

Growth in African Markets

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While Africa may be the world's poorest continent, it may come as a surprise to you that it also has some of the fastest growing economies of the decade. Not only is Africa rich in natural resources, its combined GDP has increased by nearly 5 percent since 2000, indicating a positive potentiality for its markets. A few of the fastest growing industries are construction, banking, telecommunications, oil, and minerals. The exponential rise in the number of companies coupled with job expansion has created a more urbanized society within a few concentrated areas, bringing itself nearly on par with China. However, even with its improvements and vast wealth of natural resources, Africa still faces deep internal struggles ahead. Future economic prosperity weighs heavily upon political decisions to be made and the spread of globalization throughout the continent.

African countries have taken numerous steps to encourage economic expansion and a business-friendly environment, yet it is difficult to forecast if their efforts will be sustainable in the long-run. With the exception of Zimbabwe, inflation has been drastically curbed over the decade, decreasing as a whole from 22 percent in the 1990s to 8 percent in 2000. This is partially due to the transference of institutions from government control to the private sector, which fosters a freer flow of capital and a higher level of independence. Additionally, governments have reduced state debts and corporate taxes, while improving trade regulations. Although corruption has long impeded development within Africa, attempts are being made to restructure the legal system and establish just proceedings.

Recently, the increased global demand for oil and minerals has proven advantageous to the African economy. Controversy concerning human rights issues in these industries has deterred many companies from doing business in Africa, but large deals are still underway.

The Democratic Republic of Congo and China had agreed to a \$9 billion deal in 2008. It stipulates the trade of African copper and cobalt for China's promise to build major infrastructure throughout the country (approximately worth \$6 billion). The Congo will benefit from new roads, rail lines, hospitals, schools, and mine improvements, and in exchange, China will receive 10 million tons of copper and 400,000 tons of cobalt. As a result of similar deals throughout the continent, the flow of investment capital has risen sevenfold since 2000, which makes Africa's investment to GDP ratio now equivalent to China's.

Because of the improvements made in business and trade, a larger urbanized middle class is becoming more prevalent throughout Africa. Better infrastructure has also made it possible for migration to the cities, where opportunities are booming for young professionals. A new trend for African teens is to study at universities in the West, then return home to contribute back to their societies whereas in the past, graduates would remain in the West. A new energy and entrepreneurial spirit is beginning to take hold of the African economy.

It is important to recognize, however, that though the rate of growth may be recorded in the double digits, many countries in Africa started out with low to zero growth in the 1990s. It is difficult to predict if Africa will be able to sustain these figures over time, but there is potential.

The most advanced nations, accounting for the bulk of Africa's GDP, are considered diversified economies, while the other countries fall into three categories: oil exporters, transition economies, and pre-transition economies. The diversified economies of Egypt, Morocco, South Africa, and Tunisia are prosperous because their successes and failures are balanced among different industries, which spread the risk. Although the oil exporters, Angola, Libya, and Nigeria, claim the highest per capita GDP, their economy is unpredictable because of the rise and fall of oil prices. The lack of stability prevents the expansion of a middle class.

Transitional economies, such as Mozambique, Tanzania, Kenya, Ghana, and Zambia, are behind in per capita GDP and tend to focus on a single commodity, yet are making strides toward diversification. They are relatively stable in the political sense, compared to their neighbors with pre-transition economies. They make up the Democratic Republic of the Congo, Sierra Leone, Ethiopia, and Mali. Plagued by violence, political strife, and poverty, these nations are the poorest in Africa and will require significant improvements and aid to rise up.

Primarily concerning the least advanced nations in Africa, a number of factors stand in the way of economic development. Civil wars, which continue to take away and exploit resources, mark the absence of an established government authority. The lack of infrastructure and sustainable agricultural practices also creates a ready environment for rebels to revolt. Such instability keeps businesses and investors away. Where there are stable governments, international investment is sometimes discouraged to ensure local majority ownership of an industry. In many instances, tight regulations serve more to hinder local development than to support it.

In order to overcome its major obstacles, legitimate institutions need to be created that focus on sustaining growth. An educated populace and school system are essential, as well as a solid infrastructure, stable electricity, and a less regulated trade policy to an extent. Technological advancements and a pool of trained professionals will also make an area more enticing to multinational corporations. The United Nations is already working with areas of Africa on issues of diversification of industry and manufacturing.

Despite its history, Africa has enormous untapped potential for the future just waiting for a boost from financiers. Its wealth of natural resources, rich farmland, and promising population can provide beneficial opportunities for international businesses reaching for a new market. With very little competitors, building a strong brand and establishing influence within a region will be a more simplified process. The capacity to foster innovation can bring unexpected successes and accomplishments, so building relationships in Africa now can put a business ahead of the curve.