The Emerging Markets of Africa: Business Opportunities for Central and Eastern Europe

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This paper discusses the increasing importance of emerging markets, particularly those in Africa, in terms of international business opportunities in the post-financial crisis period; while BRIC economies have received a lot of attention in the preceding decade, other emerging markets – especially in Africa – show indications of taking on more prominence in the upcoming period. In fact, at present, the continent of Africa represents one of the fastest growing markets in the world. This paper focuses on growth indicators and trends in the African markets as well as potential future international business opportunities; specifically, it examines the competitiveness of African nations, the business environments of countries in Africa, the continent's international trade situation and urbanization in Africa. The paper concludes with a brief discussion on existing business opportunities together with some challenges which remain on the continent.

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Keywords: Big emerging markets; Africa; business opportunities

Emerging Markets and the Global Economy

The dynamic performance of many emerging markets prior to the global crisis, their better performance during the downturn as well as their stronger recovery since then have all put an ever-growing focus on the opportunities available to organizations in these economies. These factors have also highlighted the gap in terms of economic performance between developed nations and the emerging ones. Global economic output is forecast to grow by 8.5 trillion USD between 2010-2015, and more than 60% of this growth is expected to originate from emerging markets (Egan & Ovanessoff, 2011). "Today some 5 billion people live in 37 countries where nominal GDP per capita is in most cases less than $1,000 a year. Despite representing roughly 70 percent of the world's population, these emerging-market consumers account for only 35 percent of the world's GDP. This is changing; by 2020 the collective GDP of the emerging markets will overtake that of the developed economies for the first time. And over the next 10 years, consumer spending in emerging markets is expected to grow three times faster than consumer spending in developed nations, reaching a total of $6 trillion by 2020" (Benshimol Severin et al., 2011, p.3).

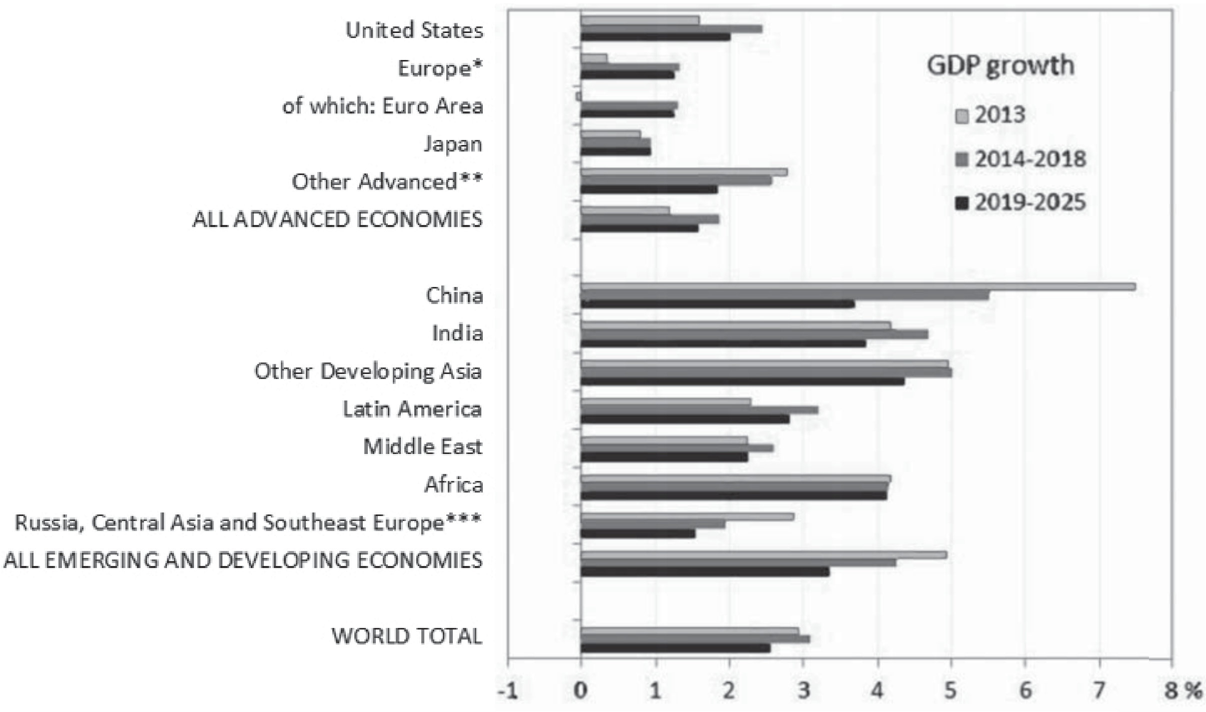
While the BRIC economies (Brazil, Russia, India & China) were the focus of much attention for the last decade in particular, there are a number of indicators which suggest development of many new opportunities in a broader range of nations; one of these is the inclusion of South Africa into this country grouping, which became BRICS in 2010. In 2013, the highest rates of GDP growth are being seen in Asia and Africa. Thus, due in part to greater stability and higher growth rates, Africa is becoming the focus of increased attention from companies around the world.

Table 1 World GDP Growth 2013

World GDP Growth 2013			
North America	2.2%	Middle East/North Africa	3.8%
Latin America	3.9%	Sub-Saharan Africa	4.8%
Western Europe	0.3%	Asia (excluding Japan)	6.4%
Eastern Europe	2.9%	Japan	1.2%

Source: author; data from Economist Intelligence Unit, "Growing Africa Cities" report, October 2013, www.eiu.com.

Figure 1 Global Outlook for Growth of GDP, 2014-2025



*Europe includes all 27 current members of the European Union, as well as Iceland, Norway, and Switzerland.
**Other advanced includes Canada, Israel, Korea, Australia, Taiwan, Hong Kong, Singapore, and New Zealand.
***Southeast Europe includes Albania, Bosnia & Herzegovina, Croatia, Macedonia, Serbia & Montenegro, and Turkey.
Source: The Conference Board Global Economic Outlook 2013, September update

In fact, expected GDP growth in Africa is 4.8% in 2013 and 5.3% in 2014, this despite the issues in the global economy. Taking a longer-term view of the growth of GDP trends shows us the increasing importance of Africa within the framework of emerging markets. For example, as BRICS countries mature their growth rates are likely to slow, as illustrated in Figure 1. Forecasts for Africa as a whole, however, are for relatively stable growth for both the 2014-2018 period and beyond (2019-2025).

African Market

Since 2000, Africa has experienced annual growth rates averaging around 5.7% -- that is up to the global crisis. Since then, the crisis has had some negative impacts as it has everywhere; these include reduced trade flows, declining capital inflows, reduced foreign exchange reserves and financing issues. Nevertheless, since 2010, growth of gross domestic product has rebounded. Overall, Africa's economic outlook for the next year or two looks promising; however, the picture does vary by region. African Economic Outlook is a research and analysis based entity focused on the continent which combines the expertise of several African groups as well as international organizations, including the African Development Bank, OCED Development Center, UN Economic Commission for Africa and UNDP. In their 2012 report, they categorize the economic outlook of Africa by region; details on each of the five can be found in Table 2.

There are variations in gross domestic product by region within Africa. As can be seen in Table 2 as well as Table 3, North Africa reflects a substantial fluctuation between 2011 and 2012. This is due in large part to the significant contraction of Libya's economy – which is heavily reliant on oil production and export – in 2011 as a result of the civil war; Libya's economy strongly rebounded in 2012 after the war. The decline and recovery have affected Africa's overall GDP growth to a noticeable degree. On a regional basis, four of the five areas are projected to grow in the next 12-18 months; the performance of West Africa is particularly interesting in 2014 (7.4% GDP growth). Overall, there is a positive long-term trend despite the few short-term disturbances.

Table 2 Economic Outlook of Africa by Region

North Africa	"Due to the resumption of oil production and exports, Libya's GDP bounced back by 96% in 2012, boosting growth in North Africa to 9.5%, after the region's GDP had stagnated 2011. Given political uncertainties and difficult international economic conditions in Egypt growth is expected to remain subdued at 2% and accelerate to 3.5%, thus remaining below pre-revolution levels. After negative growth of around 2% in 2011, the Tunisian economy recovered in 2012, growing by above 3%. It is expected that the economy continues to grow by around 3.5% in 2013 but achieves higher growth of around 4.5% in 2014. Morocco and Mauritania continue to achieve solid growth in 2013/14 at average rates of 6% and almost 5% respectively. In Algeria growth is expected to accelerate from 2.5% in 2012 to above 3% in 2013 and to 4% in 2014.
West Africa	Is expected to continue its rapid growth with rates of 6.7% in 2013 and 7.4% in 2014. It has become the fastest growing region of the continent. Growth in the region is not only driven by oil and mineral sectors but also by agriculture and services and on the demand side often by consumption and investment. Nigeria is expected to continue growing by between 6.7 and 7.3% in 2013 and 2014 respectively. In Ghana and Côte d'Ivoire average growth in 2013/14 is likely to exceed 8% and 9% respectively. In most countries of the region growth is expected to pick up in 2013/14, exceeding 5%. But in a few countries, such as Benin, Cape Verde and Guinea-Bissau, growth will remain more subdued.
East Africa	Most countries in the region are on a solid growth path of between around 5 and 7% during the projection period, such as Rwanda, Tanzania, Ethiopia and Uganda. With the assumption of no major post-election turmoil in Kenya, growth is expected to amount to 4.5% in 2013 and to accelerate to above 5% in 2014. In Sudan, the economy has been heavily affected by the secession of South Sudan. In 2012, GDP contracted and for 2013 only moderate growth is projected and some acceleration in 2014.
Central Africa	GDP is likely to continue to grow by 5.7% in 2013 and 5.4% in 2014 with above-average growth in Chad and in DRC. In Chad, oil production and agriculture are the main drivers of growth. In DRC, mining, agriculture and construction are boosting growth. But sustainable growth also requires further progress in political stability and the security problem in the eastern part of the country has significantly affected economic activity in that region.
Southern Africa	GDP is expected to grow by 4.1% in 2013 and to accelerate to 4.6% in 2014. In Angola, Mozambique, Zambia and Botswana growth is likely to remain buoyant. Malawi is expected to emerge from its 2012 economic crisis and return to solid growth. In 2012, economic growth in South Africa was adversely affected by heavy strikes in the mining sector and the recession in the euro area. With improved global demand and supportive macroeconomic policies a gradual recovery is expected for 2013 and 2014. Zimbabwe continues to record positive growth rates of above 5%. But due to the economic crisis with declining production levels until 2009, by the end of 2014, real GDP will still be more than a quarter lower than in 2001. Swaziland's economic growth continues to be the lowest in the region and in Africa as a whole."

Source: *African Economic Outlook* 2013 report, African Economic Outlook, www.africaneconomicoutlook.org

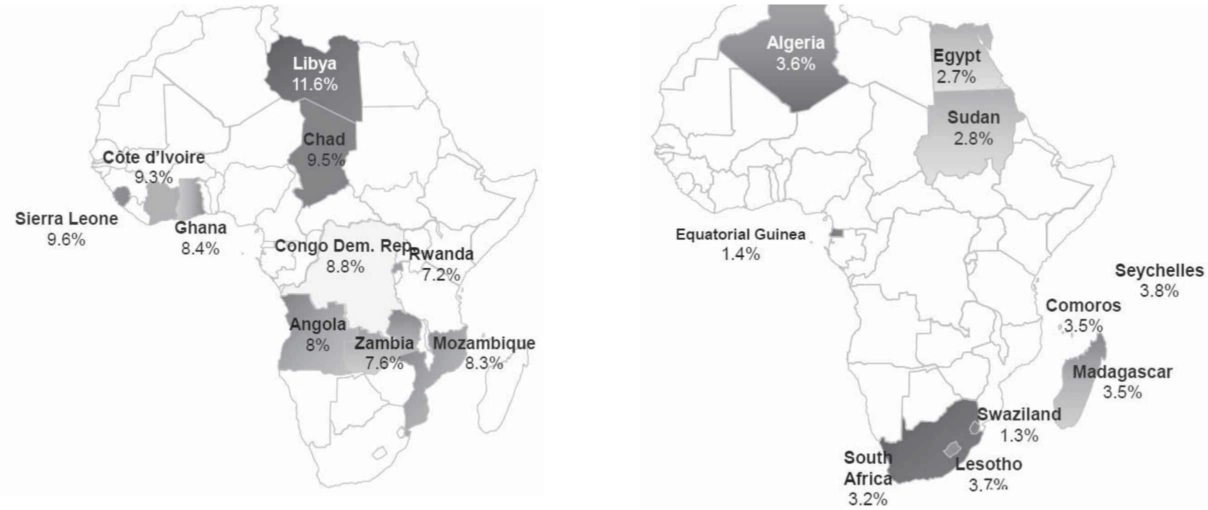
Table 3 GDP by Region in Africa

	2011	2012(e)	2013(p)	2014(p)
	Real GDP Growth (%)			
Central Africa	5.2	5.7	5.7	5.4
East Africa	6.3	4.5	5.2	5.6
North Africa	**-0.1**	9.5	3.9	4.3
Southern Africa	4.0	3.7	4.1	4.6
West Africa	6.8	6.6	6.7	7.4
Africa	**3.5**	**6.6**	**4.8**	**5.3**

Source: HB Solignac-Lecomte, OECD Development Centre, Structural Transformation and Natural Resources in Africa presentation, at: www.icc-cr.cz.

Many organizations have long focused on Africa's more developed markets such as Johannesburg or Cape Town, South Africa or Cairo, Egypt. However, it is important to note that Africa's biggest markets are not always its most dynamic. See for example, South Africa or Egypt which are currently among the continent's 10 slowest-growing nations. Among the top ten growing economies in Africa are: Libya, Chad, Sierra Leone, Cote d'Ivoire, Ghana, Congo, Rwanda, Angola, Zambia and Mozambique. Examination on a regional basis provides some interesting data as does further detailed scrutiny at the country or even city level.

Figure 2 Africa's 10 Fastest & Slowest Economies 2013/2014



Source: HB Solignac-Lecomte, OECD Development Centre, Structural Transformation and Natural Resources in Africa presentation, at: www.icc-cr.cz.

Another way to put Africa's growth into context is to examine how many, and which, of its economies have reached 'middle income status'. The World Bank categorizes nations that have crossed the 1000 USD GDP per capita level as 'middle income countries' (MICs). Today, about 45% of Sub-Saharan Africa's 48 economies have achieved this status. This is impressive progress but it is also indicative of the economic diversity – in terms of income level – which remains on the continent. Putting this into context, one could classify the more advanced economies into one of four categories: mature MICs, commodity MICs, new MICs and next MICs. Mature MICs are Africa's better-off countries, yet they often have lower growth rates. Commodity MICs include nations with abundant natural resources. The third group, new MICs, is comprised of countries which have improved economic policies but which still face some major development-related issues. Next MICs include countries which might achieve MIC status by 2025 provided there are no major political disruptions and that past positive trends in the region continue (Devarajan & Fengler, 2012). Examples of nations in each of the four categories can be found in Table 4.

Table 4 Middle Income Countries (MICs) in Africa – by Stages

Mature MICs	Commodity MICs	New MICs	Next MICs
Botswana	Angola	Cameroon	Chad
Cape Verde	Congo	Cote d'Ivoire	Kenya
South Africa	Equatorial Guinea	Djibouti	Mozambique
Mauritius	Gabon	Lesotho	Rwanda
Namibia	Ghana	Mauritania	Sierra Leone
Seychelles	Nigeria	Sao Tome & Principe	Zimbabwe
Swaziland	Zambia	Senegal	
	Sudan		

Source: author; data from Devarajan, S. and Fengler, W. in Most African countries could reach middle income status by 2025, www.howwemadeitinafrica.com.

Table 5 African Economies by Stage of Development – per World Economic Forum

STAGE	AFRICAN COUNTRIES
Stage 1 (factor-driven) GDP per capita < US$2,000	Benin, Burkina Faso, Burundi, Cameroon, Chat, Cote d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia, Zimbabwe
Transition fr. 1-2 GDP per capita USD 2,000-4,000	Algeria, Botswana, Egypt, Gabon, Libya
Stage 2 (efficiency-driven) GDP per capita USD 3,000-9,000	Cape Verde, Mauritius, Morocco, Namibia, South Africa, Swaziland
Transition fr. 2-3 GDP per capita USD 9,000-17,000	Seychelles
Stage 3 (innovation-driven) GDP per capita > USD 17,000	None

Source: adapted from World Economic Forum's 2013 Africa Competitiveness Report; Note: Countries with a share of mineral exports in their total exports greater than 70% are moved to a lower stage of development.

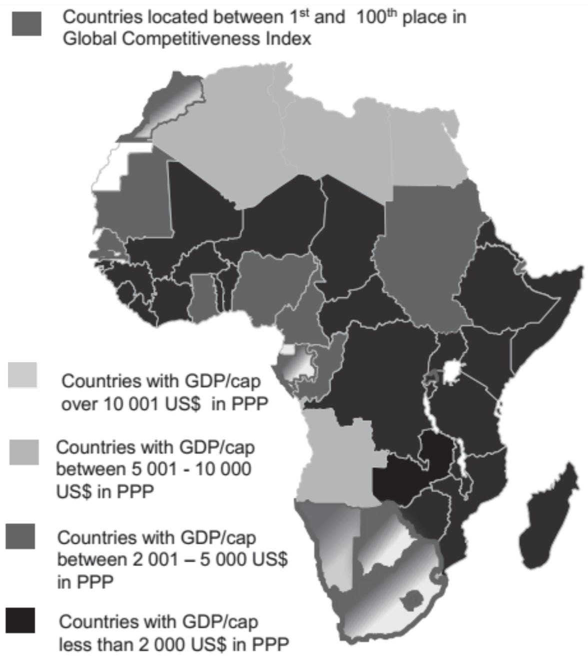
Competitiveness of African Nations

If taking a look at Africa from the competitiveness point of view, there are several trends which look encouraging; these must be balanced with the challenges which remain. There has been a decade of strong economic growth and relative insulation against the effects of the global economic crisis. Africa also currently has rapid population growth, the level of which recently passed one billion inhabitants; this has strong implications for an expanding consumer base. Within the last decade, there has also been a rapid rise in the adoption of technology and mobile communications. However these positives coexist with some challenges on the continent including, for example, recent political tensions, unevenly distributed growth across the continent, pressures for increased policy development, an underdeveloped and overburdened infrastructure, strains from a rapidly growing population, relatively low productivity, etc.

Table 5 shows African nations by stage of economic development as categorized by the World Economic Forum (WEF). As can be seen, the bulk of African nations remains factor-driven economies, i.e. stage one. Economies at this level still need to develop their infrastructure, work on maintaining stable institutions and macroeconomic policies, and providing adequate social, educational and healthcare institutions for their growing populations. These areas are especially important for those nations in transition between stages one and two. Per WEF's model, stage two emphasizes more efficient production processes and increased product quality to facilitate continued growth; in addition, higher education and market efficiencies – in terms of labor, goods and financial resources – become more important. There are six African countries currently at level two. At level three, having an efficiently-functioning business environment and skilled workforce are necessary in order to enable innovation. As can be seen, there is only one country in Africa currently in transition to stage three.

Many of the nations in Africa continue to be among the least competitive economies in the world. Problematic areas include: quality of institutions, infrastructure, macroeconomic stability, education and technology gaps. Nevertheless, it is important to remember that there are large variations among the nations and a lot of positive trends which should not be underestimated. Of the 144 countries included in the World Economic Forum's 2012/2013 Global Competitiveness Index (GCI), there are nine African nations listed in the top 100 (noted in the map in Figure 3). The 2013/2014 GCI survey covers 148 countries; in the top 100, there are 11 African nations, including: Algeria (100), Botswana (74), Kenya (96), Mauritius (45), Morocco (77), Namibia (90), Rwanda (66), Seychelles (80), South Africa (55), Tunisia (83), and Zambia (93). Overall, 38 of Africa's economies are included in the competitive index. For comparative purposes, the scores of BRIC countries as well as a couple of CEE nations are provided: Brazil (56), Russia (64), India (60), China (29); Czech Republic (46), Slovakia (78), Poland 42) and Hungary (63) (Klaus, 2013).

Figure 3 2012/2013 GCI Scores for African Countries in the Top 100



Source: Mejstrik, M. ICC Czech Republic, *Export of the Czech Republic to African countries and Export strategy of the Czech Republic presentation*, at: www.icc-cr.cz.

Business Environments in Africa

In 2013, the World Bank published the 10th edition of its Doing Business (DB) report which analyses and compares business regulations for domestic firms in 185 different economies around the globe. As this data has been collected now for ten years, it allows the observation of some interesting trends over time. One of the main findings since the first edition of this report was published in 2003 is "Business regulatory practices have been slowly converging as economies with initially poor performance narrow the gap with better performers. Among the 50 economies with the biggest improvements since 2005, the largest share—a third—are in Sub-Saharan Africa" (DB 2013, p.9). Egypt has been the top improver in North Africa since the mid-2000s, but the majority of this improvement occurred before 2009. One African nation received special focus in the 2013 DB report for its particularly notable improvement: Rwanda. The government in Rwanda has made the development of the private sector a priority. In fact, "the government designed a long-term development strategy, Rwanda Vision 2020, aimed at transforming Rwanda into a middle-income economy by raising income per capita from $290 to $900 before 2020" (DB 2013, p 45). These commitments include institutional development, extensive reforms of business regulations, improved access to credit, easier process for starting a business and stronger laws.

As shown by various indices, there are vast differences by region in Africa in terms of business friendliness – the same as in other geographic areas in the world. Of the 185 economies included in the 2013 Doing Business rankings, there are ten African nations in the top 100: Mauritius, South Africa, Tunisia, Rwanda, Botswana, Ghana, Seychelles, Namibia, Zambia and Morocco. The scores of these nations are listed below in the table; for comparative purposes, the scores of the BRIC countries are provided as are four economies in Central & Eastern Europe.

Table 6 Ease of Doing Business Rankings

Economy -- 2013 Ease of Doing Business Rank			
Mauritius	19	**Select CEE Countries**	
South Africa	39	Slovakia	46
Tunisia	50	Hungary	54
Rwanda	52	Poland	55
Botswana	59	Czech Republic	65
Ghana	64	**BRIC Countries**	
Seychelles	74	China	91
Namibia	87	Russian Federation	112
Zambia	94	Brazil	130
Morocco	97	India	132

**Data includes: African countries with rankings in the top 100 as well as BRIC countries and four Central European nations for comparative reference.
Source: author; data from The World Bank, 2013 Doing Business annual rankings, available at: http://doingbusiness.org/rankings

International Trade – with Africa

There are currently multiple trading blocs in Africa, some of which have overlapping membership. There are a few regional communities moving toward creating a single market. The East African Community (EAC) was originally established in the 1960s, collapsed in the 1970s and was revived in 2000; it has five member states. The Southern African Development Community (SADC) has 15 member states. The Common Market for Eastern and Southern Africa (COMESA) was founded in 1994 to replace the former preferential trade area (PTA); it has 19 members. In 2008, these three entities – EAC, SADC and COMESA – agreed to an expanded free trade zone. See the following maps in Figure 4 for details of which nations participate in the three trading blocs mentioned.

Figure 4 Trading Blocs in Africa

East African Community

Common Market for Eastern & Southern Africa (COMESA)

Southern African Development Community

Source: African Economic Outlook (AfDB, OECD, UNDP, ECA 2013) http://www.africaneconomicoutlook.org/en/ in: Mejstrik, M., ICC Czech Republic, *Export of the Czech Republic to African countries and Export strategy of the Czech Republic* presentation at: www.icc-cr.cz

Also worthy of reference are the Southern African Customs Union (SACU), Africa, Caribbean, Pacific Economic Partnership Agreement (APC EPA), and the Trade, Development and Cooperation Agreement (TDCA). Established in 1910, SACU is the oldest existing customs union in the world; there are five members, including: South Africa, Botswana, Lesotho, Swaziland and Namibia. The APC economic partnership agreements aim at promoting trade between the EU and ACP regions. There are seven regions in ACP, five of which are in Africa. In 2012, EU trade with ACP countries reached the level of 185,892 million euros (European Commission, Director-General for Trade). The EU has also concluded an agreement on trade, development and cooperation specifically with South Africa (TDCA), which is particularly relevant as South Africa is the EU's largest trading partner in Africa.

The African Union was established in 2001 and consists of 54 African states (all of them except for Morocco). Its purposes are to accelerate the process of integration in Africa, address social, economic and political problems and enable Africa to play a larger role in the global economy. The African Union has a goal to create a Continental Free Trade Area (CFTA) by 2017.

In terms of Africa's exports, there is a long-term upward trend, despite a sharp dip in 2008-2009 related to the global crisis; since then, it has been recovering. Africa trades a great deal with both the EU27 and the United States. In terms of Africa's imports, there has also been an upward trend since 2000. This is particularly true since the global crisis. Imports are concentrated in machinery and transport as well as other manufactured goods. Crude commodities are increasing as is the food and beverage sector. Africa has also recently conducted more trade with BRIC countries, particularly China. Though there are indications of increasing levels of free trade within Africa, analysts suggest this is still an area of opportunity for the continent.

Emerging Importance of African Cities

Several prominent international organizations, country analysts specializing in Africa and business consulting services are increasingly focused on city-scope dynamics rather than country-level analysis and the opportunities available to businesses at this level – i.e. those that might go undetected if examination were to remain at the national market level. This is particularly true in Africa due to the explosive population growth, increasing levels of urbanization and unevenly distributed income patterns. The United Nation's Habitat's 2012-2013 *State of the World's Cities – Prosperity of Cities* report states, "Cities can offer remedies to the worldwide crises – if only we put them in better positions to respond to the challenges of our age, optimizing resources and harnessing the potentialities of the future" (p. v). Per UN Habitat, among Africa's largest cities in 2013 are (population in millions): Alexandria, Egypt (4.6); Cairo, Egypt (11.4); Abidjan, Cote d'Ivoire (4.5); Lagos, Nigeria (11.7);

Khartoum, Sudan (5.7); Kinshasa, Congo (9.9); Luanda, Angola (5.5); Nairobi, Kenya (4.0); Johannesburg, South Africa (3.8); and Cape Town, South Africa (3.5) (UN Habitat in EIU, Growing African Cities, 2013). The Economist Intelligence Unit (EIU) recently identified – based on relevant economic drivers, its client feedback and a survey of its corporate network members, 29 key African cities which are of especially high interest for organizations in terms of future business opportunities (EIU, Growing African Cities, 2013). These urban areas are seen as some of the emerging metropolitan zones in Africa with the highest potential. These cities are spread across more than 20 of the continent's nations; see the table and map in Figure 5 for details.

Figure 5 29 Key African Cities Companies should be Targeting

Abidjan	Dar es Salaam	Lagos
Abuja	Douala	Luanda
Accra	Durban	Lusaka
Addis Ababa	Harare*	Maputo
Alexandria	Ibadan*	Mombasa
Algiers	Johannesburg	Nairobi
Cairo	Kinshasa*	Port Harcourt*
Cape Town	Kampala	Tripoli
Casablanca	Khartoum	Tunis
Dakar	Kumasi	

Note: * New cities added in 2013; marked in yellow on the map.
Source: *Economist Intelligence Unit,* Growing Africa Cities: Helping you size the market report, www.eiu.com

Opportunities and Challenges in Africa

The African continent is huge and it contains a wealth of diversity in terms of geographic, national, ethnic, economic, legal, development and other factors. Many recent economic trends look positive including overall cautious optimism with inflation. There is evidence of shifting wealth as a driver of growth. Integration and liberalization of trade policy are underway as is general, macroeconomic stabilization overall. There is also evidence of better control of government budgets and debt relief. In addition, one can see the entrance of new investors (e.g. trade partner diversification) as well as new drivers of economic growth such as the following: telecommunications industry, development of the financial sector and consumer spending, etc. There are several positive trends with the likelihood of having a strong impact on future opportunities in Africa, for example its growing youth population or the massive technological revolution going on – e.g. skyrocketing mobile connections or increases in the Internet penetration rate. Technological development is not limited to telecommunications, but can also be seen in other sectors as well. Furthermore, several African governments are taking a more proactive role in terms of policy development facilitating more efficient business environments as well as investment in improving the skillset of human capital. According to the Economist Intelligence Unit's *Growing Africa Cities* report (October 2013), emerging opportunities in Africa are – in addition to its growing population and a new and relatively youthful emerging middle class – becoming diverse and include (p.5):

- **"The 'peace dividend**' – After years of armed conflict and military rule, democracy is the latest wind of change sweeping across the continent,
- **Urbanisation -** Half of all Africans are under 20, and are rapidly moving to cities: more than 40% of Africans now live in urban areas,
- **Improved governance –** Greater accountability comes hand-in-hand with democracy and the slow strengthening of institutions,
- **Trade, not aid –** Europe is still Africa's largest trading partner, but China's share of trade has exploded in the last decade,
- **The rise of technology –** The number of mobile subscribers in Africa exceeded the 0.5 billion mark in 2010, allowing companies greater access to consumers, [and]
- **Infrastructure investment –** Chinese companies are building roads and upgrading railways, ports and airports."

Despite the many positive trends and data points, Africa remains a complicated mix of markets with many factors to take into account; some significant challenges remain. Political turmoil is one of these and a look at the events of Arab Spring provides an excellent example. In some areas, one must beware of public protests and violence. Labor productivity as well as skill level remain opportunities for development. Unemployment, particularly in the youth sector, is problematic. Structural transformation remains a significant issue which needs to be urgently addressed. There are noteworthy challenges in the area of infrastructure – e.g. poor quality roads, overloaded ports, dated airports, etc. Border crossings can be slow and inefficient; red tape remains a major hurdle in some areas. Bribery and corruption are extensive in some cases. Nevertheless, "a recent survey conducted by the Economist Group of 217 global companies based in 45 countries revealed that expansion in Africa is a priority for two thirds of them within the next decade" (EIU, African Cities report, p. 14). Historically, African markets have sometimes been underestimated; however, the recent rapid development in the region suggests that organizations should pay closer attention to the possibilities in the region. Africa as a whole presents a complex set of dynamic variables which include both challenges but also immense opportunities for those willing to explore what may literally be one of the last and currently most lively frontiers for business development.

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