



PUBLISHED | OCTOBER 7, 2009

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Africa: The New Frontier

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To millions across the globe, **Africa** is synonymous with hunger, disease, aids, despots and conflicts. China, India and other Asian countries suffered same stereotyping until few decades ago when they started the current **economic transformation** through rapid **industrialisation** and **international trade**. Africa is cautiously on the tails of the Asian Tigers. The continent is quietly shedding its old toga as it transforms into a conglomerate of prosperous nations.

New business shift

One-third of Africa's total trade is now with markets in emerging economies, namely China, India, Brazil and Malaysia among others. Africa is marking a shift away from previous reliance on traditional trading partners in Europe and North America. Although the European Union (EU) as a whole continues to dominate Africa's trade, that dominance is receding, especially in imports. European Union now accounts for only a little over a third of the continent's inward trade. The International Monetary Fund (IMF) projections for world growth reinforce the grounds for optimism. While many of Africa's traditional trading partners are in a recession, many of its new markets, particularly China and India, show relatively healthy growth prospects. The \$5 billion China-Africa Development Fund (CADFund) opened first office in Africa at Johannesburg South Africa. At a time when much Western capital is fleeing the continent, the CADFund, established in 2007 by the state-owned China Development Bank as an equity investment fund for Africa, has already spent some \$400 million of its initial \$1 billion capital and looks to be adding a further \$2 billion to help promote more Chinese investment in Africa. Brazil's oil giant, Petrobras, has projected that it will invest more than \$2 billion in Angola and Nigeria over the next five years, while its steel-producing compatriot, Vale, is putting a reported \$1.3 billion into developing coal deposits in Mozambique, where Coal India also has acquired mining rights. India's Tata is planning a major expansion in South Africa, Nigeria and a number of other countries. On the other hand, Russia's Gasprom is looking to invest in natural gas in Nigeria and to acquire oil concessions in Algeria and Libya. Malaysia's Petronas has made a significant presence in the oil sector in Egypt and Sudan. These are all snapshots of Africa's newfound trade and investment partners among emerging economies.

Global perception challenges

The image of Africa as a continent bedevilled with sufferings and wars still exists in minds of millions through television images and news reports. Most media outfits in developed nations continuously mirror the worst pictures out of Africa to maintain the stereotype. There may be drought, disease and corruption. Still, there are new generations of young, educated, savvy entrepreneurs running businesses in Africa. A great number of professionals and business managers in Africa are educated in the world's best universities, and have worked in high profile organisations in developed economies across the globe before returning home. Despite the contribution of these new generation of Africans in the development of the continent, the global television audience is still being fed with an overdose of malnourished children, conflicts and famine to mention a few. The media blitz on Africa may have discouraged many entrepreneurs in the western world with products and services that could thrive in Africa to look elsewhere. There is a widening gap between reality and perception of Africa.

Economic prospects

Africa's economic growth is steady despite the global financial crisis. The World Bank confirmed that growth in gross domestic product has been higher than the world average for five years and is predicted to grow in 2009 and beyond. Africa's economic prosperity has created a growing middle class. The World Bank estimates that the sub-Saharan middle class will be 43 million strong by 2030, up from 12.8 million in 2000. South Africa leads the pack, with other countries such as Zambia, Nigeria, Kenya and Ghana demonstrating strong prospects. It all means that billions will be spent on consumer goods, telecommunications, agriculture and infrastructure projects. Africa's mineral wealth is vast. Africa supplies half of the world's diamonds, a third of its gold and more than three-quarters of the platinum/palladium precious metals complex. It has huge copper reserves in Zambia and South Africa and 12 percent of the world's oil reserves.

Political reforms

Across Africa, the number of democracies has risen from 10 in 1980 to 34 by the end of 2007. The older generations of leaders are retiring and the new western-educated elite is taking control. From 1960-1980, no African leader left office having lost an election. In the 1980s, there was just one. But from 1990-2003, 18 were voted out of office. The Mo Ibrahim Foundation has recently published its new ranking of African governance; 48 of the 54 African countries were reviewed, with Mauritius, the Seychelles, Botswana, Cape Verde, and South Africa occupying the top five positions and Sudan, Chad, the DRC and Somalia at the bottom of the table. A country such as Nigeria noted for protracted military rule has been under democratic rule since 1999 till date. There are still democratic challenges in African countries such as Zimbabwe, Niger, Madagascar and Kenya. These are young democracies that are bound to make mistakes and learn as they climb the ropes of good governance. Almost all African countries are embracing capitalism and stock markets have a sound legal framework based on respect for property rights.

Infrastructure

Africa's infrastructure sector faces enormous challenges. In a presentation to the World Water Forum in Mexico few years ago, African ministers put the total annual investment required in their water sector alone at \$20 billion. Separate research from the World Health Organisation indicates that \$23.5 billion a year would be saved by providing basic access in sub-Saharan Africa: five percent of the region's gross domestic product. Average electricity access in sub-Saharan Africa stands at about 25 percent, and the World Bank expects 60 percent of sub-Saharan Africans to still lack electricity by 2020. A report by Tanzania's Economic and Social Research Foundation calls for a doubling of generating capacity over the next 10 years, while Nigeria, which has only a tenth of South Africa's power output for three times the population, plans to more than double its capacity by 2011. The impact of emerging economies is particularly noticeable in infrastructure. At Kilamba Kiaki, on the outskirts of Luanda, Angola, Chinese companies are building a new township designed to accommodate some 200,000 people, complete with schools, business sites, access roads, sewage plants and other needed infrastructure. The United Nations Conference on Trade and Development estimates that southern-owned companies account for 40 percent of all infrastructural commitments made in Africa between 1996 and 2006. According to the donor-led, World Bank-managed Public-Private Infrastructure Advisory Facility, China's planned investment in hydroelectric schemes could increase Africa's generating capacity by 30 percent.

Agribusiness

Outside mining, Malaysia's Sime Darby has recently struck a deal worth \$800 million to revive the Guthrie plantation in Liberia to develop rubber and palm oil. Singapore's Wilmar International has taken a stake in a palm oil venture in Côte d'Ivoire. More controversial has been the interest shown by some emerging economies-as well as by Western companies-in securing needed food supplies by acquiring large tracts of African land to grow maize, wheat and other food crops. Sudan and Egypt have seen significant amounts of such investment from Saudi Arabia and the United Arab Emirates, among others. China has largely refrained from investing in food, but has shown interest in commercial crops. It has already launched a major scheme in Zambia to purchase cotton from farmers and is reportedly negotiating a similar scheme for jatropha, a plant whose oil can be used for biofuel production. Ghana has just approved a \$40 million deal with a company in Brazil to help develop the sheanut sector, including constructing a processing plant and providing relevant technology. Benin, Burkina Faso, Chad and Mali have a similar deal with Brazil to help improve their cotton sector. Brazil's development of ethanol and other renewable energy technology also presents a potential area for expanding African agribusiness sector.

Telecommunication

The International Telecommunications Union recently noted that: "Growth in Africa's mobile sector has defied all predictions. Africa remains the region with the highest annual growth rate in mobile subscribers." The UN agency adds that no less than 65 million new subscribers signed up in 2007. "By the beginning of 2008, there were over a quarter of a billion mobile subscribers in Africa and mobile penetration had risen from just one in 50 people in 2000 to almost one-third of the population today." World Bank officials now estimate that an astonishing \$14 billion has gone into telecommunications in Africa in the past five years, with the number of mobile telephone lines rising to 135 million last year from 15.6m in 2000: a compound annual growth rate of almost 54 percent, compared with 24 percent globally. Yet this growth has only scratched the surface, as mobile penetration across the continent is still only 15 percent. Morgan Stanley estimates that mobile phone penetration in sub-Saharan Africa will rise to 42 percent by 2012. As at 2001, Nigeria had less than 150,000 connected mobile phones, in 2009, the country has over 67 million active mobile phone subscribers.

Africa on the move

As more emerging economies defy the media blitz on Africa and invest in key sectors that are generating jobs and return on investment, Africa is slowly but surely heading towards economic transformation. The UN's Office of the Special Adviser on Africa, stressed that African countries, through regional groupings such as the Southern African Development Community and the Economic Community of West African States, could present a common front to potential investors and buyers and thereby maximise the potential of emerging markets to meet the continent's strategic goals. At the same time, the African Development Bank and the UN can help provide African countries with market intelligence and other assistance. *-Frank Aneke is the principal of [OctoberFirst Consulting](#), an investment communication firm specialising in business opportunities in Africa. OctoberFirst is a member of the NSW Business Chamber.*

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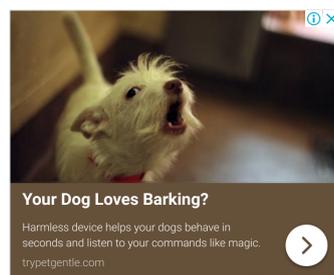
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