

## Africa Rising: Doing business in Africa

*"If one could speak two languages well and was raised on tea and baguettes for breakfast, in places where the most mundane daily business on the street is conducted in four languages, where horse carts park at cyber cafes, where would one go? Where could one go? Why, with smile and a handshake, very far, indeed!" T.K. Naliaka*

By [Authors from Regent Business School](#) 20 Jun 2014



© Mstudio - [za.Fotolia.com](#)

Naliaka's emotive, yet short and snappy anecdote of trade in an African setting illustrates the scope and complexity of doing business in the African continent.

According to the United Nations Trade Agency (UNCTAD), Africa offers the highest return on direct foreign investment in the world, far exceeding all other global regions. However, as much as Africa has much to offer in terms of trade, the business environment is littered with legal, political, social and economic challenges. The recent Africa Rising moniker epitomises this new narrative, diligently championed by Western countries and the World Bank.

### Why the sudden interest in Africa?

Is it not strange that the same western countries until recently portrayed Africa as the 'dark continent'? Africa they had affirmed was a place of suffering, full of savagery and incessant conflicts, wars and famines. Foreign aid was necessary and Africa needed "saving"- all in the interest of exploiting the material wealth of the continent.

Why then the sudden interest in Africa? Numerous conspiracy theories have developed as a result of this rhetorical question. In the broadest context, two paradigms have surfaced. There are those theorists who believe that the West's new interest in Africa is simply an act of redemption, atoning for their past exploitative and unbecoming conduct of colonising the continent. Others opine that the West has suddenly realised that the continent is the last frontier and ideal environment for new business opportunity in the context of a transformed brand of global capitalism.

Notwithstanding this conjecture, is there truth to the new Africa Rising narrative? As much as we believe that the West is rebranding Africa as a 'continent of opportunity' for self-serving interests, and some would argue the same for China, India and Russia, the new narrative bears some truth. New economic growth figures, averaging at about 4%, give much credence to the claim that indeed Africa is 'rising'.

### Transformation in Africa's image

The continent's commodities boom and mineral and oil wealth have definitely benefitted state coffers,

however, with little 'trickle down' effect. The majority of the people fail to benefit from this so-called new commercial relationship. Simply put, it is an old story reframed to continue an old exploitive trade relationship that exacerbates dependency. Moreover, there has been a real change in perception by investors, as noted in a new report from Ernest & Young's Africa 2013 "Attractiveness Survey". The change reflects not only an overall transformation in Africa's image, but also shifting investment patterns.

Contrary to stereotypical views, the new narrative portrays a continent where the 'winds of change' are stimulating economic reforms. Africa is becoming more conducive to business development. The new transformation is playing a significant role in promoting Africa as a viable business partner in the global market.

Through the influence of the World Bank's 'constructive engagement' policies, trade has been liberalised, import restrictions and price controls on many primary and secondary products have been removed and various measures to regulate the financial and banking sectors have been many implemented. These new developments clearly indicate that continent has created the necessary conditions for economic growth and a thriving local and international business community.

## **Business opportunities**

Africa is definitely 'rising' and the private sector is the key to this new advance. Conflicts and wars though prevalent have diminished in terms of occurrence. New democratic dispensations have added to good governance. Innovative financial markets are opening up and trade is improving. Most importantly, though, economic growth is surging.

More specifically, it is the new consumer-based market of almost one billion that offers the greatest opportunity for trade in Africa. The middle class is growing and the demand for consumer products and services is commensurate.

The rapid expansion of telecommunications is a prime example of the new consumer demand. From 1996 to 2004, cell phone use in Africa grew at an annual rate of 58%, whereas in Asia, the region with the next highest growth, cell phone use grew at a paltry 35%. According to the Praekelt Foundation, Africa now is the second largest user of cell phones, globally.

Definitely, Africa is of increasing strategic significance to the global economy. Despite the global recession many African nations emerged as key markets for global investors. It is particularly interesting that in 2009 (soon after the food and financial crisis) many countries in Africa outperformed the economies of developed countries, admittedly from a lower base.

The demography of Africa is another factor which suggests opportunity. It is one of the most populated and youngest markets in the world, with more than one-half of its population under 24 years of age. Global population projections estimate that by 2050, Africa will have a population of 2 billion. The projections also suggest that the proportion of Africa's youth (under 15 years) is expected to rise to 45% of the total population. This quite obviously raises some interesting possibilities. As a result, the demand for education skills, employment and consumerism will increase substantially.

## **BRICS countries increasing business dealing in Africa**

While petroleum products are the driving force behind much of international trade, other sectors offer

impressive growth. The BRICS countries are rapidly increasing their business dealings with Africa, whilst the USA and the European Union consolidate their old trading partnerships. In addition, the continent currently represents one of the largest untapped potential for investment as it is one of the richest natural resource regions in the world. Africa is the third-fastest growing economic region in the world and its rate of urbanisation is higher than that of India.

Given the above snapshot of opportunities that the continent provides, what are the prospects and risks of doing business in Africa? As mentioned previously, just as Africa offers enormous opportunities, there are also risks of doing business. We'll look into this question in [Part 2](#) of this series.

## ABOUT THE AUTHOR

Ahmed Shaikh (Managing Director), Professor Anis Karodia (Senior Faculty and Researcher), Professor Mark Hay (Acting Dean) and Professor Dhiru Soni (Director for Research and Innovation). All authors are from REGENT Business School and can be contacted at [[www.regent.ac.za](http://www.regent.ac.za)].

For more, visit: <https://www.bizcommunity.com>