

## Chapter 4

# The Rising and Compelling Imperatives to do Business in Africa

### ABSTRACT

*This chapter identifies and describes the current rising and compelling imperatives of doing business in Africa. It defines Africa's market attractiveness and the African Gross Domestic Product (GDP)—the sum of the value of goods and services that a nation produces in a year—and the Purchasing Power Parity (PPP) both as measures of market size and market intensity in the African economies. It also outlines the origins of the concept of PPP, its uses together with GDP, and the strengths and the limitations of the PPP as a currency exchange rate determinant and as a market size and market intensity measure, hence business opportunities.*

### 1. WHY LOOK INTO AFRICA FOR BUSINESS OPPORTUNITIES?

Many people from outside Africa picture her as a continent of poor and hungry people. People overburdened by cyclic civil wars and diseases, and with subsistence farmers unable to produce enough food leading to chronic hunger and pervasive poverty. However, in reality, there is a sizable and flourishing middle class on the continent. By 2008, 16 million African households had incomes above \$20,000 a year – a level that enabled them to buy houses, cars, appliances, and branded

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products. Another 27 million households earned \$10,000 to \$20,000. In addition, 41 million households reported incomes of \$5,000 to \$10,000 – the level at which families start spending more than half of their income on non-food items.

Furthermore, it is estimated that by 2020 the total number of households in all the three segments will reach 128 million households. This trend in household income makes Africa one of the fastest growing consumer markets of this decade (Chironga et al., 2011). Therefore, there is a huge business potential in Africa that is dissipating in other parts of the world particularly in the developed world.

Meanwhile, when commenting on business and market potential for products and services in Africa, Ian Goldin, a professor of business at Oxford University, recently told a business forum in Nairobi, Kenya, that the African middle class is 300 million people today. But, by the year 2050 it will number one billion people who will represent a greatly increased purchasing power. Africa is the only region of the world today where birthrates are above the population replacement rates. Africa's population is the fastest growing of all the continents and it has the youngest well-educated work force in the world today. Notably, income inequality on the continent is going down too even as it rises in the rest of the world. Therefore, Africa is the best region to invest in and do business today (Straziuso, 2012).

Furthermore, at an African Growth Opportunity Act (AGOA)—see Chapter Six—forum in Washington, DC, recently, then US Secretary of State, Hillary Clinton, asserted that Africa was a region of great potential and growing opportunities. She vehemently continued to say: *“I want all of my fellow American citizens, particularly our business community and entrepreneurs, to hear and appreciate this fact: Africa offers the highest rate of return on foreign direct investment of any developing region in the world today”* (www.bbc.com, June 14, 2012).

Kristof (2012) asserts further that generations of Americans have learned to pity Africa. It is mainly seen as a quagmire of famine, poverty, and genocide, a destination only for a sybaritic safari or a masochistic aid mission. However, I offer an alternative way to think of Africa: Africa is an economic dynamo. It is time to prepare for the African tiger economy. Six of the world's 10 fastest-growing economies between 2001 and 2010 were in Africa, according to The Economist Magazine. The International Monetary Fund says that between 2011 and 2015, African countries will account for 7 of the top 10 spots in the fastest growing economies in the world. Africa is not just a place for safaris or humanitarian aid. It is also a place to do business and make good money for stakeholders.

Some major global companies are expanding their business ventures into Africa. For example, Wal-Mart bought Massmart of South Africa for \$2.4 billion in 2011. Massmart operates in 13 African countries and growing steadily in the continent; Massmart will enable Wal-Mart to be competitive in many African economies now and in the future. Vast deposits of oil, gas, and minerals are being discovered

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