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Beyond the BRIC: Looking to Africa for Opportunities

Jeffrey Himmelwright

Southern New Hampshire University

Introduction

The developed nations of the world are now looking to the emerging markets to breathe life into a floundering global economy. With the Eurozone economic crisis potentially pushing developed economies into a double dip recession, the outlook of the world is bleak. The world's fastest growing nations, most notably China and India, are being asked to provide funding to rescue nations that once considered them underdeveloped. In this time of crisis, developed nations must look beyond the BRIC nations, which have become synonymous with the term emerging markets, to other emerging markets. The African continent may be just what the global economy needs to raise confidence levels and brighten its outlook.

This paper's goals are threefold. The first is to outline the reasons and importance of looking beyond the BRIC nations to resuscitate the global economy. The second aim is to explain the economic and political risk factors of the African nations to show why Africa is ready for investment. The third goal is to draw conclusions and create a plan for long term growth and success in the African markets.

Moving Beyond the BRIC

Since Goldman Sachs' Jim O'Neill coined the term BRIC nations in 2001, the terms BRIC and emerging markets have widely been looked at as one and the same. Investors are missing out on a wealth of opportunities for this reason. These are now the nations the developed world is turning to in hopes of seeing a glimmer of hope. These four nations are considered the change agents going forward, paving the way to the new global economy. It will take more than just these four nations to spur the turnaround that the world is waiting for. There are also a number of concerns in the BRIC nations outside of the lack of liquidity, which is a danger in all emerging markets. These markets are growing at incredible rates but are fueled by smaller and similar growth markets which also need investment for continued global economic growth. These smaller nations and economic regions support the BRIC nations and, as the BRIC expands, they will grow as well. For the BRIC nations to continue their staggering growth these small nations will need support; if the smaller nations are allowed to fade, there will be diminishing returns from these four power players. Looking beyond the BRIC to these supporting regions that are poised for strong growth themselves will put the world back on the right economic track. In the modern age there has been a transition from a nation's economy to a world economy, and because of this transition, all of the world's economies are linked. Watching the current economic recession, it is clear that when one economy takes a hit, it will be felt around the world. This principle will apply in the inverse as well; for this reason, it is important to support all emerging economies, not just those of the BRIC nations.

Because the BRIC nations have been deemed the change agents in the new global economy, there is a misguided notion that they do not bear high levels of risk. Each of the four has their own issues, as does any developing nation or nation in transition. China, the nation expected to rival the United States and the European Union in the near future, has shown factors that should be concerning to potential investors such as, "The MSCI China index is down a stunning 45.3% from October 2007 through October 2011 (Subramanian, 2011)." These numbers outpace those of both the S&P 500 and the struggling European MSCI index.

The Chinese government has done an excellent job of downplaying these numbers and turning focus on their continued growth in the manufacturing sectors and their GDP growth. These numbers cannot be ignored and should raise questions from investors.

India, China, and Russia all face serious issues with corruption amongst their businesses and governments. Based on a November 2, 2011, Transparency International survey of the 28 leading economies, China was ranked the second most likely nation for businesses to approach foreign companies for bribes to secure contracts, with Russia topping the survey (The Economist, 2011). Most nations, as they become more industrialized, see a decrease in corruption both in politics and in business. India, unfortunately, seems to have a growing corruption problem rather than a declining one. As an example of just how bad the problem is in India, consider last year's telecommunications $45 billion scandal. Government officials charged selected bidders less than the going rate for frequency allocation licenses, which are used to create cell phone subscriptions. "India's telecommunications ministry caused nearly US$40 billion in losses to the exchequer by selling the licenses at 2001 prices and by conducting the sale on a so-called first-come, first-served basis (as opposed to auctions) to benefit a few select bidders (Knowledge@Wharton, 2010)." Imagine what the Indian nation could have done for its people with an additional $40 billion. If they had received the money, they could be one of the nations that had a chance to pull the global economy out of its slump. The people of India have had enough of the corruption and have begun the process of turning things around. This process will take a great deal of time. Corruption is a problem that has deep roots and its roots will continue to be an issue. As a company considering BRIC investment, that comes from a nation that has strict bribery laws, like those in the majority of developed nations, this fact must be given serious consideration. Having your brand name tied to a corruption and bribery case is never a desirable position, neither is the long and expensive legal process that would follow in the company's home nation.

Brazil has established an overly protectionist stance in their foreign policy; the country sees foreign companies and products as invaders that will hurt its business. They use high tariffs on foreign goods to keep their own countries' products selling. "The government has taken small steps to help local firms…. But mostly it has tried to keep out foreign goods and capital. The government's belief that foreign companies entering Brazilian markets as a negative will slow growth. A company looking to invest in Brazilian markets will fear the government's anti-foreign policies. Investment and imports are vital to nation building; Brazil must realize this to maintain high-growth levels.

On the surface, the BRIC looks like the investment opportunity of a lifetime; there are still, however, some heavy risk factors to consider as there are with any investment. The goal is not to bash the BRIC nations but to turn investor's heads in other directions. The next question to answer is where they should turn.

African Economic Opportunity

The African nations have positioned themselves to become major players in the global economy. Even in bleak economic times, the future looks bright for business in Africa. From the years 2000 to 2010, six of the top ten fastest growing economies, based on GDP growth percentages, were in Africa. The six are not names one would expect to find there: Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda; on the whole, African countries' GDP has risen at a higher rate than that of the Asian countries (The Economist, 2011). With number one Angola outpacing China in the last decade, countries with growth numbers like those in these six African countries are just begging for foreign direct investment. There are also two established economies in Africa, Egypt, and South Africa. There are those who consider the African nations the new Asian Tigers who experienced such high growth rates from the 1960s up through the 1990s. Based on the growth numbers of the six economies presented as well as the two fairly established economies above, these comparisons are warranted, but there is much more to the African nations in terms of economic opportunity.

Growth numbers are a starting point when looking into an investment opportunity. Over the past ten years, African economies have grown; that is not enough of a reason to start throwing money at these nations and establishing subsidiaries there. African countries are largely reliant on their natural resources, be it oil or precious metals. Angola and Nigeria are both at the mercy of oil prices and both took a hit when oil prices plummeted in 2009. So where is the cause for optimism in African markets when they are so closely tied to commodities that have a mind of their own and often operate inversely to major markets? The answer lies in the fact that the leaders in many African countries are realizing this and have made a commitment to growing infrastructure and diversifying their economic portfolios. At a recent IMF meeting, a number of African finance ministers made it clear that they understand how important diversification will be in moving Africa and their own respective countries forward. "Chad's Finance Minister, Gata Ngoulou, noted that Africa typically exports raw materials that are processed elsewhere. "So we cannot count on commodity exports as a proper base for our economies,' he stated. 'If export prices are good, we grow. But we all know what happens when prices drop (IMF, 2011).'" This realization is a cause for great hope going forward in African economies. A strong government commitment to establishing itself as more than just a source of natural resources will mean aid for Africans looking to start businesses. That will, in turn, lead to jobs outside the mining camps and farms, fueling growth of a middle class. Underdeveloped nations lack a middle class, which can make or break a nation's economy. If this truly will happen is yet to be seen, but the factors are in place to get them there.

Another reason to be positive about the future of African economies is the continent tying itself to the future game changers, China and India. "India's Minister of Commerce and Industry, Anand Sharma, revealed that India planned on investing US$1 trillion in various parts of Africa in the next ten years…. Beijing says bilateral trade between it and the continent now stands at a whopping US$117.3bn. That is a 43.5% increase on the previous year (Leadership Online, 2011)." While everyone else in the world is looking to invest in India and China, these two nations are looking to Africa. For a number of investment analysts, this alone is enough to commit to Africa. China and India are two nations that know the right path to go from developing nation to economic powerhouse. Both of these nations have the expertise to help Africa put aside its overreliance on natural resources and reach its potential. The fact that African nations will not have to go it alone in their quest to climb out of what was once considered the "third world" is heartening. Developing nations are poised to do something great but it takes the right partners for them to reach that greatness. The United States and the European Union are both struggling and are looking to China for aid in these trying economic times. In the past it has been Europe and the United States seeking to assist emerging markets and help bring affluence to poor countries. With both in struggle and Africa ready for investment, finding these partners was vital to their continued growth and economic success.

There are two groups of countries that are often referred to as the next BRIC nations because they are believed to be capable of emulating the economic form of the original four BRIC nations. The first is the Next-Eleven, which includes Nigeria among its members (O'Neill, 2011). The Next-Eleven were picked by Jim O'Neill of Goldman Sachs who coined the term BRIC nations. Due to his accuracy on just how strong the BRIC nations would become, there will be many who put faith in his opinion and invest in these 11 countries, which will lead investors to Nigeria. Once investors have entered these African markets, they will be more likely to seek investment in other African nations. There is another group of countries that have been selected based on similar criteria that investors are also putting stock in: the VISTA nations. The criteria for this grouping are "large markets that are poised to grow quickly in the coming years. These nations generally have a young growing labor force, political stability, and surging levels of consumption (Dutram, 2011)." Included in these nations is South Africa, which is one of the more developed and stronger African nations. These are two major groupings that investors look to for opportunities. Having a country in each of them will draw investors into African markets, helping them diversify and continue to grow at such an incredible rate.

The African continent, from an economic standpoint, looks ready for investment and is poised to become an economic super region. A great deal of the risk in African markets comes in terms of political and corruption risk. This risk is decreasing, however, as Africa is beginning to realize what may be possible and is making an effort to stamp out anything that may hold it back.

African Political and Corruption Risk Factors

The African continent has a long standing reputation for high corruption and political risk. The continent has seen civil wars and regime change after regime change of leaders who promise great reform but prove to be no better than the last corrupt leader. Unfortunately, this is a trend in regions that depend on natural resources as their predominant source of GDP growth. This reputation is doing a great deal to hold them back because it scares off multinational corporations and investors. No company or government wants to get involved in a region where they could see their assets disappear due to corruption or war. In a number of countries in Africa, this is not the case, yet the reputation still stands and is applied in people's minds, be it consciously or subconsciously. The goal to change this reputation must be achieved for Africa to reach its potential. Luckily, it is not one that the region is taking lightly.

Communication is vital in all aspects of daily life, and the African continent is seeing a huge improvement in the levels of communication and the available platforms used to communicate due to a technology boom. "Africa's enthusiasm for technology is boosting growth. It has more than 600m mobile-phone users…Around a tenth of Africa's land mass is covered by mobile-internet services—a higher proportion than in India (Ghana Business News, 2011)." Improving communication will help to reduce the ability of corrupt leaders to come to power. Improved communication means more available information. The more information available, the more informed a decision can be made. It also means that information will spread more quickly; increased knowledge can save a nation from corrupt leaders. Learning about the candidates and, more importantly, how ethically sound they are will decrease the chance that a corrupt leader will get into power.

Africa is also becoming more and more of a politically democratic and stable continent. Sub-Saharan Africa has seen an ever increasing number of free elections, "of the 17 elections Africa had this year, the majority were free and fair (Pence, 2011)." Historically, when a country gets a taste of democracy, it will do whatever it takes to maintain a democratic state. The democratic revolutions of the past year in Northern Africa have changed the African political climate forever. It was made very clear that the continent is fed up with autocratic rulers; the people are willing to go to great lengths to remove them and put a democracy in place. It is important to understand that for these North African countries, this is only the beginning and they must continue to be vigilant in their quest for a democratic state. The demand for elections in Egypt was a big step and the people must continue to demand the turnover of the government by the military ruling council. All signs are good since the Egyptians are continuing to demand turnover and have not lessened their protests just because elections were held. "The protesters argued that elections were meaningless under the military rule, though they did not call outright for the postponing of the vote. They demanded the military step down in favor of a civilian government immediately, warning that the generals seek to hold power despite promises that elections will bring democracy (CBS News, 2011)." Elections are a start, but the transition of power will be the true turning point for Egypt. What happens in Egypt and the other revolutionary countries may affect other African nations. The initial wave of revolutions spread quickly but it may take a long term success, most likely in Egypt, to promote more democratic revolution in Africa. The more democratic states in the region, the better the climate for business will be due to a decrease in corruption possibility. With civilian elected governments, there is less of a chance that corruption will arise since the people will be able to oust a politician if corruption claims arise. Democracy in Africa is good for the future of the African people and good for the businesses and investors looking to enter African markets.

China has made a commitment to helping the African nations improve their infrastructure. Chinese assistance will be a huge benefit going forward; China is in the process of improving their own infrastructure, so they will be able to point African governments in the right direction towards what works. "China has also become a major partner, assisting African countries to upgrade and build new infrastructure such as roads, bridges, railways and power stations in return for access to its markets and natural resources (Leadership Online, 2011)." Better roads will lead to easier and cheaper transportation of goods and will make it easier for Africans to reach employment opportunities. An ability to reach employment opportunity more easily is another factor that will play a role in building a strong middle class.

Political and corruption risk is still the major concern in African markets, but things are improving. This improvement should be a forecast of what is to come and should be looked at by investors as a good sign. Risk is prevalent when investing in emerging markets; the risk level based on the 2010 CPI index from Transparency International in Russia is considered along the same lines as the majority of the African continent, with some African countries considered much less risky (Transparency International, 2010). Africa's reputation continues to hold them back, but the people and their governments are working to change that.

The South African Example

When a nation, or in this case a region, is undergoing such a high level of change, it is important to look for an example to follow. It is especially helpful if that example comes from a similar environment. South Africa has risen to be a commercial and cultural center for Africa and is an example that the other nations can look to for successful transition. Economically, South Africa has become an African giant, representing the strongest economy, based on GDP, in Africa. "…it remains the largest economy by a long way. World Bank estimates suggest that South Africa's GDP was close to $280 billion in 2007, well ahead of oil-rich Nigeria at $166 billion (The Economist, 2009)." It is not as dependent on natural resources as many of its neighbors and has become a producer of goods rather than just a location for mining companies to set up camps. This is a key factor in the success of South Africa; transitioning from precious metals mining country to a strong and diversified economy has enabled their continued economic success.

South Africa has worked to improve its risk factors and ranks much higher on Transparency International's CPI index than some of the BRIC nations and the majority of the African nations. The 2010 World Cup proved to the world just how far South Africa has come; there was a large deal of concern in the months leading up to the event that they would not be ready and that something would go wrong. The World Cup was extremely successful and surely did an excellent job of promoting Africa to the world. The world watched as South Africa changed its reputation and did so in a graceful fashion. There is still a great deal of work to be done in South Africa with high poverty levels and issues with crime but they have taken the right steps and are already starting to reap some of the rewards. "Progress has been made in crime prevention: national crime statistics for 2009/10 show that street robberies declined by 10.4%, bank robberies by 8.8%, and truck and car hijackings by 6.8 %. Violent crime also declined, with murder down by 8.6% (African Economic Outlook, 2011)." Seeing improvement in social issues like crime is an excellent measure of improvement in a country. Decreases in crime usually coincide with improved social programs and an increase in earnings. South Africa has taken small steps towards reaching their eventual goal of being a major player in the global economy, and some would say they already are. The country did an excellent job of taking foreign direct investment and using it to make social changes and improve the nation's reputation. It is an excellent example for the other African nations to follow, as they seek to achieve economic and social success.

Conclusions

Economic growth in Africa in the past ten years has been incredible, but the African nations must not simply be happy with the commodity-driven growth. They will have to harness that growth and the partners that have come forward to improve living conditions and economic conditions across the continent. From what has been seen in the past year, Northern Africa and the commitment of the finance ministers to diversify their economic portfolios is a sign that points to the fact that the African nations are no longer satisfied with being an afterthought in the global economy. Slow and steady improvement is vital to future success.

Trying to make change at too rapid of a pace will leave the door open for the return of corrupt leaders and economic failings.

For Africa, the goal now is using their partners and foreign investment to their highest potential. The governments need to concentrate on building their infrastructure and solving the social issues, and it is up to the people to keep an eye on their governments. They must not forget that the government officials represent them and are working for them. The partnership with China and India will provide them with the road map for the transition, but it is important that they create a truly African plan. The continued growth of a middle class will, as it has in many countries before, spur the transition. A rise in the middle class will mean an improved education for future generations of Africans. Education is vital to the future, and marked improvement will pave the way to the future.

For an investor looking for something outside the BRIC nations, there is a bevy of opportunity in African markets. The risk factors may seem high at first glance, but it is important to look at just how far Africa has come in recent history. The improvements that they have experienced in such a short period of time are astronomical. Improved infrastructure and decreases in political risk with high economic growth make Africa the perfect opportunity for those looking beyond the BRIC.

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