the Biden administration.

Some exciting news before we start. The Take 15 podcast now has its own YouTube channel, so be sure to check it out and subscribe so you can stay up to date with our latest short form interviews. We've also added show notes to the episode. And now on with the show. Please enjoy my conversation with Herman Warren. Herman Warren, welcome to the show.

HERMAN WARREN: Lauren it's a great pleasure to be here. Thank you for having me.

LAUREN FOSTER: Well I'm so excited to have you today, because it's a first. I think you're our first guest ever joining from South Africa. So it's great to have you on the show.

HERMAN WARREN: Excellent.

LAUREN FOSTER: So I couldn't help noticing, actually, in your background, that we have almost mirror image life. So I grew up in South Africa, I then lived for a long time in New York, and I'm in Virginia. And I think yours is almost the opposite way. You grew up on Long Island, you went to college in Virginia, and now you're in South Africa.

HERMAN WARREN: That's right.

LAUREN FOSTER: So maybe we can start there. How did you end up in South Africa?

HERMAN WARREN: Sure. So actually I attended Howard University in Washington DC, which is that area which is the tri-- it's not even a state, but you get us in Maryland, DC, Virginia. And growing up, my dad was an entrepreneur. He always encouraged us to pursue an entrepreneurial line. That bug has bitten me.

And as I was thinking about options-- I majored in finance at Howard-- and as I was thinking about options for what I wanted to do after I graduated, I learned about management consulting. And I had never heard about it before I think my junior year at Howard. And when I did learn about it, I said, wow, this is actually excellent, because it gives one an opportunity to learn about business from a number of different perspectives. And you're working with large corporates, their senior leadership teams, on their most pressing matters.

And I interviewed by Bain, was offered a job, and after I graduated, I basically ended up in Boston working at the head office. And at the time-- and this was many, many, many decades ago, well some decades ago, I suspect it's similar now-- but at the time, Bain encouraged employees to visit other offices. And I attended a brown bag lunch with one of my colleagues, and she outlined this amazing experience she had in Australia and in South Africa. And I said, well I'd love to experienced something similar.

So I applied, my request was granted, and I headed off from Boston in March of 1996 expecting to spend three months in Australia and three months in South Africa. I ended up spending about a week in Australia, because some business had been sold and they were short of hands on deck in South Africa. Came to South Africa expecting to spend four months there, three, four months, and go back to Australia. And 25 years later, I'm still here. No longer with Bain, but that's how I ended up in South Africa.

LAUREN

Wow, that's amazing. So your adopted homeland unfortunately has been in the news quite a lot lately, and not

FOSTER:

always for the best reasons. There's a lot of press coverage about the variant, the coronavirus variant from South Africa. So you're on the ground in Johannesburg. Give listeners some insight into how the pandemic is being handled in South Africa, and maybe perhaps a bit more broadly on the continent.

HERMAN

Sure. No worries there. So I work for *The Economist*, as you introduced, and we have been covering this virus,

WARREN:

which turned into a pandemic for quite some time. Even before it was actually named, because when it broke out, it was just this weird disease. It was suspected of being a coronavirus. And eventually, it was sequenced and labeled COVID-19. And we know that it's a once-in-a-century pandemic, and it's had a tremendous impact in so many ways. Among them economic, socially, and so on.

What we've seen in Africa generally is that-- and I'll come to South Africa specifically in a moment-- is that leaders in the region took a very sober and pragmatic and proactive approach to trying to get ahead of the virus, so-called flattening the curve. So we saw lockdowns for example, in Uganda, or restrictions on gatherings, before the first case was even confirmed. And in South Africa, where I am, a hard lockdown down was instituted in late March.

And South Africa is a country of around 60 million people, similar size in terms of population to the UK, but the lockdown happened in South Africa weeks before what we saw in the United Kingdom. And I think for some good reason. So one, leaders here have more experience dealing with infectious diseases, because the kinds of things that they have to contend with are not necessarily what you'd find in Europe or North America, certainly not to the same extent.

Two, I think just a soberness about what the impact of this virus could have on their societies, looking at how it was unfolding, particularly at that time in Italy, which Wuhan and Hubei, it moved from there being the crisis point to Italy, it was just ravaging that country. And in a number of African countries, you just don't have the health care infrastructure that you'd find in those places.

So you might find, in a large metropolitan area in the United States, that a hospital there has more ICU beds than exists in a whole country in Africa. And that's not even getting into PPEs and ventilators and other non-pharmaceutical interventions. And living conditions which aren't necessarily conducive for social distancing. But to try to get ahead of that, that was instituted in a number of countries around the region, and South Africa being one of them.

In terms of the impact that is had, economically devastating. And Africa doesn't exist in a vacuum. So the world economy last year contracted around 4%, and it probably won't retrace that lost economic ground for at least another year and a half, possibly two years. In South Africa, the economy-- and well, before I get to South Africa, the region of Africa contracted around 4%. South Africa's economy, the numbers are still coming in, but I think when all is said and done and tallied, the economy would have contracted 7% last year, and raised an already eye watering rate of unemployment and so on to even higher levels.

And with much of the forecasting that was done last year, with each update, it just looked gloomier and gloomier. We started out the year-- we as *The Economist* the Economist Intelligence Unit, thinking that the global economy was going to grow well north of 2%. As the pandemic started to bite, I think our worst forecast in the middle of the year was somewhere around 5.35%, 5.4% contraction. Fortunately it got better as we went through the year.

But in South Africa we entered into the storm, if you will, with an economy that was already sputtering. Technically in a recession. So it was like a double whammy, a significant body blow to the liver. So it has been quite tough. But I think the government has handled a number of the pandemic-related fallouts, thinking about protecting lives and livelihoods, extremely well.

What we see in South Africa that you also will see in other emerging markets is emerging market countries don't have the same firepower to leverage fiscal policy, monetary policy, to push against the tide of COVID. So South Africa was progressive in that regard, but because it went into the pandemic, again, weak economically, and then also fiscally not in the best position, it didn't have the ability to throw money, literally, at the problem. So we're certainly not out of the woods unlike the global economy, which I cited just now, would probably retrace its economic ground in the next year and a half or two, South Africa's probably not going to return to 2019 levels of GDP at least until 2023, possibly into 2024. So a lot longer of a lost period. So let me pause there.

**LAUREN
FOSTER:**

So the lockdown in South Africa was, I think, among the strictest that I had read about, maybe the strictest. And in some ways, a little bit of a social experiment, because they actually, if I remember correctly, banned sales of liquor back and forth. So I'm curious about the impact that that had on crime in South Africa, but also how the lockdown impacted tourism in South Africa.

**HERMAN
WARREN:**

Yeah, well, the latter is quite straightforward. Tourism got smashed. And that's what we're seeing not just in South Africa, but globally. So tourism in South Africa represents around 8% of GDP. But airports were closed. You weren't allowed in the early days, at all, I don't think, unless you were an essential worker, you couldn't stay in a hotel if they were open. Many of them shuttered because it just wasn't economically viable for them to stay open.

So tourism has yet to recover. And the domestic market, if you will, is not sufficient to carry the whole industry. So there has been significant carnage in that particular arena. And again, I don't think we're going to see that return anything close to normal levels until we smash this virus. And fortunately, in that regard, I think South Africa off the blocks pretty slow is demonstrating some real progress. Some vaccines have already landed, there have been jabs done. It's obviously going to happen in the phased approaches we're seeing in other areas. Front line workers and so on, health care workers and so on getting the jabs first.

As far as the lockdown restrictions, and certainly earlier, they were draconian. And to your point, you couldn't buy cigarettes. It was legal to consume them, you just couldn't buy them. And the same with alcohol. It was legal to consume it, but it was it was completely not allowed to be sold. And let me just extend some of the restrictions. You couldn't visit a McDonald's or any other quick service restaurant. There were restrictions on what you could buy from certain stores, for example.

And I think that the government, on some of those product lines, had very good reasoning. They wanted to make sure that issues such as casualty wards were not also having to carry the burden of people who may have been drinking and driving and crashing, and so on and so on and so forth. However, I am not convinced that the drinking was any less than it was. I think that there were a significant number of people who just found other channels for their smokes and for their favorite tippie.

Fortunately, as 2020 progressed, these things were relaxed, and the trading environment was opened, even if it was somewhat more restrictive than what it had been under a normal dispensation. So you could buy alcohol between certain hours and on certain days. But I think in hindsight, the government realized that not only were they losing revenue, excise taxes and so on, but they were just opening up a Black market which would be very unlikely to recede back to its pre-lockdown boundaries.

On crime, I wouldn't say surprisingly, because we had curfews as well, which we didn't talk about. Particularly in the early part of the lockdowns, you were only allowed to leave work if you had to go to work, or to go to a doctor, or you had to buy food. If you could work from home, you were encouraged to do so. Notwithstanding, I can't remember the exact hours of the curfew, but it was probably something like 6:00 PM to 6:00 AM. So that limited movement, and crime stats actually came down.

What we saw here is similar to what we've seen in other environments, though, is that unfortunately, issues of gender-based violence flared up and so on and so forth. But generally speaking, the crime situation potentially improved, but was certainly no worse than it was pre-COVID.

LAUREN

Well, that's good news. I hope it continues to last. And I'd love to spend more time on your work as Africa

FOSTER:

Director at *The Economist*. And before we do that, I just want to remind listeners that Africa is the world's second largest and second most populous continent after Asia. And it's enormous. It comprises 54 countries. So tell us a bit about your role as Africa Director.

HERMAN

Yeah, and you're right. And I just add this, there's about 1.2 billion people who live in the region. Fortunately, if

WARREN:

there's a silver lining in what you described, my remit is Africa, but it's sub-Saharan Africa, so I only have to cover 47 countries. But I work for *The Economist*, and most people know of *The Economist*, through the weekly publication. But the group has a number of other moving parts, and indeed, as part of that other publications.

But I work in the division called *The Economist* Intelligence Unit, does political, economic, and industry forecasting, among others. I'm a very public-facing part of the business. I generally work with senior leaders from large corporates who are doing business in South Africa and the wider region. I create a platform for them to get together to exchange perspectives between one another, also sharing insights the way we see the world, the way we see things developing in country, in region, and so on.

And because of the convening power of the brand, I'm also able to invite in other thought leaders, whether they be from the public sector or senior leaders from the public sector or the private sector, to have conversations that matter. I like to think of what I do as helping our clients to raise their gaze, with the telescope as well as the microscope. Because you also have to be careful with your next step, you can't just be focused on the horizon.

But seeing the horizon and perhaps beyond the obvious, and being able to connect dots better, to make more effective and relevant commercial decisions. So that's effectively what I do for *The Economist*, and again, my remit is sub-Saharan Africa. I have colleagues in similar roles who look after the Middle East out of Dubai, I have colleagues based in Singapore who look after Southeast Asia. In mainland China, I have colleagues, in Japan, and so on. But my remit is this very large and diverse region known as Africa.

**LAUREN
FOSTER:**

So let's spend a bit of time on this raising the gaze part, because a lot of our listeners-- well, some of our listeners will be emerging market investors, and very keen to understand your perspective sitting on the continent, and those 47 countries that you are covering. What are some of the big stories and the trends that you are following at the moment?

**HERMAN
WARREN:**

Right. OK so, like the global economy is expected to rebound this year, Africa is also expected to emerge from the first recession it's had in 25 years, which is last year, into positive growth territory. However, it will be relatively weak. So we're forecasting that the economy is going to grow 1.6%. Now growth is better than not having it. So I don't want to look a gift horse in the mouth, and although there are 47 countries in the region, there are a few economies that loom large, disproportionately make up the economic mix.

The two largest, Nigeria and South Africa, where I am, are going to perform quite pedestrianly. We're forecasting the Nigerian economy to grow 1.1% this year. We're forecasting, interestingly enough, South Africa to grow 1.8%. So faster than the regional average. Silver lining.

But Africa, as I've mentioned, doesn't exist in a vacuum, just like COVID rolled on to African shores because we live in a very integrated global economy. It's impacted by developments elsewhere. So what I suppose are some positive points that allow me to see a silver lining is the EU is the largest trading bloc with the region. It's an important region from a trade and investment perspective. And the EU is going to grow pretty much in line with that top line GDP figure that I quoted earlier.

So the EU, as you know, would compose many nations. But as a bloc, it is, I think it is 27, that may or may not include the UK right now. But between 25 and 30 nations. And there's a strong rebound, which is happening and expected to continue in Europe, positive for Africa. So in South Africa, a lot of the cars that are manufactured not far from where I'm sitting, the key export market for them are the UK and other parts of Europe.

For agricultural producers in the Western Cape, where I know you've had some experience, the city is fruits and wine, a large part of those exports go to Europe. So to the extent that we have positive economic and buoyant growth, relatively speaking, in Europe, that's good for South Africa, and more widely, for the region.

The largest bilateral trading partner however, is China. Now China is the second largest economy. It was, ironically-- maybe that's not really the point I'll make after this point, although this point may be ironic to some-- it was the place where the virus was first identified, and where the pandemic was hatched, so to speak. But that economy grew last year. It was the only large economy that grew 2%.

Yes, well off of what the Chinese would have hoped for, and many Chinese have come to expect in the most recent period. But it grew last year, and it's expected to grow 8.5% this year. So that's also good for Africa given those trade relations, and so on. And particularly as it relates to commodities, which have been extremely buoyant. So if we look at industrial metals, copper, iron ore, we look at gold, safe haven assets, and so on, those have actually by and large hardened.

I mean we did have a bit of dip here and there, and it depends on which nation we're talking about, which commodity looms largest. So if you're talking about South Africa, iron ore would be important or coal. If you're talking about Zambia, it would be copper. If you talk about Nigeria, it would be oil, and so on. And oil, as we know, this has been a period of unprecedented developments, went into negative territory that the WTI oil. But it's come back.

So that's quite positive as well for Africa, and we've seen most recently in the South African context where just a few months ago, the finance minister was forecasting a very large hole in tax collections. And some really hard choices, harder choices that would have to be made. But just yesterday the finance minister tabled a budget and things were not as bad as was expected just in October, because of this more buoyant economic environment, generally, harder commodity prices, a resilient consumer, and so on. So not out of the deep water, but certainly some things that point to light at the end of the tunnel.

And then just my last point, I suppose one of the big issues that's being focused on here is defeating the virus. You referenced the variant that was first actually identified in South Africa. It exists in a number of countries, but South Africa has been quite progressive with its scientific community. There were a number of trials, which have been run here, AstraZeneca being one, Johnson & Johnson and Pfizer ran their trials here. And it was sequenced here. And actually the variant is called 501YV2.

And it just speaks to this-- I guess the point, that the big challenges facing humanity don't care about nationality. So if you talk about climate change, if you reduce your carbon footprint and everyone else does, that doesn't mean that the harder rainfall is going to avoid you, or the hotter temperatures, and so on. It takes collective action. And this pandemic is a classic case of that.

So if one finds herself in one of the richer nations, say the United States or the UK, or Israel has been very progressive, Australia, you're likely to get your jab latest, by the middle of next year. So you have herd immunity through vaccinations, mass inoculations by the middle of next year. If you find yourself in some of these emerging market countries, it may take until 2024.

The problem is, going back to this variant, 501YV2, is that if you give the virus an opportunity to figure out ways to change it, will seize those opportunities. And the risk is that the current vaccines, which are deemed to be effective, are less so. And if anyone is infected, then everyone is at risk. So we're watching that very carefully.

I think it's quite encouraging what we're seeing with G7 nations coming to the party with the World Health Organization. There's a different tone and tenor emanating out of the White House, which I think is adopting an America First policy, but one which understands that America first has to be embraced through multilateralism, through institutionalism. So a commitment being placed to things like the Paris Climate Accords, the World Health Organization. And there's a lot of talk now around richer nations, many of whom have secured vaccines doses significantly higher than their populations. Just north of you in Canada, I think they have enough vaccines secured to inoculate their population five times over.

But to have those nations start, I guess, sharing their vaccines, at the end of the day, everyone will win. So we're certainly looking at that and hoping that these initial estimates about when mass global humanity inoculations will happen, vaccinations to rid us of this pandemic, will be compressed rather than extended in line with those initial estimates.

LAUREN So you mentioned the White House a few moments ago, and I definitely want to get there in a minute or two.
FOSTER: Before we go there, I was just scrolling through my phone before we started, and there are so many headlines about the new commodities supercycle that is looming. Do you think the reality will match the expectation, from where you're sitting?

HERMAN Yeah. It's on the one hand and on the other scenario. So what certainly is taking hold, it seems to be an upswing
WARREN: in economic activity. So for things like oil, that suggests that prices will increase. Will they go back to \$120 plus a barrel that we saw seven years ago? I wouldn't be willing to put my head on the block for that. But I think prices are likely to firm over the medium to near term.

We also have an undeniable pivot to green energy, renewable, green economy, renewable energy, and so on. And that requires a number of commodities. Copper, for example, I mentioned that earlier in the context of Zambia. It requires cobalt, et cetera, et cetera. So I think that commodity prices are likely to be on a-- I know we're not always dealing with an audience that understands cricket, but a stickier wicket in a positive sense, or firmer ground than one would have assumed, certainly, around this time last year.

LAUREN So in terms of the White House, obviously we have a new president, President Biden, new administration. What
FOSTER: do you think Africa, also the sub-Saharan Africa, the areas that you're covering, can expect from a Biden administration?

HERMAN I would expect-- well, let me go let me go back to a point that I made earlier. Biden is a very different politician
WARREN: from Donald Trump. He also has an America First approach, but a very different way of executing it. And one, again, that I think respects institutions, the power of multilateralism, and so on. So Africa will have a seat at the table, and at the very least, will be on the radar. So I think that a Biden administration will understand quite clearly that having 60% to 70% of the American population does not make America safe. Africans have to be part of that mix, South Americans have to be part of that mix, because that will secure America's future.

I think what we're not likely to see any difference in the one area where there is complete agreement, whether one is on the Democratic or the Republican side of the aisle, is that China is a strategic competitor. So I think this tension that we've seen between the US and China will remain. And a lot of it, although what makes the headlines are tariffs on goods and so on and so forth, and I wouldn't expect Biden to necessarily remove any of those, but a lot of it is around technology.

Critical network infrastructure, microprocessors, artificial intelligence, and so on. That is likely to be a mainstay. And America will push its particular position, I suspect in a much more multilateral way, trying to rally allies around its cause. And China will also push its particular objectives, through things like its Belt Road Initiative, its vaccine diplomacy, and so on and so forth.

So Africa is in a very interesting place. It's literally in the middle of this Western and Eastern tussle. And it creates both opportunities and risks, but I think probably more opportunities than not. And then the last point I'd make, I suppose, going back to Biden. Is a friend of Africa, generally, and South Africa in particular. Joe Biden went to go see Nelson Mandela on Robben Island back in the 80s. So I think that certainly for South Africa, that has to be a positive point of connection.

**LAUREN
FOSTER:**

I like that term you used, vaccine diplomacy. It's the first time I have actually heard it, but it's going to be an interesting thing to watch over the coming, I guess, year or two to see how it plays out on the international stage. And it's a quick note to our listeners, the incoming assistant secretary of state for African Affairs hasn't yet been confirmed, as of our conversation, today but Bob Godec, who was recently the US Ambassador to Kenya, is the acting Assistant Secretary for the Bureau of African Affairs. So hopefully in a few weeks or so, we'll know if he has been confirmed or not.

So we have a couple of minutes left, and we're going to wrap up with my usual questions that I ask all our guests. And the first one being in South Africa, you know Trevor Noah. And I actually got the idea from Trevor Noah about a year ago, as the pandemic was starting, he had a little segment at the end of his show that he called The Ray of Sunshine. And that gave me this idea to ask guests, let's try to end on something positive. So what's one long-lasting, I guess, positive change that you hope to see as a result of the pandemic?

**HERMAN
WARREN:**

Yeah, what the pandemic has shown to me is that it's exposed your strengths-- the proverbial "your"-- strengths and your weaknesses. So if we look at it in a corporate context, was your strategy sound or not? Now some of it was just the luck of the draw. If you happened to run a cruise line business, or a hotel or an airline, you were in trouble. But if you had been sitting on the fence around digitizing or digitalization, using more innovative channels, so on and so forth, then you were exposed.

So for those who were doing the right things, it confirmed it, and maybe even expedited the implementation. When it comes to society, and we've seen this around the world, even in the United States where you're sitting, where the victims who succumb to the virus are disproportionately marginalized communities, by and large. And for me, what it's shown is that good governance matters. Equitable systems matter. Because we're all in this together, quite literally.

A similar case, I guess, on a macro level, that you can make on a micro level. If Africa is ravaged by COVID-19 into 2023, let's not assume because I'm sitting in Paris that I'm fine. The movement of people and capital is such that you're not safe unless everyone is safe. And hopefully for me, the kind of social change movements that we've seen emerge will translate into policy changes, resource allocation, to close some of these gaps. I think the oft-quoted is the arc of the moral universe is long, but it bends towards justice. I'm hoping that that kink is a bit sharper and a bit more pointed towards justice as the result of this.

**LAUREN
FOSTER:**

Absolutely. Second question is what I call the NASA question, and it's a little bit more fun. You're about to go on a long duration space flight. You can take one thing with you. What do you take?

HERMAN That is a good one. I would take a Miles Davis CD. I never get tired of listening to Miles Davis. So probably *Kind of Blue*, an album that was done decades ago, but it's fantastic listening.

LAUREN FOSTER: That sounds great. And I actually haven't heard someone talk about a CD in a very long time, so hopefully there will be something-- hope you have CD players on the space ship.

HERMAN Yeah, that's true. Maybe a Miles Davis album in whatever is the appropriate format that will play on the space vessel.

LAUREN FOSTER: And then the closing question, we're talking about flight so this is what I call the super power question. You get to pick either flight or invisibility, and whichever you pick, you're the only one in the world who has that super power. What do you do with it? Which do you pick?

HERMAN I'd probably pick invisibility. In part, even though I'm on this podcast with you, I like my anonymity. And I think that there's a lot to be gained just by observing things as they are, not as they may be distorted by your presence. And if you're invisible, I guess the one thing that it would force you to do, unless you wanted to scare the Jebesus or whatever the right word is out of someone, is to be quiet. And that would allow one to observe. And hopefully, to learn.

LAUREN FOSTER: Well that is a great note on which to end our conversation. I've really enjoyed having you on the show today, Herman. Thanks so much for joining us.

HERMAN It was a great pleasure. Thank you for having me.

LAUREN FOSTER: You've been listening to the Take 15 podcast from CFA Institute. If you haven't yet subscribed, you can do so on our YouTube channel, or wherever you listen to the show. That way you never miss an episode. And if you enjoy today's show, we'd appreciate a rating and review. Or if you'd simply tell a friend about the show, that would help us, too. And a quick reminder. This podcast isn't intended to provide expert advice on the topics we covered. If you need tax, accounting, or legal advice, please consult a professional. I'm Lauren Foster. Thanks so much for listening, and see you next week.