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Africa: The Next Frontier

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The Future of Foreign Investment

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Overview

Africa has always been considered one of the world's most underdeveloped continents. It has been portrayed as a place that has had constant warfare within countries, political institutions with façades of more corrupt practices, and people that are extremely poverty stricken. While this has been the case for much of the continent's modern history, there have been many changes throughout the region that have made it a better place. What was once a place of great uncertainty is now one where a bright future is possible with the right amount of energy and investment among many different parties.

Many companies around the world have been overcome with trying to take advantage of new global market opportunities. One big way companies have tried to do this is by outsourcing either production or service offerings in order to compete with the global market and minimize costs. A main reason companies outsource is because foreign countries seem to have lower labor costs as well as a plethora of natural resources that are most easily attained than at the home country. When a company decides to locate in another company due to labor costs or natural resources, there are many considerations that have to be made to ensure that it would be a successful decision for both the company and the country involved. The trend in the last two decades has been that China and India have been the most popular destinations for outsourcing due to their labor cost structures as well as the encouragement of the respective country governments.

One place that has not gotten as much attention in terms of foreign outsourcing is Africa. It is a continent that is rich in natural resources such as oil, gold, diamonds, lumber, etc that would be appealing to almost any multinational corporation. There are great possibilities for companies that take the plunge and invest in Africa because of the advantage of having cheap access to natural resources as well as the proximity to many growing markets across the continent. The harsh reality is that many companies fear that making an investment in Africa could be a costly one due to infrastructure concerns, the history of political stability, and the issue of a lack of security in some areas. As mentioned earlier, China and India have become the top destinations for these outsourcing firms due to the more appealing environments they present. This study will analyze why Africa will become one of the premier locations of corporation outsourcing and investment and why the Chinese and Indian markets may no longer be as appealing as they once were. It will also show why companies should focus on Africa and its growing market so that they can improve their company as well as help the economy of Africa as a whole.

Background Information

Africa is the world's second largest continent in terms of land size and population (with just over $1 billion people). It is also considered one of the poorest areas due to the general lack of modern economic structure in most of the African countries. Many people throughout the continent still live in what is considered a "third world" country that has limited means of improvement. The majority of the continent relies on foreign aid for the benefit and welfare of the continent's people. Only certain areas of the country have been fortunate enough (due to a variety of a circumstances) to advance and become more modern in terms of economic benefits and quality of life for the citizens. Many of the countries have had a past of being under European colonial control and were never able to form healthy independent nations once the European nations left the continent.

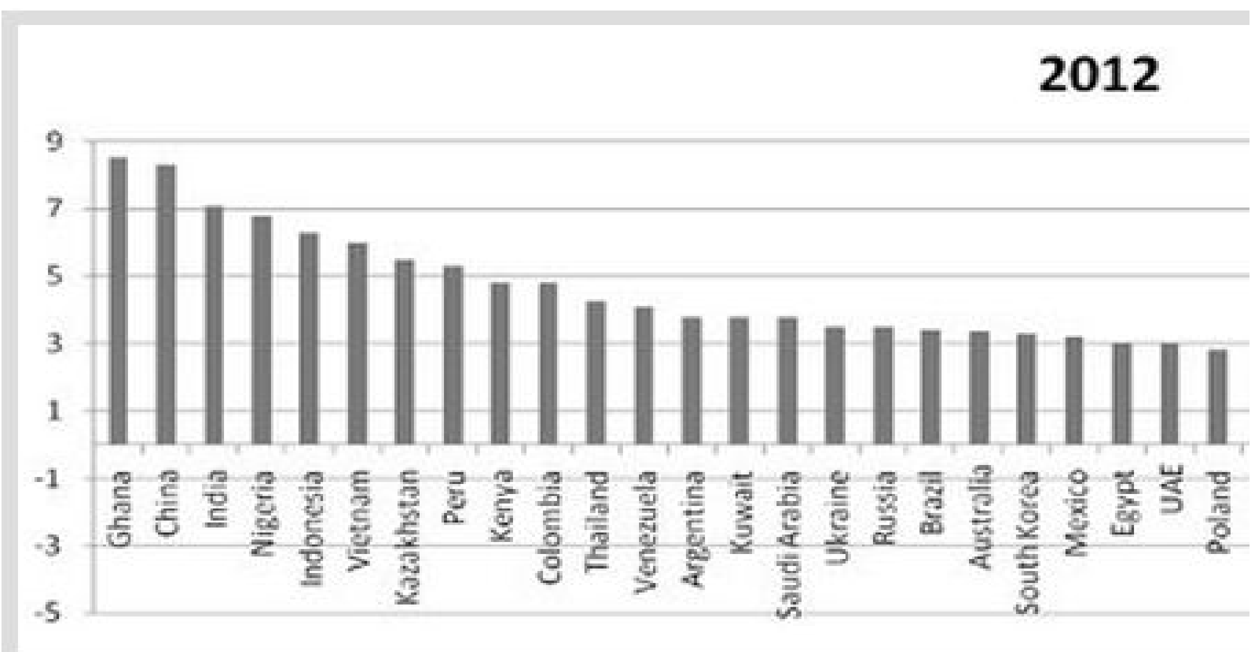
As time passed after colonial rulers left, many nations experienced harsh dictatorships and corrupt governments that rarely benefited the people. There have been constant civil wars within nations that were caused by a rebellion of the people towards the government that repressing them. Some rebellions appeared worthy of their cause while other rebellions across the continent made outsiders wonder if the government was really the worst option. The other issue that created problems for African nations was their abundance of natural resources. While this would normally be a benefit for most nations, the high availability of rich resources such as oil, gold, and diamonds created what is known as a “resource curse” for the nations involved. The “resource curse” explains that the oppressive governments and leaders in Africa’s past and present have used the popularity and wealth of selling and exporting the resources to further their regimes rather than benefit all of the people.

There are many historians who believe that the natural resources and the corruption that follows from leaders because of them have been partly to blame for why the African continent has not advanced as far in comparison to Asian countries. The plethora of civil wars and genocides in Africa over the last several decades has ruined many African nations’ chances of foreign capital and investment. Foreign companies have only seen an extreme amount of risk and the possibility of bad public relations (by moving to a country with a government which oppresses its people) and have made the decision not to bother. Africa has lost out to countries with stable governments such as China and India because companies have seen greater promise in those regions. Despite all of the problems and issues that Africa has faced over its more recent history, it appears as if Africa has turned a new leaf. Over the last decade there have been many positive changes on the African continent and new stability has ensured that the region is primed and ready for foreign investment.

Part One: Africa's Recent Success

Africa's Emerging Economies

The most fascinating economic news about Africa concerns the extreme growth that some of the countries are experiencing. Within the last decade many countries began to realize the importance of utilizing the resources they have into becoming strong economic players within the region and possibly on the world stage. A recent study by Renaissance Capital found that projected Gross Domestic Product (GDP) growth rates for 2012 show three out of the top ten fastest growing economies (Ghana, Nigeria, and Kenya) are located within Africa (Harding, 2012). Out of these countries, two of them are listed within the top four. A growth projection chart is as follows:



The most surprising information that came out of this study is that Ghana is projected to grow at a faster pace than both China and India for this current year (with Nigeria being close behind). The study admits that the majority of the growth within the Ghana economy comes from the new oil industry that sprung up soon after oil was discovered in 2007. The appearance is that Ghana's success is only because of the oil but most of their domestic economy relies on agriculture and exporting of other natural resources. Agriculture accounts for 35% of the GDP and it employs about 55% of the workforce (United States, 2012). So although the discovery of oil has created new wealth for this nation, it continues to rely on its traditional economy of agriculture for the employment of the majority of its people.

Many people would assume that Nigeria is similar to Ghana in having most of its success tied up in oil exports, but the country only produces about 3.3% of the world's supply (U.S. Energy). Agriculture is very important to this economy but it also has proficiencies in the communication, finance, and legal sectors of the African market. The strong point of the Nigerian economy is the manufacturing sector. It is ranked out of the top 50 nations in the world for manufacturing output and is ranked third within the African continent. An example of the booming growth of the manufacturing sector is that Nestle recently opened its 27th factory within the country of Nigeria (Nestle, 2012). The newest location provides 180 jobs to the local economy within Nigeria and it will focus on making products that appeal to the growing Africa consumer market.

Kenya is a unique country in Africa in that the majority of its GDP relies on the service industry sector. It is considered the center of communication, transportation, and finance services in the eastern Africa region. Tourism is very big as Kenya appeals to foreign visitors hoping to experience the African culture while still maintaining the daily comforts that they are accustomed to (which is provided with the well-built infrastructure). The Kenyan government maintains a modern infrastructure to support their important services industry and to support the possibility of future development in the country by foreign companies.

As Ghana, Nigeria, and Kenya show, all of Africa is not the third world country that it is known as in most popular culture. These countries have excelled in a variety of ways ranging from oil exports, manufacturing production, and service industries. This proves that African countries are able to rely on more than just oil exports to support their budding economies. As Nestle has shown in Nigeria and many financial, transport, and tourist industries have shown in Kenya, Africa is open for business and actually needs foreign investment to grow even further.

The Rising Middle Class

The large majority of people in Africa still live in great poverty and the threat of starvation and disease is a constant throughout many parts of the continent. However, a slow trend has developed over the last decade that has resulted in many Africans getting low wages that have been able to form into a slowly growing middle class. An example of the growth in consumer spending in the region is the fact that according to Informa Telecoms and Media, over 616 million people out of the 1 billion people that reside in Africa have a cellular phone device (Juma, 2012). In comparison to the previously mentioned countries, about 71% of people in Nigeria and a little over half the people in Ghana and Kenya own a cell phone. The high use of cell phones on the continent have brought innovation and productivity to many parts of the region; and have opened up new opportunities for the people and companies in the area. Cell phones have attracted the attention of some retail and banking firms to offer a unique variety of services catered to the large African market of cell phone owners. Cell phones are usually considered a non-necessity so to see it in such widespread use on the African continent is a testament to the improving conditions and higher standards of living for the people.

A unique example of the growing middle class in Africa concerns its recent thirst for beer. Studies have shown that the average African drinks about 8 liters of beer per year compared to about 70 liters on average per year for Americans (“From Lumps to Lager”, 2012). Apparently these same studies have shown that the homebrew market in Africa is up to four times larger than the official beer market. A beer company named SABMiller has spent nearly a third of its $1.75 billion in total investments on the continent of Africa in the last several years. It also recently paid $173 million for two Ethiopian breweries that were sold by the government (“From Lumps to Lager”, 2012). In some areas, demand is far outstripping supply and SABMiller’s 17 breweries in Africa are operating at near full capacity. The CEO of the company says that people should not fear that they are taking advantage of the population because “[the company] creates legions of jobs, provides a steady income for farmers and is the biggest taxpayer in some countries.” (“From Lumps to Lager”, 2012). This company is carrying out the usually successful formula of providing a popular product in a growing market to create happiness for both consumers and the company. It is mind boggling to see a beer company have such success in a continent where beer drinking is not nearly as prevalent as it is in some “first world countries.” It is companies like this that show that common stereotypes of business in Africa will soon be turned upside down.

A report by the African Developmental Bank says that: "Africa has started to see an economic resurgence. Better economic policies, governance, and use of natural resources, coupled with more business-friendly policies and stronger demand for Africa's commodities from emerging economies such as Brazil, China, India, and South Africa, have led to consistently high growth levels in Africa, despite the global downturn" (Juma, 2012). According to the McKinsey Global Institute, consumer spending in Africa will reach $1.4 trillion in 2020, which is an increase from about $860 million in 2008. (Juma, 2012). Many of the current and upcoming middle class consumers are under 40 and looking to acquire a variety of goods to support their newfound lifestyle. This should serve as a beacon to multinational firms looking for new market opportunities. The market is growing and the demand will be there, but companies first have to take the time and energy to make an investment in one of the world's fastest growing regions.

Private Equity Groups Leading the Way

Private equity companies are one of the few types of companies that see potential in the African market. A report by Ernst and Young says that GDP growth across the country will average over 5% with some countries (such as Ghana, Ethiopia, and Uganda) averaging over 7% GDP growth through the next 5 years (Kamhunga, 2012). The report goes on to add that although the majority of foreign investment has been traditionally focused in the South Africa market, over the last five years there is a growing trend of investment in Africa's frontier and undeveloped markets. The value of investments in these regions has increased over 38% from $1.7 billion from 2010 to 2011. A range of possibilities have been made available to private equity firms with interest in the African market. Rather than merely focusing on extracting natural resources, firms can look to make investments in finance, agriculture, consumer products, and infrastructure investments. All of these areas offer attractive potential due to the growing demand by the African market as well as the diversification of many economies away from natural resource exports. Graham Stock, who is a strategic director for Insparo Asset Management claims that Africa's growth has appealed to international investors who are looking to spread risk beyond markets that are developed yet depressed due to the recession many top flight markets have had (Kamhunga, 2012). The private equity leader for Ernst and Young's African market claims that "the growing interest in Africa shown by private equity firms is being driven by a combination of high growth rates and ongoing political and economic reforms" (Kamhunga, 2012). Private equity however only accounts for .11% of GDP growth in the growing African markets which provides tremendous opportunity for growth and less competition among companies that are already invested in the region. And the rising middle class and increasingly young and urban demographics across the continent can only hope to add to this recent focus of some international investments.

One private equity company called Citadel Capital believes that private equity has the potential to transform the African landscape. They are taking it one step further than most private equity companies by investing in the new country of South Sudan after that region has suffered years of controversy and suffering. Marwan Elarby, who is a managing director at Citadel Capital, said that "We are working in partnership with the government and people of South Sudan to make investments in agriculture and related infrastructure, thereby improving food security in Africa's newest nation and delivering tangible benefits to the surrounding community (Harding, 2012). The country recently voted and was victorious at seceding from

Sudan due to many cultural and physical conflicts between the northern and southern parts of the country. Citadel Capital owns a company called Concorde Agriculture that focuses on agriculture and production of crops for the local market. There is much market potential in this area because it is estimated that only 4.5% of South Sudan's available land is being used for cultivation (Harding, 2012). The company is not only focused on merely improving their profits but also understands that by helping to improve farming productivity, it will have a positive impact on both the local population and the environment (which would benefit all of the stakeholders involved). Farming is a crucial part of the economy of many African nations and many companies should follow with the strategy that private equity groups have of investing in areas that Africa already has a strong tradition of performing in.

Entrepreneurship Having an Affect

A positive outcome of recent favorable government policies towards business as well as the presence of an upcoming middle class is that there has been a rise in entrepreneurship throughout Africa in a variety of industries. The country of Rwanda is a perfect example of entrepreneurship flourishing. The younger generation within the nation is excited at the prospect of integrating with the rest of the world so people are using technology to start new businesses. Engineering students from Rwanda (some of whom received education from the Massachusetts Institute of Technology) created a company called HeHe Limited to help others with software and technology business development (Juma, 2012). HeHe Limited along with several other Rwandan firms are hoping to capitalize on the recent rapid development of the telecommunication infrastructure. This has led to a rise in the increase of broadband internet adoption and the success of HeHe and others has created competitors in nearby markets.

In 2009, the Seacom Company (based out of the African nation of Mauritius) launched a $600 million undersea fiber-optic cable connecting South Africa to Europe via the east African coast (Juma, 2012). According to the former CEO, this investment led to the additional spending of $6 billion in terrestrial fiber build to be the backbone of an entire nation's network systems and mobile cell phone towers in southern and eastern Africa. The Seacom Company has 76% of their shares owned by Africans which is a sign that foreign capital and technology can leverage local investment in megaprojects that boost business development and growth of the middle class (Juma, 2012). The new middle class in the agricultural and industrial sectors in the years to come will be able to take advantage of the burgeoning communications infrastructure that is starting to form in many places through Africa. The current investments in this infrastructure of broadband and cell phone connections also has the possibility of creating brand new industries and lead to clusters and "industrial centers" in certain parts of the continent- similar to what Silicon Valley is to the United States.

Regional Integration is Forming

Although there are many countries in Africa trying their best to foster local economic growth, there is still support around the continent for the further integration of African markets. The biggest move in the economic integration front came in June of 2011 where negotiations began to create a Grand Free Trade Area (GFTA) that would stretch from Egypt to South Africa. The proposal would merge three trading blocs that already exist in different parts of Africa which are: the Southern African Development Community, the East African Community (EAC), and the Common Market for Eastern and Southern Africa. People that are pushing the merger believe that if incorporated, the large trading bloc would include 26 countries with a combined GDP of over $1 trillion and a consumer base of around 700 million people (Juma, 2012). This size of this trading bloc would do a better job at attracting the attention of foreign firms looking to do business abroad especially in the agricultural and manufacturing industries. It is estimated that the free trade area initiatives of the three existing regional blocs in Africa led exports among the 26 member states to increase from $7 billion in 2000 to over $32 billion in 2011 (Juma, 2012). There is even some talk of this trading bloc negotiating to establish a monetary union similar to the Euro in Europe in order to advance a sound monetary policy and have financial stability. If this actually happens then it would be the first time in African history where an actual regional economy existed which would increase consumer spending and grow the middle class.

Part Two: Issues That Must be Overcome

Infrastructure Challenges

Despite the positive outlook to the future and success that countries have had, there are still very valid concerns for the African market's investment potential with the current state of the infrastructure in a majority of the countries. Wayne Hartman, a general manager for international business development at Engen Petroleum explains how Africa's inadequate infrastructure is a major impediment to how his company does business. "For us in the downstream oil industry, infrastructure is a big thing … Probably once every couple of weeks an oil tanker goes over a pothole and gets rolled over. And that just adds to the cost of the product to the consumer at the end of the day. So the sooner the key transport needs are upgraded, the better for the consumer," he explained (Maritz, 2012). He added that "if you want to operate in Africa, there is a degree of uncertainty, there is a degree of risk, and you need to know how to manage that [but] it is not unmanageable." Engen Petroleum is in the business of extracting natural resources (one of Africa's biggest industries) so the problem with infrastructure should be one of the first things that governments focus on in regards to wooing foreign investors.

DHL is a logistics company that currently operates in 51 African countries and has had a presence on the continent for over 34 years. Charles Brewer, who is the managing director of DHL Express in the sub-Saharan Africa region, says that "despite the fact that Africa's poor transport infrastructure drives up costs, it is not an 'impediment' to doing business. (Maritz, 2012). He claims that Africa creates a very dynamic yet very challenging environment for companies wishing to invest there. He says that unique difficulties lie in cultural differences such as in South Sudan where Sudan sometimes doesn't deliver packages due to animosity towards the recently seceded nation to the south. He explains that he worked in Asia for eight years and believes there are similarities to how Asia was ten years ago with how Africa is now. Getting products across China in the early 2000s was a nightmare for logistics companies but the regional governments eventually realized the importance of having a well-built infrastructure and now enjoy the rewards for their hard work and foresight. African governments should look to make roads, power, water systems, and communications networks their top priority to not only help attract foreign investment but also to create a better quality of life for their citizens.

It is estimated that Africa as a whole will need to invest over $500 billion over the next decade in upgrades meet its upcoming infrastructure needs (Juma, 2012). Several countries however have already started to make the investments necessary to support the needs of their people and incoming businesses. Senegal is upgrading its energy, road, and airport infrastructure with a view to making the country a regional business hub (Juma, 2012). Even though countries such as Senegal are making the necessary improvements, others are far behind where they need to be in order to be successful in tomorrow's economy. The Democratic Republic of Congo has a total paved road network of only about 3,100 kilometers while France (which is about four times smaller than the DRC) has paved roads of over 1 million kilometers (Juma, 2012). The Democratic Republic of Congo needs to take drastic action in their infrastructure investments (as well as maintaining their current network) or they will be left behind while the rest of the potential trading bloc countries are moving ahead.

Education Needs to be Refocused

A crucial part of any country seeking to improve their global standing that is often forgotten is the education that is offered within a country. The ability for the population to receive a quality education is important to the overall improvement of the economy and services offered within a certain nation. Because of this, they play a key role in in providing the local knowledge and talent needed by entrepreneurs to help build successful businesses. Because of a variety of circumstances, African universities have mainly focused on traditional education rather than teaching technical or business skills to their students. Africa (like many nations) tries to model itself after the prestigious American university system, but its current needs vary greatly from the United States and must be adapted accordingly. As Africa makes heavy investments in new infrastructure and the associated projects that come along with it, it will need a large number of specialized skilled workers who can help build and maintain the future of Africa. Universities can combine theoretical training with practical work through experiential learning, which will help diversify approaches to higher education without the need to reform existing universities, some of which might voluntarily adopt the new models (Juma, 2012). Some universities in Ghana, Egypt, and Kenya have already taken the lead in this transition by creating programs dedicated to the communications sector of Africa. And with most of the African economy currently based on the export of natural resources, there is huge potential for African universities to create exemplary supply chain programs to cater to what will become a growing need for the years to come.

Agriculture Environment Needs Improvement

Agriculture has been one of the cornerstones of even the underdeveloped African economies so it is unfortunate to know that crop production has actually decreased in this region. World food production has increased by 145% since 1960, but sub-Saharan African food production is 10% lower today than it was 50 years ago, largely as a result of underinvestment in agriculture (Juma, 2012). Another example of agriculture lagging behind some areas of Africa is that fertilizer use is strikingly low with only 13 kilograms a hectare in sub-Saharan Africa compared with 71 kilograms in northern Africa. Strikingly only about 4% of African crops are irrigated when compared to 40% of crops being irrigated in South Asia- which could cause big problems if there was a bad harvest in any one year. Some countries such as Ethiopia see the advantage of having a strong agricultural economy and are making inroads to improve their conditions. Realizing that the national government can't fix the problem on their own, Ethiopia plans to lease 3 million hectares of farmland to private investors over the next four years. The country has more than 74 million hectares of locations suitable to be farmland but only 15 million is being used for farming. While the 3 million hectare lease program may seem minimal, it is a sign that some African nations see the possibility of improving their agricultural system to bring in more revenues as well as provide jobs for local populations. The agriculture industry will continue to grow as the world population increases and African markets are the perfect location for farmland use going forward.

The main areas that Africa needs to focus on if they are to move up in the world pecking order are building infrastructure, education reform, and investing resources into agricultural projects. Many of the worlds developed nations made these adjustments long ago and have built a solid foundation for their economies because of it. It is encouraging to see that some African nations have taken the lead in trying to develop their infrastructures and farmland resources into something that can benefit their people and the economy. Other nations in this region should try to emulate the successes that have occurred so far so that the entire region improves to become a powerful trading bloc for foreign investment.

Part Three: Signs of Success for Business in Africa

Major Companies that have Adapted to the Circumstances

Most of the world regards the majority of the African continent as a place that still has much further to go in order to become a current player in the global market. Many news outlets have portrayed Africa as a place with constant rebellions and extreme poverty for the people and while that is the case for the majority, it is quickly changing. Some companies have taken risks in Africa because they believed that the market would support their business and improve to become a new market for consumer purchases. These corporations have proven that the stereotypes for African nations are quickly changing and are able to support the investments of large multinational firms.

One of the world's most recognizable companies is Coca-Cola. It offers a cheap and satisfying product that people around the world associate with a refreshing cold beverage. Africa appeared to be a natural choice for market expansion for Coca-Cola because of the growing population with incomes that were growing accordingly. The President of Coca-Cola operations in South Africa, Bill Egbe, gave insightful advice when he said, "We have operations in every single country on the continent, even some that don't have governments like Somalia and Somaliland. People sometimes ask, 'how does that work?' It works because you understand that you can create a business opportunity, and people can see beyond the politics to engage around the business opportunities. And the other reason why it works is because you engage local investors in those businesses. Those are the fundamentals of a sustainable business" (Maritz, 2010). This is an enlightening opinion from someone who has had many years of experience working in Africa. Egbe notes that companies can't merely maintain a presence in Africa and export all of the financial benefits that they reap from it. They must do their part and invest in the local communities and countries where they are located so that they can get customer buy-in from the people around them.

The story of Coca-Cola's presence in Africa also helps to answers some questions about how companies overcome obstacles such as government instability and infrastructures issues.

Coca-Cola in Africa was able to operate in very dangerous places such as Somalia and a main reason for this was because the company made it a goal to involve the local communities in their business decisions and make sure that everyone was happy with their local existence. Many people in Africa are probably very hesitant to outsiders due to colonial issues they had in their past with the negative sentiments being carried from generation to generation. This is why companies must excel like Coca-Cola because if they do not get the support from the local populace then they will soon find that business in that area will not be successful. Locating in dangerous areas of Africa is one of the biggest reasons that companies are hesitant to locate there. Somalia is known throughout the world as being one of the most dangerous places on earth with general lawlessness. Coca-Cola knew this going in yet decided to pursue it anyways because they felt they had a successful plan to overcome those obstacles. While it may be naïve to think that any company has a chance of locating in a dangerous area and maintain success, it is refreshing to see that it is possible if companies do the right things. The issue of not having a reliable road network in some countries to deliver their bottled drinks was also one solution that Coca-Cola figured out early on. They adopted a new system of having smaller distribution franchises that had less of an area to cover. Along with this many of the franchises used carts, bicycles, and hand carriers to get their products where they needed to go. Since roads were either non-existent or in very bad shape, Coca-Cola took the initiative in creating a new business strategy that has actually gone international since its success in Africa. Coca-Cola understands that the African market has a growing middle class capable of buying their products on a regular basis – so they are willing to go the extra mile in adopting a business model to capture this market.

The Ford Motor company is another large multinational firm that overcame great obstacles in the Africa market. Ford has car production facilities on almost every continent of the world and ran into problems at one of their African production plants. Jeff Nemeth, who is the President and CEO of Ford Southern Africa, was reassigned from a position in Asia to help turn the factory around. He claims that he had some of the most industrious and productive workers in the world in Asia and that many people around the company told him that it would be very difficult to replicate the effort and success in the southern Africa plant. More specifically he was told, "It's hard, it's challenging, the skills levels are low, the productivity is low, labour is expensive, good luck …" (Maritz, 2012). When he arrived at the plant he found that the workers seemed like "the walking dead" and didn't want to even make eye contact with one another while they were working (Maritz, 2012). Nemeth explained that despite the dull work atmosphere it appeared as if the workers truly wanted to make quality cars but that they weren't very inspired or educated on how to make that possible. Nemeth decided to take a drastic approach to rejuvenating the staff at the plant by sending 250 workers to a Ford plant in Chenai, India- which was one of the company's top plants in the world in terms of productivity (Maritz, 2012). Nemeth decided against sending them to the company's premiere plant in Germany because he felt that they couldn't relate to the different types of lifestyle and quality of life that Germans had in comparison to most Africans. During the two week stay at the Indian plant, the workers learned better production techniques and more importantly the benefit of empowering the workers to make production line based decisions. Nemeth knew this project was a success when within 18 months his factory in southern Africa went from being the least productive plant in the world to about middle of the pack. He was also very proud of the fact that they went from being third worst in quality output to third best within that same 18 month timeframe (Maritz, 2012).

The Ford Company went to the African market for its car production because it saw benefits in terms of lower employee wages as well as cheaper source materials (by being located closer to the raw minerals necessary for car production). The company did not anticipate the problems with trying to merely build a plant without properly educating the workforce about something that may be drastically different than what they are used to. Ford actually took the initiative to try an experiment in order to change the factory culture and increase productivity for the plant. Rather than giving up on the factory and claiming it a failure, they brought in an executive with noted success in factory production to turn the plant around. Ford eventually understood the importance of educating the local population to be able to handle and adapt to the different type of working environment that is present in an auto manufacturing plant. They also discovered the important of adapting to a different culture than what the company may have been used to. Workers in Germany and Asia have drastically different standards of living than people residing in South Africa so Ford and other companies must make the cultural adjustments that necessary to make their enterprises a success in Africa.

Part Four: The Decline of the Chinese and Indian Markets

The Slowing Economies of India and China

China has long been considered one of the fastest growing and healthiest economies throughout the last decade. Much of this newfound growth began with the government allowing more foreign direct investment in the 1990s which led to a rise in manufacturing output and technological innovation. The cheap labor, decent infrastructure, and huge size of the domestic market have caused numerous multinational firms to locate operations within the country. Foreign direct investment exceeded $70 billion in 2005 and many projected China to have around a 10% growth rate for their economy (“The Decline”, 2007). Over the last decade many of the world’s best economies saw a decrease in the amount of net exports while Chinese exports rose tremendously. A sign of concern however is that the amount of foreign direct investment projects (mainly manufacturing plants) peaked in 2005 and have since declined (Schilling & Chiang, 2010). Many companies have begun to diversify to other Asian countries and are trying to avoid “putting all the eggs in one basket”. The lack of protection for individual property rights has also created discord with companies that have operations in China (and has prompted some to relocate their operations because of it). Many economists have recently predicted that the meteoric rise of China is unsustainable and government actions have indicated that they are preparing for an economic slowdown. While China used to be the “next big thing” it is now appearing as if the opportunities for future investment have moved on to other countries.

India has similarly had problems with its fast growing economy. The main culprits for the stagnation are high inflation coupled with the inability of the government to function properly. Most of the inflation has been attributed to rising oil and food prices which have in turn let to higher interest rates on loans. Experts say that part of the problem rests with the government for not coming up with agricultural reforms and investment to curb the rising prices of food for their citizens. If the government does not act then yearly growth for the economy could fall from 9 to 7 percent; which would hamper efforts to raise the standard of living for the millions of people that are in poverty (Denyer, 2011). Inflation went over 9% in 2011 and the country hasn't found many solutions to curb the increase. Long term loans with interest of up to 8% (one of the highest in the world) is one of the main factors for the decrease in foreign investment in India (Denyer, 2011). The poor performance of the Indian rupee (which has performed worse than any other Asian currency) is also an issue going forward (Goyal, 2012). Multinational corporations know that the long term loan rates could become cost prohibitive and the currency fluctuations could increase the costs of doing business in India so they have adapted their strategies accordingly.

Rising Costs and Unionization Issues

One of the main benefits of the Chinese markets a decade ago was the skilled work force that only required minimal wages for the employees. As China became more successful and the standard of living rose, workers began to demand more pay. It has gotten so bad that Chinese wages are now projected to be growing at about 17% per year (which would eventually narrow the gap between pay for Chinese and American workers) (Denyer, 2011). Rising shipping costs for air freight and container ships from China to the other countries has also increased costs substantially for some products. The main cause for the shipping cost increase is because several Chinese shipping companies have entered into agreements to mutually raise their prices. While this effort would be illegal in many countries, the Chinese government allows it because it directly benefits their economy. Because of these rising costs, the Boston Consulting Group estimates that net costs for manufacturing in China and the United States will converge around 2015 (Denyer, 2011). This means that many companies will seek out new destinations to locate manufacturing facilities in order to keep costs down. The outsourcing trend began in an effort to reduce costs but with prices rising in China, companies have looked to other Asian countries with lower pay wage scales for their facilities. Eventually however, the same trend of eventual rising of costs will lead companies to begin the same effort of finding cheaper alternatives. Africa will eventually be the top destination due to the low standard of living for the majority of the continent which would provide companies with the ability to pay far lower wages than they would in Asia.

One of the biggest issues facing the Indian economy is the rising power that employee unions are having in that business environment. An example of the growing problem occurred in February 2012 when a nationwide strike hit India with 11 trade unions taking part. It is estimated that 800,000 people took part in the work stoppage that affected the banking, transportation, and other key industries (Bhattacharya, 2012). Many cab drivers and airline personnel refused to work as they protested against some of the anti-labor practices that the government had enacted. One government official actually threatened punitive action for government workers who participated in the strike because their presence was necessary to help run day-to-day operations (Bhattacharya, 2012). Unions typically become popular either because employees would like greater bargaining power against their employers for more wages or benefits or because employees feel that they are being taken advantage of by their employer or government. It takes a higher standard of living and unjust situations to occur before a union becomes a popular choice. Africa with its generally low standard of living would not prove to be a hotbed for union formations. Companies would have a benefit in Africa because they would not have to worry about unionization (which could lead to increased costs) unless workers felt that they were being taken advantage of.

Infrastructure Concerns

The Chinese government understood early on during their rapid economic growth that the key to sustaining the growth would be to invest heavily in infrastructure. They have been relatively successful by building new roads and power stations to cope with the increased demand of both the population increase as well as the increase in the number of manufacturing plants. The government also invested in building modern ports and airports in order to capitalize on shipping for the manufacturing facilities that would be located in China. All of this infrastructure improvement has had many positive effects on the Chinese economy (with pollution being the one main issue) but most of the investments have unfortunately been focused near the coast. The majority of foreign investment into China has been near the coastline in order to be able to ship materials for production as well as finished products through either the airports or shipping yards. The problem with this is that most of the wages in factories near coastlines have quickly grown to become cost prohibitive. Companies have looked to expand further into China where wages would be much lower but the infrastructure just isn't there to support a mass exodus of manufacturing facilities to that region. Because of this, companies have instead chosen to locate in other Asian countries to try to escape the rising pay structures (but as mentioned earlier this is merely a temporary solution).

India is very unique with its infrastructure issues. Like China, India has the challenge of providing roads, power, and utility services to over 1 billion people. On one end of the spectrum it has built roads and facilities in the major population areas but there is the issue of crippling traffic and congestion. It is expected that workers living in some of the large cities can spend up to 4 hours a day commuting back and forth to work. It has gotten so bad that some companies such as Infosys decide to spend over $5 million per year on buses, minivans, and taxis to transport 18,000 employees to its main campus ("The Trouble", 2007). While some areas have the road networks necessary to support a growing economy, other parts of India have merely dirt roads without any modern infrastructure. This causes companies to congregate near the population centers which only exacerbates the congestion problem. It has become a major logistical problem to supply and deliver goods into and out of the main population areas due to the amount of time it takes. Some parts of India are similar to Africa in that they only have dirt roads without the concern to support cars and trucks.

Political Concerns and Corruption

Despite the success that companies have had in the Chinese market, there is an existing fear about the power of the Communist Party over business affairs. As mentioned earlier, the intellectual property rights of foreign companies are not well protected within China. It is common knowledge that companies wishing to do business in China need to have close friends within the Communist Party that can help speed things along. A survey of companies currently doing business in China found that the majority of companies believe that regulation in their respective industries was deteriorating or not improving in China (Kurtenbach, 2011). About half of the companies surveyed also cited that Chinese regulations made it so that the government preferred dealing with local companies over foreign firms. The very bureaucratic process of licensing procedures and the constant withholding of information by government officials creates some level of difficulty when trying to do business in China. African countries on the other hand are becoming more open to outside investment and many are doing everything in their power to convince foreign firms to invest in their country.

India has also had their fair share of government corruption throughout the country. The current prime minister of India, Manmohan Singh, has made it his mission to root out corruption at all levels of government but it is still prevalent in many different areas. Recently in what has been called the biggest corruption scandal in India's history, the Supreme Court allowed the government to cancel 122 telecom licenses because they believed they were obtained after corruption had occurred ("Workers at India's", 2012). The big concern in this case is that one of the telecom companies in particular has over 17,000 jobs that are at risk if the license is pulled. The 36 million customers of this telecom company also have fears that they will lose service and be forced to find another provider. Government corruption cases such as this have been commonplace in India for the last several years – and this still occurs after the prime minister stated they he wanted to try to end it. Africa has corruption in many countries such as India, however more and more countries on the continent are becoming more receptive to having positive and fair relationships with both foreign and domestic companies.

Conclusion

Africa will soon no longer be the laughing stock of the industrialized world. Rather than being content with their place in the world, many African nations are attempting develop their nations into having a modern healthy economy. It was shown that Africa actually has several countries that are among the fastest growing economies in the world. The challenge for these countries will be to sustain the success and use the newly created wealth to build a foundation for the future. The continent's rising middle class will provide more opportunity to foreign companies than merely being a place to locate a manufacturing facility. Many multinational firms are actually viewing Africa as a potential market for consumer products. Since there is not a great presence of multinational firms in the region, the main investment so far has come in the form of private equity. These private equity firms are enjoying the luxury of having little competition as they seek to build their wealth in the largely untapped market of Africa. Entrepreneurs are even starting to create businesses out of the opportunities that are already starting to develop (such as the communications industry in some areas). Perhaps the most appealing aspect of this area is the regional integration that is beginning to form among the biggest economic countries. If this trading bloc actually forms then many more multinational firms may view Africa as a place to invest resources.

While the future is bright for this continent, there are still some issues that must be dealt with before countries are able to maximize their potential. The largest deterrent for outside investors is the great lack of infrastructure throughout much of the region. Countries must see infrastructure improvement as one the most important tasks they face if they want to improve the well-being of their people (from the ripple effect that will come from improved infrastructure). The need to education reform to develop workers suitable for work in factories and service facilities is also crucial to improving the economic situation. The bright spot is that there are a number of multinational firms that have seen the advantages of the African market and have had success for others to follow.

The rise of African investment is due in part to the current issues that are facing China and India. The economies are slowing down because of the seemingly oversaturated market for manufacturing facilities. The wealth that has been created for these regions have actually caused wages to increase which has led to companies trying to find alternative locations for their factories. The unionization of the employees as well as the infrastructure concerns in the non-developed areas of China and India also has caused problems for multinational firms. The corruption of the governments has really led to negative feelings from international firms and has caused a sort of mini exodus of outsourced facilities to surrounding countries.

Africa still has many problems to overcome before it really is a player on the world stage. The highlight however is that the continent's governments are realizing the opportunities for their countries and are pursuing options to build the economy for their people. Companies from around the world are just starting to take notice of the many opportunities that Africa holds, which is sure to cause Africa to become the next frontier in foreign investment.

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