7. Africa’s Changing Investment Environment

The Overall Picture

Obiageli Ezekwesili, the former vice president for the World Bank’s Africa Region, recently noted that there is a “palpable dynamism” in Africa due to the economic growth and innovation taking place.38 This sentiment was echoed in a 2010 analysis by the McKinsey Global Institute, which contends that “Africa’s economic pulse has quickened, infusing the continent with a new commercial vibrancy.”39

In fact, investment in Sub-Saharan Africa has expanded rapidly since 2000. Overall capital flows to the region reached $48.2 billion in 2011, just shy of the 2007 pre-global recession peak of nearly $50 billion. Foreign direct investment accounts for more than three-quarters of these capital flows.

And as McKinsey found, the rate of return on foreign investment in Africa is higher than in any other developing

Figure 12. Map of Doing Business Indicators for Sub-Saharan Africa, Showing Changes from 2010 to 2011.

Source: World Bank and International Financial Corporation Doing Business Indicators

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region. Moreover, the rise of the African consumer will help to fuel long-term growth. The number of households with discretionary income is projected to grow by 50 percent over the next 10 years, to 128 million. By 2030, Africa’s 18 leading cities are projected to have a combined spending power of $1.3 trillion.\textsuperscript{40}

In a more recent survey of 15,000 African consumers in 10 countries, McKinsey found that growing consumer awareness has become one of the principal factors that will define the growth of the African retail market. For example, an estimated 40 percent of the African population is under the age of 14 years, and these children and youths will be the principal beneficiaries of both Africa’s transformation in various sectors, especially telecommunications, and also the growing resilience of African economies.\textsuperscript{41}

These trends are also reflected in a recent African Development Bank report, which found that Africa’s middle-class consumers now constitute more than a third of its population, totaling more than 300 million people—a consumer class on par with that of India’s.\textsuperscript{42} Private consumption has also grown across Africa by more than 50 percent during the past five years.\textsuperscript{43} A significant contributing factor to this growth has been the improved business environment, with the majority of countries making it easier to do business (see figure 12).

**Trends of Major Non-U.S. Investors**

Although the vibrancy in many African markets has largely escaped the notice of most American investors, the same is not true for businesses based in other nations. For instance, China, India, Brazil and the European Union are moving aggressively to establish a presence in African markets—just as the U.S. increasingly is being marginalized commercially in Africa.

**China’s Commerce in Africa**

In 2000, when the United States’ two-way trade with Africa was $29.4 billion, China’s trade with it was just $10 billion. Between then and 2008, however, the average annual growth rate of China–Africa trade was 33.5 percent.\textsuperscript{44} In 2009, China overtook the U.S. as Africa’s largest trading partner, and China’s annual trade with Africa reached $160 billion in 2011.

Some sources indicate that China’s state-owned and private companies have made investments in 49 African countries, although it is difficult to obtain reliable data on the cumulative amount of Chinese investment in Africa.\textsuperscript{45} In terms of sectors, Chinese investments range from mining, drilling and infrastructure to transportation and telecommunications to catering, entertainment and real estate. China has also set up the China–Africa Development Fund, which supports Chinese companies investing in Africa and further incentivizes China’s commercial investment in the region.

In certain respects, China’s trade with Africa mirrors that of the U.S., in that the largest proportion is concentrated in just a few of Africa’s countries. For example, 70 percent of Africa’s exports to China are oil and emanate from 4 countries: Angola (34 percent), South Africa (20 percent), Sudan (11 percent) and the Republic of the Congo (8 percent). Six countries receive a total of 60 percent of China’s exports to Africa: South Africa (21 percent), Egypt (12 percent), Nigeria (10 percent), Algeria (7 percent), Morocco (6 percent) and Benin (5 percent). In comparison, Nigeria, Angola, the Republic of the Congo, South

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\textsuperscript{40} Ibid.


\textsuperscript{42} Mthuli Ncube, Charles Leyeka Lufumpa, and Desire Vencatachellum, *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*, Market Brief (Tunis: African Development Bank, 2011).

\textsuperscript{43} Befekadu Degefe, “Private Consumption a Central Factor in Bright Regional Outlook,” *Emerging Markets Monitor* 17, issue 46 (March 5, 2012).

\textsuperscript{44} Ibid.

\textsuperscript{45} This is according to the Chinese government’s Web site and report, “Full text: China-Africa Economic and Trade Cooperation.” [http://english.gov.cn/official/2010-12/23/content_1771603_3.htm](http://english.gov.cn/official/2010-12/23/content_1771603_3.htm)
Africa, Chad and Equatorial Guinea accounted for 97 percent of the United States’ trade with Sub-Saharan Africa in 2009.46

China’s robust trade with Africa is matched by its equally proactive diplomacy. Beijing has negotiated bilateral investment agreements with 33 African governments. President Hu Jintao has made seven trips to Africa, five as head of state, visiting at least 17 countries. And the Forum for Chinese African Cooperation was established in 2000 and meets at the head-of-state level every three years.

Several African countries, including Nigeria, have a percentage of their current account designated in the Chinese currency, the renminbi, in effort to facilitate trade and lower costs. For example, the Standard Bank of South Africa estimates that $100 billion in trade between China and Africa will be settled in renminbi by 2015.47

India’s Investments in Africa

Trade between India and Africa is also growing rapidly. In 2002, it stood at $3 billion. Indian and African leaders had previously set a goal of two-way trade reaching $70 billion by 2015. But because the trade level was already $62 billion in 2011, India’s commerce and industry minister, Anand Sharma, announced a revised goal of $90 billion by 2015 at a recent meeting of the India–Africa Business Council.48 Sharma also said that within the next two to three years, India will set up an “integrated textiles cluster” in Africa that is expected to attract $350 million in investments and provide employment for 60,000 people.

As these data indicate, Indian companies are very active in Africa. Indian telecommunications firms have also made significant investments in the region, such as Bharti Airtel’s $10.7 billion purchase of Zain Africa in 2010. Several major Indian companies—such as Tata Motors, the Mahindra Group, Cipla and Ashok Leyland—are active in South Africa. Likewise, South African Breweries has taken a majority stake in Mysore Breweries in India, and the South African energy giant Sasol is assessing the viability of establishing a multi-billion-dollar plant in India. Foreign direct investment from India to South Africa alone is $3.8 billion. And last year, India announced plans to invest $70 billion in Africa by 2015.49

Brazil’s Investments in Africa

With the election of Dilma Rousseff as its president, Brazil has intensified its focus on Africa as a prospective trading partner and an alternative to the slower-growing economies of Europe and the U.S. Although Africa’s total share of Brazil’s trade is small, at slightly more than 5 percent, it has quadrupled since 2002, to $20.6 billion in 2010.50

After returning from a trip to South Africa, Mozambique and Angola in October, 2011, Rousseff created an Africa Group in her administration, led by her trade and industry minister, Fernando Pimentel, to deepen Brazil’s commercial engagement in Africa. This initiative builds on efforts made by former president Luiz Inácio Lula da Silva, who visited 25 African countries during his tenure and doubled the number of Brazilian embassies in the region.51

The European Union’s Investments in Africa

Sub-Saharan Africa has a long trading history with the countries that now belong to the European Union that is closely related to their colonial ties with the region. Before the global financial and economic crisis of 2008, the EU had a fairly consistent trade deficit with its partners in Africa.

51 Ibid.
During the past several years, however, the European Union has been aggressively competing with other emerging powers in the African market through the imposition of reciprocal free trade agreements, known as economic partnership agreements (EPAs). The stated goals of these EPAs are to enhance trade and development, sustainable growth and poverty reduction. The EPAs would replace the preferential, nonreciprocal trade system between the EU and the African, Caribbean and Pacific Group of States that expired in 2007.

The EU has initiated EPA negotiations with more than 35 African countries. However, the EU has also encountered resistance in some African capitals. Talks have stalled with the East African Community, for example, due to concerns over reduced tariff revenue, damage to local industry from EU imports and a loss of related development assistance. The EPAs would also confer most-favored-nation status on EU-based companies. Not only would this undermine regional integration by creating an impediment for African companies investing in other African nations, it would put U.S. companies at a commercial disadvantage in Africa.

Under the EPAs’ provision for “sensitive product” exemptions, African countries are allowed to maintain existing tariffs on 20 percent of their tariff lines. The remaining 80 percent of the tariff lines would be liberalized for European imports, which would undermine the product diversification of Africa’s private sector and create a disincentive for innovation.53 As Chukwuma Charles Soludo, the former governor of the Central Bank of Nigeria, put it in a recent article in the Financial Times, the EPAs are “harmful and unnecessary” and will divide Africa in a way similar to the 1884–85 Conference of Berlin.54

The EU Commission has informed its African partners that more stringent rules of origin and higher duties on imports into the EU will be imposed if the EPAs are not concluded by December 31, 2013. Only Mauritius and Botswana have concluded EPAs.

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