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### Sub-Saharan Africa: The New China?

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# **Sub-Saharan Africa: The New China?**

A Study on Supply Chain Opportunities in Sub-Saharan Africa

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Kathryn Hutcheson

**GLOBAL LEADERSHIP SCHOLARS AND CHANCELLORS HONORS  
UNDERGRADUATE THESIS**

University of Tennessee – Knoxville | Spring 2014

Advised by Dr. Diane Mollenkopf

Department of Marketing and Supply Chain Management

APPENDIX I: THESIS ADVISOR SIGNATURE APPROVAL PAGE

*THESIS ADVISOR SIGNATURE APPROVAL PAGE*

**TO THE GLOBAL LEADERSHIP SCHOLARS PROGRAM:**

As GLS Thesis Faculty Advisor for KATHRYN HUTCHESON

I have read this paper and find it satisfactory.

Deane A. Mollenkopf  
GLS Thesis Faculty Advisor

4-25-2014  
Date

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## Introduction

Globalization is reshaping the business world. Companies now utilize their supply chains for a competitive advantage. Many countries have benefited from the outsourcing of supply chain operations, most notably China, Brazil, and India. As wages, regulations, and transportation costs are rising in these countries, the benefits of operating in these countries are shifting. Companies are now seeking new locations for supply chain operations in hopes of lower costs.

China accounts for the majority of trade in Africa's overall economy. Trade is currently at \$200 billion between the two countries, which is an increase from only \$10 billion in 2000, and is expected to reach \$280 billion by 2015. There are currently over 2,000 Chinese owned companies in Africa in multiple industries (Caulderwood 2014). In 2012, Africa's exports to China increased almost 8x's what it was in 2001. This growth is not by accident and China is still aggressively expanding. This trend has led Africa to have strong dependence on China and has slowly found that their growth can be correlated to fluctuations in China's GDP (Moro 2014).

China has seen success in developing countries, such as those in Africa, due to the amount of aid it supplies, the foreign direct investment, and trade it stimulates. Historically, many countries that China has entered have required extensive infrastructure development and basic help in unemployment and the education sector. This has led to an even stronger reliance on China and the resources and capabilities they offer. China is taking this same approach to countries in Africa. Though criticized for price fixing, neo-colonialism, bribery, and corruption with African government officials, their

presence is making a difference. This shift in manufacturing and production in Africa along with a push for investments in infrastructure and humanitarian efforts sounds enticing to companies looking to make their supply chain more competitive. But, are these improvements truly as effective and good as they seem?

To address this change, I am researching if there are opportunities in sub-Saharan Africa for foreign companies to develop successful supply chain operations. My thesis analyzes the holistic business environment of four Sub-Saharan African countries using the EPIC framework guidelines. Using each respective analysis, an assessment of whether or not there are viable opportunities for companies to establish supply chain operations within in country. I will evaluate the risks, opportunities, and implications each country has on an individual basis.

The issues addressed and highlighted within each country as well as in sub-Saharan Africa will help provide a framework to aid companies in looking for a location for supply chain operations that will align with their needs and goals. As well it will give greater visibility of challenges companies will face when entering into this region.

## EPIC Framework Overview

The EPIC Framework, developed by Srinivasan, Stank, Dornier, and Petersen, provides a system to measure supply chain potential within geographic regions (EPIC Framework 2013). The framework is broken up into Economy, Politics, Infrastructure, and Competence.

Economy is defined as the wealth and resources of a country or region in terms of production and consumption of goods and services (market, natural resources, financial resources, etc.) (EPIC Framework 2013). Within this category, research can include gross domestic product, GDP growth rate, population size, foreign direct investment, exchange rate stability, inflation, and balance of trade.

Politics is defined as the means by which state policy is enforced, as well as the mechanism for determining policies (e.g. government policies and regulations, tax laws, etc.) (EPIC Framework 2013). Within this category, research can include the ease of doing business, bureaucracy, corruption, corporate tax rates, tariff barriers, risk of political stability, intellectual property rights, as well as the legal and regulatory framework.

Infrastructure is defined as the basic physical and organizational structures needed for operation of a society or enterprise, or the services and facilities necessary for an economy to function (geography, remoteness, road, rail, air and water access, communication links, etc.) (EPIC Framework 2013). Within this category, research can include the condition of roadways, railroads, air transport, seaports, and inland transportation as well as the energy infrastructure connectivity.

Competency is defined as the main strengths of strategic advantages of supply chain support for businesses in the region (supplier availability and resources, access to technology, labor availability and skill, etc.) (EPIC Framework 2013). Within this category, research can include labor availability, labor productivity, labor relations, education levels and quality, logistics competence, as well as customs and security.

All four categories help give a holistic view into the supply chain strengths and weaknesses as well as capabilities for specific regions.



## Methodology

### Country Selection and Reasoning

For case comparisons, I chose four uniquely different countries to represent various stages of African development in Sub-Saharan Africa. These countries were chosen based on initial research, which revealed perceptions of those countries, without diving too deep into the interworking of their respective economies, political systems, etc. The four countries are Ethiopia, Congo, Tanzania, and Botswana.

Poverty, starvation, famine are a few of the words that come to mind when hearing about Ethiopia. These claims, though respectively true, have been slowly overshadowed by the business development this country has been experiencing over the last few years. This country was chosen because currently it is the fastest growing non-oil producing country in Africa while coupled with huge increases in its services and manufacturing sectors. In 2011, the economy grew by 7.5%, which was 10 times greater than the UK (World Bank 2013). They have enacted a 5-year growth and transformation program, which promotes agricultural transformation and industrial development as its drivers of growth. Socially, they have made strides in social and human development, working towards the millennium development goals. Though these are steps in the right direction, they still face high unemployment levels for the younger generations at 27%. It is a landlocked country, surrounded by highly unstable countries, which are major constraints to its international growth.

Congo was chosen largely in part due to its development and investments in Brazzaville's industrial zone. Their capital spending increased by 55% in 2012 through production of at least 8 industries in the Brazzaville zone along with public investment initiatives (All Africa 2013). The push towards growth can be seen through their major

reforms in all areas of their government. Currently, they rely heavily on oil, which is one of the main reasons they are trying to become less dependent on this export.

Unemployment is still high at 16% (CIA 2013), and is attributed to poor education systems, promises of public sector jobs, and no basic building blocks to aid people wanting to build businesses in the private sector. Additionally, Congo has access to the South Atlantic Ocean, which holds potential for international trade.

Tanzania is a unique case in the recent history of Africa. Throughout the recession, countries around the world suffered, and Africa with its already seemingly poor conditions was hit hard as well. Unlike most Sub-Saharan countries, Tanzania came out almost unaffected and showed high resilience to the changing economic conditions (World Bank 2013). This case will look into the questions of what economic or regulatory factors contributed to its success and what is holding them back from progressing further? Currently, they are working on reducing aid dependence and high inflation rates. They have increased their public debt significantly without have much return to show for it. Unemployment is a huge problem it faces, with 10.7% out of the job force, the majority being young (CIA 2013). It also has access to ports and the Indian Ocean, making it in prime position for future trade.

Botswana is a country sinking below water, and fast. Of their entire population, 20.7% in 2010 lived below the poverty line compared to middle income countries (CIA 2013). Its economy has severe income inequalities, high inflation, and 17.6% unemployment with 63.4% being people ages 12-29 (CIA 2013). They are landlocked and border more developed countries such as South Africa. The government is pushing

poverty reduction initiatives and job creation programs, but no increased results are evident yet.

### **Case analysis**

This study evaluates countries by the EPIC Framework and gives an overall framework and outline of the current business environment, future outlooks, as well as other unique news within the country. An example of a current established business, either local or global, operating within the country is given to show realistic operations and the challenges they have faced and where they are heading based on the economic conditions of the country. At the end of each chapter, a summary as well as a summary regarding supply chain implications currently within each respective country.

Due to the lack of information regarding each country, the cases are not able to fully cover all quantifiable factors of the EPIC framework; therefore I have not assigned individual scores as the EPIC framework assigns to regions. My research instead incorporates information regarding each framework component in order to provide insights into where the country is at and where it is going.

The information within each chapter is as up to date as possible and is retrieved from credible sources. Databases used for each country include the 2014 Index of Economic Freedom, World Bank, African Development Bank Group, the CIA World Factbook, and Transparency International. Current news was sourced from All Africa news, the African Business Journal, and each respective country's main newspaper. In order to mitigate the risk of bias from local news sources, I would cross reference them with historical information as well as other news sources, if available, to confirm their legitimacy.

Each case was then cross-analyzed, using the EPIC Framework to find patterns or similarities across all countries. A summation as well as a final discussion conclude my research and provide a platform for future discussion.

## Case Results: Ethiopia

### Economy

Ethiopia is currently the fastest growing non-oil country in Africa. With a historic reputation of famine, malnourishment, and poverty, how has it risen to this new position?

Currently, Ethiopia is considered a low-income country with agriculture as its primary industry. This landscape is shifting with the rise of new industries, industrial growth, and the entrance of foreign companies. The recent push in economic rise can largely be attributed to Ethiopia's Growth and Transformation Plan (GTP). The plan's goal is to establish sustainable economic growth, support a long-term vision of becoming a middle-income country by 2025, and achieve the Millennium Development Goals (MDGs) set by the UN. Implemented in 2010/11, it is nearing the end of its mark in 2014/15. The initial plan in 2010 outlined a projected GDP growth of 11-15% total from 2010 to 2015 (Ministry of Finance and Development 2010). The priority focus underlying the plan is in infrastructure and industrial growth. The government planned to develop four industrial cluster zones, with basic infrastructure, tax holidays, and duty-free imported capital goods. Diversifying from agriculture, these sectors include textiles, leather, sugar, cement, metals, engineering, chemicals, pharmaceuticals, and agro processing (Ministry of Finance and Development 2010).

In 2012 a report detailed the half way progress of the plan. It has sustained and average growth of 11.2% in GDP over the last 8 years, with significant decline in its fiscal deficit (from 4.2% in 2007 to 1.3% in 2012) (Embassy of Ethiopia). The manufacturing sector has seen improvements stemming from policy controls, large infrastructure investments, and building investments. Thus far the plan has been successful in stimulating economic growth and long-term investments, though there is

still speculation on if Ethiopia can sustain all of this growth. Though most goals have not been fully met, the majority is on track to meet and exceed the projected goals.

The GTP puts a significant emphasis on developing local production to lessen Ethiopia's dependency on imported goods, and encourage investment in the export-oriented sectors of textiles/garments, leather/leather products, cut flowers, fruits and vegetables, and agro-processing (Investment Climate Statement of Ethiopia 2013). Two huge key players in the Ethiopian economy and growth are Brazil and China who are working bilaterally with the government. As part of an agriculture and rural development cooperation initiative, which is part of the GTP, Brazil and China have been aiding the government through private investments in agriculture, serving as models for benchmarking, experience-sharing, and technical cooperation. Specifically Brazil has been heavily focused on renewable energy and biofuel development while China has focused on infrastructure, agricultural technologies, and labor skill transferability (Melu 2013). Companies, like IBM, have begun investing their time as well. In 2013 IBM sent top executives, pro-bono, to work with the Ministry of Trade. IBM developed and presented a model and strategy, which streamlined data from Ethiopia's Commodity exchange, recommended stronger integration with the country's information center, and encouraged aggressively pursuing better technology and training for its employees in the agriculture agency. In addition, IBM suggested pushed for standardized operating procedures and security policies to be created and enforced for all data agencies in Ethiopia (Jemal 2013).

Ethiopia's attractiveness as a rapidly growing economy has not gone unnoticed. This rapid expansion of growth has led to rising inflation rates. From 2010 to 2011,

consumer inflation rose from 8.1% to 33.2% (World Bank 2012). The government has imposed tight cash controls on government spending; utilizing only government resourced to import basic food items, and placed temporary price caps on selected goods in order to curb this inflation (Teferi 2012). After establishing these changes, consumer inflation declined to 22.8% in 2012 (World Bank 2013).

Though there have been many steps in the right direction, Ethiopia still has a long way to go. Though many indicators are pointing towards growth and positive consequences of current government actions, the EY Africa Attractiveness 2013 Survey places it in the category of “unlikely middle income by 2025” (Ernst and Young 2013).

## **Politics**

Ethiopia is a Federal Republic with its capital located in Addis Ababa. It has become a country that is embracing growth and change and working towards a sustainable future due to the influence of local business leaders and the government.

For small to medium sized businesses, the ease of doing business ranks 125 in 2014 out of 189 countries. . Ethiopia dropped one level from the previous year, but still outperforms Egypt, Kenya, Uganda, and Eritrea, which are all 128 or higher. The regional average for sub-Saharan Africa is 142 (Ease of Doing Business 2014). Ethiopia has improved its processes for gaining construction permits (ranked 55) and getting electricity (ranked 91), but protection of investors (ranked 157) and trading across borders (ranked 166) pose as obstacles to these smaller businesses, stifling economic activity. High export/import costs, strength of legal rights, and internal bureaucratic inefficiencies can be attributed to these issues. Strides have been made to create better efficiencies. For example, access to credit greatly improved when the government

established an online platform for sharing information. This transparency allowed borrowers to inspect personal data and make more informed decisions.

For small to medium size business, it has become increasingly difficult to maintain their business. In 2010, The Ministry of Trade passed a bill that required businesses owners to renew their licenses. In order to effectively do so, they must meet a set of certain requirements, many of them new. Due to ineffective implementation, these measures were never enforced and the majority of business owners got leniency. Fast forward to 2013 and all of a sudden in one giant sweep no leniency is being given. The ministry is sending out inspectors and blocking businesses left and right from attaining or renewing licenses. Some of the requirements shop owners are required to meet are unrealistic for many of these struggling businesses. The majority of businesses within Ethiopia are locally owned and operated by one singular person. Some of the requirements, which are industry specific, require employees to be hired for various tasks like accounting which these small businesses simply cannot support. In addition, these requirements are very subjective, and are defined by the inspector. The mission of these requirements was to strengthen businesses, gain credibility, and create a streamlined process for bureaucracy dealings. The weak implementation and lack of accountability in the approval process has created a growing trend of normalizing bribery. Small shop owners have been giving bribes and cutting “deals” with inspectors in order to squeeze through inspections to meet requirements. Discrepancies have arisen as well, because many of the new requirements either contradict or are redundant from some of the already existing standards in each sub-sector. Although foreign corporations would not



have to go through all of the procedures that small to medium businesses do, these inefficiencies in the bureaucracy will affect the economic climate they are operating in.

Without accountability in the bureaucracy, the immergence of new industries opens up breeding grounds for corruption. Instead of fixing internal problems, the government keeps passing further legislation, thus adding more complexity to an already broke set of standards and processes. Telecom industry is a perfect example – Ethiopia has the lowest telephone penetration rate in Africa yet is seeing constant growth in its telecom industry. The government is not giving it to its citizens; it is more focused on exporting this energy to the highest bidder. Regulations and initiatives are being passed which allow freer trading of these services yet limits its access to citizens. Government officials have been caught receiving paydays from these deals. World bank even suggested eliminating excessive regulations in order to promote a freer competitive market and greater transparency. Problem will be finding the balance between too much government oversight and too little.

Late President Meles was the first leader to address the issue of corruption within Ethiopia and did not place blame solely on a couple of high-level government officials. He said “we all have our hands on it.” Although progress is slow, there is awareness regarding the corruption-taking place. In 2012, the Ethiopian government decided to partner with the World Bank to get a comprehensive, third party report on the level of the perception of corruption in Ethiopia from people living in Ethiopia and then supplied recommendations how to remedy it. They analyzed corruption in health, education, water, land management, justice, telecommunications, and the mining sector. Findings

showed that one of root causes of corruption is the lack of open debate, which has constrained government process in Ethiopia.

There are arguments that the corruption in Ethiopia is controlled better than other African countries. But if you look inside the country, the level of corruption they have is problematic to its development. The study found that corruption is varied across sectors. The basic service sector, which includes health, education, water, and justice, is low and limited and under effective regulation. The old sectors, which include construction, land, and mining, have a rising risk of corruption. This can be attributed to the ongoing projects and contracts being formed as part of the GTP plan. Compared to other countries, it is low, but on an upward trajectory. For new sectors, which include telecommunications and HIV/AIDS pharmaceuticals, there is very high corruption and could create a channel for corruption to become rampant in the government if not properly managed. The biggest issue of concern is in procurement for government services. There have been cases of officials making a payday from agreements with outside contractors. In the construction sector, there is definite favoritism for market entry and competition has been stifled due to this. There is a threat of a couple of construction companies becoming monopolistic. Specifically, Chinese state owned enterprises have been the primary contractors in developing infrastructure within the state.

In contrast, a separate study done by CPI Transparency ranked Ethiopia with a score of 33. Compared to the majority of other African countries, Ethiopia was much less corrupt. Ethiopia joins the ranks of India, Mexico, Vietnam, Zambia, Indonesia, and Argentina who were all scored between 30-39. One reason for the lessened corruption

can be attributed to the honor the Ethiopian people have, derived from their stout religious beliefs in Christianity and Islam. Although their score ranks higher than many in Africa, Ethiopia is still ranked 111 out of 177. Currently 30% of respondents from Ethiopia believe that corruption has increased significantly over the past two years. On the flip side, 24% of respondents believe it has decreased significantly (Transparency International 2014). These varying views may result from the varying levels of corruption stemming from different sectors.

### **Infrastructure**

The GTP has a goal of spending \$30 billion on infrastructure by 2015. Investments in infrastructure have equaled about 20% of Ethiopia's GDP (\$6 billion) in 2013 alone (Embassy of Ethiopia 2010). The government has strategically been leveraging its partnerships with neighboring countries to increase access to electricity and energy. The Ethiopian government has realized its potential to be a power exporter due to its hydropower and has been aggressively pursuing joint projects and outside investments. For example, at the end of 2013 Ethiopia and Kenya combined funds, along with aid from the World Bank, African Development Bank, and the French Development Agency to begin a \$1.2bn power line project. Being completed in two years, this project will result in electricity originating in existing and new power plants in Ethiopia, which will be used in local towns as well as exported to Kenya (Maasho 2013).

Hydropower holds Ethiopia's greatest potential to be an energy provider. The country is the source of 86% of the water that flows into the Nile (Davison 2013). The Grand Ethiopian Renaissance Dam Project is if completed, will be Africa's biggest hydropower dam on the Nile. One major concern is the lack of depth on the government's part in planning massive projects such as this. Early assessments of the

plan by regional specialists indicate structural weaknesses and downstream affects to Egypt and Sudan's water supply. After reviewing confidential reports, Ethiopia boldly refutes them while Egypt and Sudan cite them as inconclusive. Further studies must be done, but will delay progress on this project.

Blackouts and electricity shortages have been major issues facing the population in Ethiopia. In October of 2013 the government decided to outsource the management of the Ethiopian Electric Power Corporation to the Power Grid Corporation of India to better satisfy customers and make improvements that align with the GTP (IANS 2013). This should help better manage the electricity available as well as better integrate processes developed, as new energy is available.

China sees the potential in Ethiopia and has taken measures to invest in its growth and development. In January 2014 the China Communications Construction Company (CCCC), the China Railway No. 3, and the China Railway Seventh Group Co Ltd. were awarded 6.5 Billion Birr road construction projects that are part of the GTP's Road Sector Development Program. These projects will create expressways, create reliable roads through the mountains, and build five large bridges and link major and minor cities within Ethiopia. All three of these companies are no strangers to the infrastructure and construction challenges in Ethiopia, having completed road projects in Ethiopia spanning the past 15 years (Tadesse 2013).

Reported in October 2013, the US-Icelandic company Reykjavik Geothermal signed a \$4 billion dollar deal to build a geothermal farm in Ethiopia (All Africa 2013). This will produce energy for export and should be completed by 2021. Additionally it is the largest source of foreign direct investment in Ethiopia and could be a breakthrough in

energy development for African countries that deal with changing weather and oil price volatility (Climate Spectator 2013).

## **Competency**

In terms of competency, Ethiopia is lacking in many areas. Labor is available in terms of numbers, but the people of Ethiopia lack basic skills. The median age of a citizen is 17.6 years old while the life expectancy is only 60 years old. 44% of the population is between the ages of 0-14. Only 39% of the population is literate.

Unemployment has constantly been an issue and is currently at 24.9% in 2014 (CIA).

The labor force is mainly competent in agricultural practices, with 85% of the labor population working in that industry in 2011. Only 5% work in industrial services at that time (CIA). Extensive technical, managerial, and operational training would be needed in order to have effective and competent workers.

Labor-employer relations are good and have seen an increase in quality over the past 5 years. Employers, both domestic and foreign, have been better aligning pay with productivity and thus giving incentives for the workforce to cooperate, continuously learn, and work hard.

Logistically, Ethiopia is lacking in these competencies. Even in 2008, their railway system was largely inoperable. With the GTP infrastructure investments and projects, these capabilities will increase and open up channels for trade, movement of goods, and transportation in general. The country is landlocked which limits the ease and risk mitigation of moving goods internationally. The only two major ports that can be used by Ethiopia are Djibouti and Somalia. This poses major risks, both while traveling on land in unstable regions like Somalia as well as on the Arabian Sea and Gulf of Aden, which are known for pirates and hijackings.

Ethiopia does have better security than other Sub-Saharan countries when it comes to protecting intellectual properties. They have passed many laws and directives and enforce these regulations through the Ethiopian Intellectual Property Office (EIPO).

### **Business Example: Pittards**

Pittards, a UK leather goods company has had a 90 year presence in Ethiopia due to its sourcing of Ethiopian hair sheep for its goods, has gained much from this plan. Now with the boom in Western investments in the country, Pittards is increasingly growing its operations in Ethiopia with expectations of raising the workforce by 3,800 more over 5 years. Executives from Pittards note that the country has developed greatly from when they first arrive. The government has been a strong presence in positioning Ethiopia as a growing economic hub within Africa. Part of the Growth and Transformation plan has set goals to grow its leather industry as a top export up to \$500 million by the end of 2015 from the current \$123 million annually. (Jeffrey 2013)

### **Summary**

Ethiopia is a country on the track to become a developed country, but has major hurdles to cross before doing so. Their Growth and Transformation Plan is a huge asset to them and allows them to track and measure progress along the way. Already the country has made strides forward and is trying to pave a clear path for private investment. It's growth, though impressive, is unlikely to be sustainable in the long term. Currently though, their government spending is setting the foundation well for trade and transport. The large infrastructure development projects will bring better roads, rail, airports, and power sources. The ability to fully produce their own power as well as export it will help lower costs for all and bring in a significant stream of revenue. Although they have a huge oil sector, they have been successful in diversifying away from that through

leveraging local products to bring manufacturing operations into the country such as hides from animals and sheep to make textiles and other leather goods.

The large population with many in poverty with low literacy and very low competencies is the biggest weakness Ethiopia faces. In my opinion, traditional Western ideals of educating a country will not be as effective in alleviating this problem. Instead, Ethiopia needs to bring the schooling to them and ensure that the schooling focuses heavily on technical and trade skills. This will be beneficial in creating a skilled workforce and establishing a foundation for future holistic education. If the government can effectively reach its people and show them the benefits of gaining the extra knowledge, then it can succeed.

Overall, Ethiopia is on the rise and should be kept on the radar of companies looking to expand. The main challenges, i.e. the workforce, can be improved through trainings and programs within the company. The government is proactive and is pushing for a more industrialized state. Because of this, there are many incentives for foreign companies, especially if they chose to acquire or partner with existing local companies.

### **Supply Chain Implications**

The major supply chain challenges a company would face if establishing operations in Ethiopia are the transportation options within the country as well as the risk and instability of transporting goods out of the country. Being landlocked, there are limited options on where you could ship goods. The lack of main roadways as well as the threat of unstable countries surrounding Ethiopia means that driving goods through Africa could pose both a challenge and huge risk as well.

A manager would also have the dilemma of an unskilled and inexperienced work force. Training programs, specific to the company, would be critical in successful operations. A company could even leverage the skills that workers at the oil companies use. By researching those companies' training practices, a supply chain manager can create programs that align with those skills or which can utilize those skills. This can help transition those workers into the roles needed. As this country grows and continues to diversify, there will be an increase of companies looking for skilled labor, and unless education and training increases, a very small pool to choose from. This has the potential to affect the quality of operations as well as the productivity of workers.

Overall, there is a lot of growth and excitement stemming from the diversification and development of Ethiopia. The largest risk is that these plans get too big for what the economy and country can sustain. There has been huge growth the past few years, and the government is currently making decisions based on the revenue from that growth. Inflation is starting to rise as well as the government's deficit. A company must be wary of this risk, but at the same time there are competitive advantages to be gained, mainly through costs and exposure to new markets, from this current economic hot spot.



## Case Results: Republic of Congo

### Economy

The Republic of Congo, also known as Congo-Brazzaville, is one of the less dense countries within Sub-Saharan Africa. Its population is approximately 4.5 million, with the majority living in the top three major cities (Brazzaville, Pointe-Noire, and Dolisie). Partly due to its lower population and oil industry, Congo is classified as a lower middle-income country. Its currency is the CFA Franc, which is fixed to the Euro.

Current GDP is \$13.68 billion with growth projected of 3.8% for 2014. Over the past 5 years, the average growth has been at 5.8% (World Bank 2014). Congo's economy is heavily dependent on oil. In 2013 the oil industry made up 67.2% of their GDP and accounted for over 90.3% of exports and 78.9% of total revenue (CIA 2013). The dependence that its economy has on the oil industry is incredibly risky and is one that the government is trying to mitigate. Expansions and growth in the mining and timber industries have helped the non-oil sector see an average growth of 6.8% over the past 5 years (World Bank 2014). Other industries that have seen success include telecommunications and agriculture.

As of 2014, the Republic of Congo received roughly \$2.8 billion in foreign direct investment with the majority being in the oil and timber sectors (Index of Economic Freedom 2014). The Chinese government has been a huge funnel of FDI for Congo. The majority of contributions from their government most recently are toward large infrastructure projects, which are then always awarded to Chinese contractors (US Department of State 2013). Fortunately FDI is on the rise from other sources, mainly South Africa and Singaporean businesses looking to invest in Palm oil production.

Congo is part of a free trade zone for Africa (CEMAC). They just began creating a special economic zone (SEZs), which will offer a competitive quality of life, single-window export-import assistance, minimal to zero tax and duty as well as other incentives. As of 2013, only Chinese companies have signed up.

Mining and timber have been booming recently and will continue to increase with funding from foreign companies. China has its eye on mining iron ore from Congo and is investing heavily in its development. This is part of a strategic move by China, who is the world's biggest buyer of iron ore. They need it to continue production of cheaper steel and are currently trying to move away from only sourcing the ore from Brazil and Australia.

## **Politics**

Currently a representative democracy, Congo's history is rampant with strife and instability. It was not until 2002 when a new constitution was formed and peace agreements signed that the country could focus on moving forward and creating a useful government. This political climate is the main factor that has caused economic trouble, lack of basic services, and a declining labor force. The current President Sassou-Nguesso has been in power since 1997. The country is currently still recovering from political backlash that resulted in civil wars from 1992 to 1999. Prior to that, its history is littered with opposition, wars, and chaos (World Bank 2014).

The government is high in corruption, which is affecting small businesses, FDI, day-to-day operations, and foreign companies wishing to do business. Corruption plagues the investment climate. Tendered contracts are often not up for bidding, and if they are the selection process is done behind closed doors. There is not transparency in the

government – bribes are regularly solicited, judicial systems are easily influenced by political figures, and contract terms are usually not available. Government spending is private with no transparency and not backed by audits.

The ease of doing business here for small to medium sized businesses is very low, ranked 185 in 2014 (Ease of Doing Business 2014). All aspects of starting a business from getting construction permits, credit, etc. are ranked in the upper 100s. Depending on your business or amount of influence, processes can easily be sped up or delayed. Full of inconsistencies and bureaucratic games, the economic climate has remained pretty stagnant except for the oil industry and any other industry that is attractive to large foreign corporations.

Congo is actively trying to lure in foreign companies through large tax incentives that benefit companies who are exporting goods. The government's goal is to have these companies reinvest their profits in Congo, through building businesses in remote areas or investing in social and cultural advancements. To complement this push, Congo has a strong copyright system and works to protect intellectual rights. They are a currently member of the World Trade Organization and comply by the majority of their requirements and regulations.

Though there are no major reforms in place to streamline businesses or the creation of them, they have attempted to make it easier by eliminating certain procedures and costs to qualifying individuals. Also, in an attempt to remedy a bad tax structure, they merged many taxes into a single tax for employers. This comes from a push to generate more revenue from taxes, which have been hard to collect, monitor, and enforce.

A major player benefiting from the corruption in Congo is China. They have agreements with the government which give their companies contracts right out. In addition, their interests in mining especially are given preferential treatment by the government. Reports have been done showing that the Congo government shows no discrimination towards other foreign entities wishing to do business, in fact they are trying to diversify the amount of foreign investment they are receiving. But for the time being their actions have resulted in an advantageous partnership with China.

### **Infrastructure**

Since the destruction from the civil wars the infrastructure has been non reliable and quickly deteriorating. Currently, Congo simply does not have the infrastructure to support major business operations. In the cases of oil and timber, those private companies had to come in and develop their own infrastructure.

Congo is in a prime location to become a transportation hub for the region due to its vast network of waterways and access to the only deep-water port in the Gulf of Guinea region. One advantage it has is the presence of the International Ship and Port Facility Security certified deep ocean port in Pointe-Noire. This port is the only deep-sea port in the Gulf of Guinea region and has the potential to be a very valuable resource in positioning Congo as a center for trade.

Until then, Congo must focus on developing its own infrastructure. In 2008, Congo in collaboration with the World Bank began a Rural Roads Rehabilitation Project whose goal is to create better access throughout the country for agriculture trade and use. It will also open up easier channels of transportation for companies and trade. There are

also current plans in the works to build modern airports in the major cities, improve dam structures, and establish multiple cement factories.

Congo is taking a unique approach to urban development by outsourcing basic needs to other countries. In September 2013, the government of Congo signed an agreement with the Minister of Housing in Morocco to begin a pilot project of social housing, community facilities, and new infrastructure surrounding these communities. They are following the lead of Cameroon, Guinea, and Cote d'Ivoire who have adopted these projects for their respective countries. In Congo, the supply for affordable and adequate housing is in a shortage. By partnering with Morocco, Congo hopes to bring cost-effective, reliable housing to its citizens (Dades 2013).

The access to electricity is a huge problem in Congo. Businesses have lengthy processes to go through before gaining access, and even then the capital costs are high with limited reliability. Many citizens, especially in Brazzaville, are experiencing severe energy outages. The current dam, Imboulou, run by a Chinese company experienced multiple outages, some lasting up to 5 days in 2013. The government has made vows to improve the dams and increase energy supplied to its cities, but has yet to make a substantial initiative or take significant action (Reuters 2014).

There is not broadband Internet currently in Congo, with much of the population without access to even the capabilities to gain it. Over the past couple of years, Congo has taken steps to privatize many sectors, most recently banks, in order to create more efficiency for citizens.

## **Competency**

In terms of competency, Congo needs major improvements to their education, health, and labor sectors. The revenue from the oil industry has helped contribute to the rise of the middle class in Congo, but unfortunately the government has not focused on reinvesting near enough of that revenue into education, training, or humanitarian programs. The median age of a citizen is 17.6 years old while the life expectancy is only 55 years old. 45% of the population is between the ages of 0-14. One strong attribute of the population is that 83.8% of people are literate. According to the African Economist, Congo is ranked as #9 of all African countries for literacy. Unemployment is high and was estimated at 53% in 2012 (CIA 2012). There is opportunity to strengthen their education, which has a solid foundation in Congo, by incorporating technical skills that are valuable for work after school. Currently education expenditure is only 6.2% of GDP with basic curriculum and initiatives. Increasing resources and reform to education could aid in worker qualifications and lowering the unemployment rate. Major reforms would need to take place with enforced implementation to be effective and successful.

Currently, the government has initiatives aimed at urban youth, who make up the majority unemployment, to improve their labor market insertion and earnings. This is a three-part goal with focuses on building competencies for micro-entrepreneurs through financial training and skills training through apprenticeships and training. It also focuses on strengthening the Ministry of Technical and Professional Education, Qualifying Training and Employment (METPFQE) to help support trainings, advances, and expanding programs to cater to different ages, skill sets, etc. (World Bank 2014). This was just passed in September of 2013.

Logistically, Congo has valuable capabilities to ship goods from their major port, but do not have reliable capabilities to transport goods from city to city and across land. Companies, such as Chinese contractors, have been able to thrive because they made investments in developing their own infrastructure. There are infrastructure projects being undertaken by Chinese contractors to benefit the entire nation, but information about the specifics, completion times, and end results are not accessible by the public. Hopefully the development of these as well as the entrance of 3PL's and privatization of basic transportation services will spur competitiveness between carriers and create more effective services.

Although involved in African wide committees who manage and protect intellectual property, Congo does not have a strong emphasis in this sector due to the lack of need for it so far. With its major industries being major commodities such as oil, mining, and timber, the government has not been pressured to manage it as strongly (US State Department 2013). With the introduction of VMK Tech to its industry, this landscape will need to change to attract growth in manufacturing and tech industries.

### **Business Example: VMK Tech**

An interesting emerging economy in Congo is smartphones and tablets. A local entrepreneur of Brazzaville, Verone Mankou, designed basic feature smart phones and tablets and formed his company, VMK Tech. The goal was to create a product that gave the general African public access to technology at an affordable price. Due to production costs, Mankou had to initially manufacture the products in southeast-Asia, but his ultimate goal is to move production back to Congo. The product has become widely successful and has even been sold in France. VMK announced at the end of 2013 that

they are planning to build and expand a factory in Brazzaville, due the amount of high demand and ability to now produce in economies of scale. Mankou hopes to foster economic growth and instill pride within his home country through this venture. Additionally his product aims to streamline technology for consumers and bring awareness to African technology businesses. All VMK's products have applications that support and combine other applications that are designed by Africans (All Africa 2013)

## **Summary**

Congo is slowly emerging from its history of political strife. Its current state is still plagued by ramifications from civil wars and lack of a stable government. This country is has many resources on hand, which could propel it into a sustainable economic climate to be in if held accountable and managed properly. Currently there are barely any manufacturing operations present in Congo. Although there have been initiatives, laws, and budgets passed which call for improved education and diversification, the government has been unable to produce any effective change.

With a push for diversification, the government is currently trying to attract a wide array of foreign investors and corporations from many different industries. The development of industrial zones in the capital, Brazzaville, is underway but currently not operational. They do have the prescience of special economic zones though, which they are trying to build the industrial zones around. These special economic zones could spur economic growth with proper oversight.

Quite recently, the government has begun outsourcing companies to bring basic needs to the country such as the housing project. The government also aligned itself closely with other state owned enterprises, mainly from China to help regulate basic



energy infrastructure and distribution. These partnerships are deemed ineffective to citizens within Congo who accuse the government of major corruption in giving bids to outside companies who in the end cannot get the job done.

China has an unchecked presence in Congo and is exploiting its resources for their own benefit. China currently funnels large amounts of FDI into the country, mainly for large projects, and then Chinese companies are winning these bids. Any attempt at entering the country, even as a state owned enterprise, looking for construction or infrastructure work would be very difficult.

The main strength Congo holds is its position to be a major trade partner, especially with its deep-sea port. Unfortunately any infrastructure beyond the port is deteriorating fast and is weak from the destruction and neglect from the civil wars. In addition, Congo is one of the most literate countries in Africa. Though flawed and lacking in technical training, Congo's educational system is consistent and mostly enforced. The government is currently on an initiative to alleviate the unemployment levels by incorporating more real world training in their schools through apprenticeships and training.

### **Supply Chain Implications**

This country has many risks and challenges a supply chain manager must consider. Although the government is pushing for foreign investment, the length of which they would go, especially ethically, poses a high risk to companies in regard to their reputation. With high corruption, the ability to move goods easily and safely through the country would most likely require bribery. The time to ship and move goods

would most vary drastically. There is no protection or enforcement of protecting intellectual rights or products.

Managers should be wary of competitive advantages other companies could gain in the country if they chose to give bribes. By taking an ethical and pro-active strategy, companies can find themselves at a disadvantage. Processes involving customs, tariffs, containers, etc. could take significantly longer with no dependable time frame to gauge them.

With access to a deep-sea port, there is the possibility of utilizing this area to aggregate goods before shipping. With weak road and air infrastructure though, getting goods to the port could prove to be difficult. Companies would need to bring their own transportation fleets or partner with a local firm to develop an efficient one in order to move their goods securely and timely.

Overall, Congo is not a place where the risks outweigh the potential competitive advantages. Dismal infrastructure coupled with a history of political instability and high corruption makes the ease of doing business incredibly hard and availability of outside resources almost non-existent. There are currently no notable foreign companies operating there, and for very good reasons.

## Case Results: Botswana

### Economy

Botswana, a landlocked country in the heart of Sub-Saharan Africa is a rare gem. Its population was 2.004 million with a GDP of 14.5 billion in 2012 (World Bank 2014). Its currency is the Botswana Pula (BWP) and is one of the strongest currencies in Africa. Inflation for 2014 is 7.5%, which continues a declining trend over the past 4 years (World Bank 2014). Over the course of four decades, Botswana has grown from the poorest country in Africa to an upper-middle income country. Recently it has sustained economic growth close to 4% on average between 2003 and 2011. This growth would have been more, but it saw a drastic economic downturn in 2009 due to the recession and lack of demand for luxury goods. That year it saw negative growth, mainly due to its reliance on its diamond-mining sector. Botswana's economy currently relies mainly on diamonds, which accounted for nearly 40% of their GDP in 2013 as well as 70-80% of their exports (Financial 2013). Other prominent industries include copper, nickel, soda ash, meat, and textiles (CIA 2013).

The government is aware that their diamond resources will be depleted, and estimate it will not last longer than 2029 (African Development Bank Group 2014). Another challenge they face is the shift towards a smaller public sector that will mimic a more typical middle-income country (World Bank 2014). Due to the focus on diamond exporting and heavy reliance on goods from South Africa at its south border, there is not much local manufacturing going on. The government is fully aware of these two major problems and has been attempting to diversify its economy and draw in private investment to curb the negative impacts they will have on the economy. Current President, Khama, has repeatedly voiced his concerns and is pushing to bring in foreign

investors and has been the force behind passing initiatives for the past decade as part of the new national economic diversification strategy, which focuses on private-sector-led economic diversification. Though there have been small improvements, the economy is still heavily dependent on the diamond industry. This landscape is shifting with help through the Botswana Development Corporation. Their focus is on bringing in manufacturers in the sugar, furniture, clothing, milling, beer, motor, packaging, and handicraft industries. Botswana had zero manufacturing operations when gaining independence to having approximately 630 medium to large scale manufacturing enterprises by 1995 (Mendi 2013). About half of these being citizen owned and the other half joint venture agreement. Most of these enterprises are small-scale operations, but are a step in the right direction. One major industry that has tried to boost the economy during this period is the motor industry. At one time Hyundai Motor Distributors, the Swedish Motor Corporation, and Leading Auto Engineering all had manufacturing operations in Botswana, mainly in the assembly of tires, leather finishes, paint manufacturing, batteries, and spare parts (Bendi 2013). These companies still have a presence in Botswana, but on a very small scale due. In 1995, the government of Botswana introduced

Although classified as upper-middle income, there is high-income inequality, with 20.7% of the population in 2012 living under the poverty line. The capital city, and largest city, is Gaborone, but only holds about 10% of its country population (World Bank 2014). The lack of large industrial cities along with the majority of the country living in rural settings can be factors for this inequality. A study by the World Bank

showed that the majority of the poverty was in these rural, agricultural areas where there is little opportunity for jobs or skill development.

Botswana has shown a consistent dedication towards making their country and economically attractive place for foreign investors. In 1997, the government created the Botswana Export Development and Investment Authority (BEDIA) whose main purpose was to oversee and develop trade and investment activities within Botswana. Fast-forward to 2013 and evidence of its commitment can be seen through its low tax structure, free movement of capital, and continued improvement of processes within its industry sectors. In 2013, Botswana saw approximately \$292.5 million USD in foreign direct investment (All Africa 2013).

## **Politics**

Since gaining independence from Great Britain, Botswana has developed into a mature democracy with free and fair elections. Their management of diamond exporting and partnerships, specifically De Beers, is an exemplary case of harnessing its natural resources effectively and efficiently for human development. Through prudent macroeconomic and fiscal management, a fair and enforced judicial system, and a very stable political system Botswana currently ranks as the least corrupt country on the African continent (Index of Economic Freedom 2014).

They recognize areas of need and improvement and push to better them through budget allocations, initiatives, and strategic partnerships with world organizations. Seeing a need for educational increases they have consistently had one of the highest allocations to education in the world. In the 2012/2013 fiscal year, 22.8% went to education while 14.9% went to local government, 9.5% to health, and 9.2% to works and transportation

(Financial 2013). Although a great initiative, many critics have attacked the government on their allocation decisions over the years due to minimal educational results, lack of financing in other areas of the economy, and the continued predominance of the aid epidemic.

Labor relations in general are currently stable but have a history of tension and disagreement. The government has been known to use a forceful hand against its workers. For example, in 2011 the government experiences its first nationwide public-sector strike. It began when 120,000 workers demanded a pay raise after a 3-year freeze. The government's response offered a fraction of that amount conditional on future economic growth, citing that the recent economic downturn in 2009 gave the workers little room to negotiate and little room in the government's budget to spend more. The unions then called a strike, but the government did not budge. Since the government supplied almost 40% of formal jobs in the economy, the unions were unable to completely freeze them out due to the government still being able to operate. To prove a point, the government promptly fired 1,400 health workers who were striking. Two months later, downtrodden and needing money, the unions decided to accept a revised offer from the government that gave a 3% raise so long as the government would reinstate the fired workers. The government refused to reinstate the fired workers, and with no bargaining power the unions accepted. This incident alone discredited union power, kept the government in control, and consequently there has not been any major strike since. Although the government did show a strong hand, the President is known for defending his public workforce. Facing a deficit budget and a shrinking diamond industry, many international organizations have pressured him to cut its workforce by a

quarter. Knowing that his country already faces high-income inequality and unemployment is high at 17%, he refuses to budge (Economist 2013). Instead he is pushing for diversification and trying to achieve the Vision 2016 goals.

Vision 2016 for Botswana is a long-term vision that was introduced in 1996. It is built on seven pillars of which the nation wants to uphold by 2016, when it celebrates its 50th year of independence. There have been updates and progress reports along the way, which overall have shown improvement. The seven pillars include: to make Botswana an educated, informed nation; a prosperous, productive, and innovative nation; a compassionate, just and caring nation; a safe and secure nation; an open, democratic, and accountable nation; a moral and tolerant nation; and a united and proud nation. Policies the government has passed in accordance with these values have shown improvements in high secondary school enrollment, a stable great investment climate, and decreases in poverty yet there are still low test scores, an economy still depending on diamonds, and huge inequality. On the flip side, there have been improvements in the perception of safety in Botswana, their reputation, and their respect from other nations, building national pride, and improving gender sensitivity.

In terms of corruption, Botswana has consistently been named the least corrupt country in Africa by Transparency International. In 2013, they ranked 30 out of 177 countries, which is strides ahead of many of its neighbors (Transparency International 2014). The government has funneled large resources into oversight institutions such as the Directorate on Corruption and Economic Crime, Public Procurement and Asset Disposal Board, and the Competition Authority and the Financial Intelligence Agency. These programs have helped Botswana enforce a zero-tolerance policy when it comes to

corruption. The government has even introduced anti-corruption curriculum in schools and training institutions to instill these practices and values at a young age (All Africa 2013).

## **Infrastructure**

Due to Botswana's growth, they have been able to develop a better base infrastructure than many of its neighbors, but it still has a long way to go. Their railway and airport systems are good, but basic road, water, and electricity infrastructure is not sufficient. Currently, they would need to spend \$746 million dollars every year for a decade to even develop the same infrastructure that the developed world has today. Currently they are only spending \$390 million a year, but based on projections this will not be enough support their growing economy (African Development 2014).

Since the late 1980's China has emerged as a presence in Botswana, mainly in their development of infrastructure. China would give financial support and in return got to bid on infrastructure projects for their State Owned Enterprises (SOEs) to contract. Botswana does have a track record of transparency and stances on anti-corruption. Unlike other countries, in Botswana China was not guaranteed any job. Though there is the possibility there were agreements, China had to compete on price and service, though more times than naught they were awarded the jobs. This lasting, bi-lateral relationship lasted up until 2013. President Khama has criticized China's lack-luster performance in the multiple infrastructure projects they have been apart of from rail to roads and power. When President Khama was elected, China had 18 projects in the works within Botswana. Due to serious delays along the way, faulty projects, and allegations of China using the cheapest material they can find the President has threatened to stop using



Chinese State Owned Enterprise's and has promised to be much more selective in their decision making on bids. He even went as far to say that "Botswana would be totally self-sufficient if we hadn't been let down by the Chinese." (Presidential Center 2013)

The biggest challenges facing Botswana's infrastructure is the development of electricity with the demand for it rising around 4.6% over 9 years (2011 to 2020) as well as the telecommunications sector (World Bank 2014). These two almost go hand in hand, one generating the power to enable the other to work efficiently. As Botswana's cities begin to become more populated and rural areas begin demanding access the government will need to have the capabilities and resources to supply its country. Right now Botswana relies on its neighbors for power, which results in extremely high prices. In 2012, the Botswana Energy and Water Regulatory Agency was implemented which helps better regulate the power as well as the taxes and tariffs associated with it. After two major supply crises in Botswana at the beginning of 2014, the government has set many infrastructure development projects on high importance hoping to speed them along. Many deal with upgrading current dams in the country as well as increasing the efficiency and effectiveness of their domestic electricity providers.

The government's reliance on the diamond sector has resulted in stable and secure channels of distribution. De Beers, in partnership with the government, helped increase the security of shipments nationwide as well as improved processes to mitigate the risk of losing valuable property during transit. This experience and capabilities that the government has are attractive to companies looking to manufacture and ship goods within Botswana.

## **Competency**

Due to the government's focus on education, Botswana very high enrollment in schools and provides universal and free primary education. Their initial goal was to better educate the population to make them better workers and bring them out of poverty. Currently, approximately 85.1% of the population is literate (CIA 2013). Although they do have the highest education expenditure in the world, they have not been able to produce a skilled workforce. Unemployment is currently at 17% reported, but estimates go as high as 30% (CIA2013).

Many of the human development goals have not been reached and are consistently low which can be attributed to their HIV/AIDS's epidemic. With the first case recorded in 1985, Botswana to date has the second highest HIV/AIDS prevalence rate in the world. (World Bank) Today, they have one of the most informative healthcare systems working to prevent it, but yet they have not been able to slow it down. In 2011, approximately a quarter of the population aged 15 and over tested positive for HIV. In 2001 the government began to provide free treatment to all of its citizens and have been able to reach more than 95% of the people in need. This has helped slow down the disease and increase the life expectancy, which rose from 49 in 2002 to 54.5 in 2014 (Avert 2013). The population growth rate is 35%, and Botswana has created a prevention of mother-to-child transmission of HIV, which is one of the most effective programs in the world. This program, PMTCT, works with mothers to provide treatments and coach them on safer feeding practices. It's working, and in 2010 only 3% of babies born to HIV positive mothers were infected. In addition, the government is working to lower these rates through progressive measures such as sex education in schools, free condoms, and contraceptive education.

The majority of the population works in service jobs, usually government related, and agriculture or in the mining fields. Manufacturing has not had a significant presence in the country, thus the general population lacks the basic skills necessary for technical or trade jobs.

### **Business Example: De Beers**

Although De Beers is not an example of manufacturing in Botswana, their operations in this country provide a great example of mutually beneficial partnerships in Africa. De Beers did not enter Botswana looking to deplete them of their resources at the lowest cost possible. They entered a 50/50 joint venture with the government, which allowed the government to make decisions, utilize resources, and have a say in operations. The government also got a 15% stake in the company (All Africa). Over the years, De Beers has used their corporate social responsibility to help effect change in the country. They realize that their workforce is vital to them, so they have aides in building hospitals, roads, schools, and programs addressing HIV and AIDS awareness. Unlike many Chinese companies who come in to “help” the country, De Beers is truly investing their time to work with the government. Within their organization you will see many top employees around the globe who originally worked in Botswana and moved up in the company. In 2013 they officially entirely outsourced their London operation of sales and crafting Diamonds to Botswana’s capital city, Gaborone. Although it is still the diamond industry, this entrance of new jobs will help employees develop new valuable skills and services, which can be transferred to other companies as well. This is the first time the company has worked outside of London in over 80 years, but the current CEO, Phillippe Mellier, has full confidence in this strategic decision. From their perspective, Botswana

is a fantastic country to conduct business operations in due to a very stable environment and their ability to attract banks and service industries, especially now with the full entrance of De Beers. Gareth Penny, the executive in 2006 who initially began this switch to Botswana refers to De Beers interest in Botswana as beneficiation, which means doing well while doing good. His vision was to show what you could accomplish in Africa by practicing stewardship, accountability, and social responsibility.

### **Summary**

Botswana is a very attractive country in sub-Saharan Africa to invest in currently. With little corruption, a stable political system, and a growing economy looking for diversification there is opportunity to work with the government and create a successful operation. It has been ranked as the best credit risk in Africa by two major investment services and has many tax exemptions and incentives for private investors. The biggest concerns are the ability and skill of the workforce, the dependence on the diamond industry, and the effectiveness of the public sector. There is a serious HIV/AIDs pandemic that cannot be ignored. This disease plagues the population and programs and attempts to eradicate it have been a huge output of money for the government. This is an ongoing battle that should be won, but will take time. The diamond industry still supports the economy. With the threat of the diamond resources being depleted in 10-15 years, there is great uncertainty to if the economy and country can survive without it. All in all, the government and public sector have been pushing initiatives and making progressive attempts to move the country forward to prosperity, but there are great inefficiencies in many of the programs and simply the results are not showing from the vast array of education focuses and infrastructure developments. Though transparent and

bureaucratic, it needs to show leadership driven results to gain credibility and ensure investors that it can perform.

### **Supply Chain Implications**

If looking to conduct business in Botswana, there are many advantages for your supply chain including location, cheap labor, protection of investors, and the presence of De Beers. The close proximity to South Africa poses as an opportunity for goods to be easily transported to ports with low risk. With high unemployment and low skilled labor, the cost of labor is inexpensive. The government is stable, has great credit, and can be trusted to handle money. In addition, the large presence of De Beers in Botswana has most likely affected a large part of the population. Especially with the entrance of new jobs, new entrants into this country can transfer the skills workers have learned in the mining field into a training model to more effectively help them gain the skills needed for a different company.

Lack of proper infrastructure regarding roads, telecommunications, and electricity all pose as a threat to a supply chain. . Unforeseen disruptions have a greater potential to arise with the threat of traffic jams, unfinished roads, and illogical routing due to the road network. Costs of acquiring adequate electricity, Internet connection, and phone lines can rise.

Long lead times, high hidden costs, and lack of training and skills are problems an organization would need a strategic plan to deal with if deciding to enter Botswana. Due to the benefits that are possible, an approach like De Beer's strategic joint venture has the potential to bring value to the supply chain and create more effective and efficient operations.

## Case Results: Tanzania

### Economy

Tanzania is located on the eastern side of Sub-Saharan Africa with borders to the Indian Ocean, Kenya, Uganda, Rwanda, Burundi, Malawi, Mozambique, and Zambia. Currently, Tanzania is considered a developing, low-income country with its sites set on evolving into a middle-income country by 2025, in line with the Millennium Development Goals. Its capital is Dar es Salaam with a population of a little over three million. With an excellent location, solid foreign relations, and a stable political environment, Tanzania has the potential to continually improve as long as government officials find solutions to mounting problems.

Tanzania's currency is the Tanzanian shilling and had a GDP in 2013 of USD \$73 billion (CIA 2013). With a population of approximately 49 million, their population is growing rapidly. The main challenge Tanzania faces is the availability of skilled labor when it comes to economic growth. Since 2002 the 36% - 45% of the population has remained under the poverty line with no significant change (CIA 2013). The majority of people are found in the very rural areas where agricultural and small self-owned businesses are the only sources of economic activity. The country has seen stable and consistent growth over the past four years and is expected to see the trend continue with predicated GDP growth of 7% in 2014 (World Bank 2014). In the 2014 Index of Economic Freedom it was ranked as the 106<sup>th</sup> freest economy, mainly due to improvements in trade and investment freedom (Index of Economic Freedom 2014). Since 2008, the country has seen growth of almost 60% in GDP due to the expansion and diversification of various industry sectors (World Bank 2014). Currently GDP is primarily divided between agriculture, industry, and services. The agriculture industry is

their most prominent and accounts for approximately 28% of Tanzania's GDP in 2013 and accounted for 85% of their exports (CIA 2013). The services sector is the largest at 47% of GDP and it encompasses all the government jobs along with tourism and hotels. The industry sector made up 25% of GDP in 2013 and expects to grow at 10.2% in 2014, and that is after an increase of 9.8% in 2013. Manufacturing specifically is expected to grow 11% in 2014, and that is coming off of an increase of 11% in 2013 as well (African Bank Development Group 2013).

The government is working position Tanzania to be a center of trade for East Africa. They have been creating and building economic zones to attract investors and facilitate more efficient trade. These zones are targeting investors in agriculture, textiles, and electronics specifically and will help streamline taxes and revenue procedures, give tax exemptions, provide duty free imports, along with other varying benefits (US Department of State 2013). These sites are relatively new and are currently expanding rapidly. The amount of FDI reported in Tanzania in 2012 was over \$1.1 Billion USD. The country has been successful in wooing investors and have helped streamline this process when it established the Tanzania Investment Center in 1997 which helped decrease the time and processes these projects needed (US Department of State 2013). The financial services sector has helped create an attractive investing climate as well. Currently approximately 48% of these institutions are foreign owned which has driven competition, increased efficiency, and has helped create an attractive investing climate for foreigners (African Bank Development 2013). In 2013 the top sources of FDI included UK, Kenya, South Africa, India, China and the United States. These

investments were mainly in energy infrastructure, road construction, breweries, tourism, mining, and agriculture (US Department of State 2013).

Beginning in 2013, China has stepped into Tanzania's economy with full force. In 2013 bilateral trade volume increased 49% from the previous year. This comes after the Chinese President has been visiting and forging relationships with high up Tanzanian officials. Currently there are 500 Chinese companies in Tanzania, which have created more than 150,000 job opportunities. These mainly include construction projects from ports, pipelines, and industrial park buildings. China recognizes development advantages like location, abundant energy resources, political stability, and a sustainable economy, which are all advantages to a partnership. (Salaam 2014).

In late 2013, reservoirs of natural gas were discovered in Tanzania. Over the next decade, this oil supply is expected to generate 10-15 billion USD in revenue for the government. The biggest obstacle this poses is how the government will manage and allocate this newfound revenue stream. To mitigate the risk of harmful mismanagement, the government introduced the Extractive Industries Transparency Initiative that will help them better allocate these resources to human development goals and other sectors that need major improvements. Already foreign investors are flocking to Tanzania, specifically to build Liquefied Natural Gas Plants. Britain and Norway were the first to begin building a terminal and at the beginning of 2014 declared plans to expand it even more. Predictions pin the East Africa area as one that is comparable to Russia, Australia, and Canada within the next 10 years. With the threat of those oil suppliers depleting, Tanzania could find itself as a global leader in oil production. Since the plants are still under construction, gas will not begin shipping out until around 2020 (Reuters 2013).



## Politics

Since gaining independence from the UK in 1964, Tanzania has kept a stable and peaceful democracy. Its current president, serving since 2005, is Jakaya Kikwete. Their capital is essentially split between two cities. Dar es Salaam has been its capital city for years, until the government officially proclaimed Dodoma as its capital. Many citizens are split on claiming one or the other as the capital city. Dodoma is more rural and has the bulk of political activity. Dar es Salaam is the hub of economic growth and is ranked by Lamudi as one of the top five livable and exciting cities in Africa (Daily News 2013).

Unfortunately corruption is a huge problem that has plagued the government from implementing reforms and allowing a fair and free market. Almost half of all business leaders in the country recognize corruption as a serious problem (World Bank 2013). Transparency International ranked Tanzania as 111 out of 177 in 2014, which is a drop from 102 in 2012. The country was also ranked 120 out of 142 for global competitiveness (Transparency International 2014). This corruption is wide spread but is mainly seen in the judicial system, government procurement, privatization, taxation, and customs clearance. Ports have been impacted heavily and services usually only expedited when bribes are offered. The government has established the anti-corruption strategy and introduced sector specific action plans to help combat this corruption, but it has had little affect. The majority of court cases involving corruption progress very slowly and very few end up with actual prosecutions. This could be attributed to the low manpower this division has access to and the lack of power it has to truly change the problem.

Recognizing that many of their reforms and policy changes have been bandages to true root causes of Tanzania's inability to shed its low-income country status, the government decided in mid 2013 to adopt the Big Results Now (BRN) framework.

Previously, different sectors were growing at different rates and there was no standard implementation of policies across all sectors. Major silos were inhibiting collaboration, transparency, and growth. BRN is designed to be a fast track, people centered growth marathon, which oversees and monitors the implementation of projects to ensure that they are being implemented system wide. This aggressive government reform will set high goals and expectations focused on Energy and Natural Gas, Agriculture, Water, Education, Transport, and the Mobilization of Resources. This exact framework was used to help Malaysia grow and strengthen its economy. So far, Malaysia has seen great improvements and is on track to be a middle-income country by 2020. To help roll out this plan, Tanzania officials had an 8-week training seminar where they brought in Malaysian officials to help them develop initial plans and prepare the groundwork for this framework (All Africa 2013).

The largest problem the government faces is the actual implementation of BRN. Historically Tanzania's political history is littered with reforms and policies that started out strong yet fizzled out due to poor implementation, no enforcement, and lack of collaboration. With the aid and training of Malaysian officials, the government hopes to remedy this historical streak by delivering results and sticking to the implementation.

### **Infrastructure**

Tanzania is dealing with an aging infrastructure and is trying to catch up by contracting out work and partnering with nearby countries. Currently, Tanzania and Kenya have embarked on a road project, funded by the African Development Bank. This project will help strengthen roads and reach rural areas not only in Tanzania but also along East Africa. The majority of farms are far from ports or other trading areas. By

strengthening this road system, the agribusiness sector will be enabled to grow and develop.

Dar es Salaam, Tanzania's largest and fastest growing city is spurring economic growth. At the same time the influx of citizens searching for a better life along with the lack of urban planning has set this city on the trajectory for severe income inequality, unstable infrastructure, and lack of sufficient housing. The predicted growth for this city is on par with Surat in India and Chittagong in Bangladesh. This dramatic increase has created informal settlements or "slums" where its estimated 70% of Dar es Salaam's population lives. Complaints of no basic sanitation, faulty transport, and nonexistent medical care are increasing these problems (BBC 2013). Economic prosperity and growth will falter if there is no infrastructure to support this flux.

The energy and telecommunications sectors are unreliable and insufficient. Prices are high and service is fragmented and unavailable in many areas. Currently only 16% of the nation has access to electricity and the nation as a whole heavily relies on hydropower, which accounts for 55% of energy sources (African Economic Outlook 2013). Unfortunately this high reliance poses a threat due to frequent dry spells. The government has recognized that they must turn to the private sector for growth in service, efficiency, and cost effectiveness.

High hopes are geared toward the recent emergence of natural gas. Foreign countries are ready to build pipelines and improved roads to facilitate the movement of natural gas. Though geared for the natural gas sector, these improvements can be beneficial for commerce near those areas.

State owned enterprises dominate many sectors such as power, communications, railway, telecom, aviation, and ports. This presence and mistrust of foreign influence has resulted in a lack of competitiveness, high prices, and the need for major reforms and improvements.

There is not a huge concern for transportation safety on the mainland of Tanzania, but shipping in offshore waters in the Indian Ocean has a major risk for piracy and armed robbery according to the International Maritime Bureau. Additionally drug smuggling has become prevalent throughout the existing transportation channels in Tanzania. The presence of severe corruption has led officials to turn a blind eye to these ventures. In addition there has been an increase on loss of intellectual property. Though there are domestic laws on intellectual property right protection, the sale of counterfeit goods, mainly in the entertainment and apparel sector remain widespread. The government has placed inadequate legal penalties for counterfeiters.

In the ports, there is a lot of dwell time for containers, averaging about 11 days before being imported or exported. This has been an improvement over the past 5 years, with times historically averaging a month. Unpredictable and lengthy clearance delays and bribes to expedite service are commonplace and seem to be the only way to get goods in and out.

### **Competency**

The country is plagued with consistent shortages of skilled labor. Although there has been a slight trend of increasing graduates in business management and information technology, these people are moving out of the country towards better opportunities. Foreign investors have reported that they cannot even utilize local labor because the

workers cannot handle basic tasks such as administrative duties. These problems stem from the large presence of refugees and lack of quality education within Tanzania's school systems (US Department of State 2013).

Although Tanzania's GDP has been increasing and new sectors are growing and emerging, there have been no significant reductions in poverty or improvements in socio-economic conditions. The government of Tanzania has adopted the National Strategy for Growth and Reduction of Poverty as well as the Millennium Development Goals, but results have been uneven. They are slow and not being implemented system wide, which has created definite silos in their sectors. No true progress has been made thus far.

Currently its population is approximated at 49 million in 2014. The median age is 17 years and life expectancy is 61 years old. This is shown in the breakdown of age demographics which shows that 44% of the current population is between the ages of 0-14, while only 20% is age 15-24 and 30% are 25-54 (CIA 2013). This influx in population and growing youthful labor force needs a competitive and intensive sector to work in. Unemployment, which is currently estimated at about 9%, could begin to rise as this young generation enters the market if adequate jobs are not available. Educating this population is essential, but currently only 67% of the population over age 15 is literate. The majority only spends 9 years in school (CIA 2013).

As part of BGN, has a goal to raise the quality of education and improve pass rates in primary and secondary schools to 70% in 2014 and 80% in 2015 (World Bank 2014). These goals are very ambitious, but so far the government has seemed to be following through with its initiative. The hardest challenge is increasing the quality of the education through standard curriculum.

Out of the 49 million people living in Tanzania, approximately 300,000 are refugees coming from multiple countries, which is the most in any African country (UN 2013). The strain these refugees put on government resources have been an obstacle government officials have had to overcome while trying to balance meeting the basic needs of its citizens. The human development index has ranked Tanzania as 152<sup>nd</sup> out of 182 in regard to its humanitarian efforts and availability of basic needs.

The government has in place labor laws governing working standards, minimum wage, work weeks, benefits, safety regulations, etc. These are not strictly enforced and supply no accountability to companies operating within the country.

### **Business Example: Furniture Centre**

A local furniture manufacturer simply named the Furniture Centre. Is beginning an expansion of products, branches, and stores in Tanzania then hopefully expanding to neighboring countries. This company has seen success due to the quality of its products that differentiates it from the majority of imports. A part of their marketing strategy is pushing the fact that it is a local, homemade product, which helps build the economy and add jobs. The company prides itself on not only employing locals but also providing training that not only equips them for their tasks but for other technical skills that are transferable to other companies. They are also hoping that the entrance of companies working within the natural gas industry will stimulate the economy and result in more diverse companies moving to the area. The biggest competitive advantage the furniture company has is the amount of natural resources it has at its disposal. It will be an excellent company to follow and see how and if its organic growth will translate into domestic and global success (All Africa 2013).

## **Summary**

Tanzania is at the heart of Eastern Africa and has the potential to be one of the biggest trading hubs in Africa. Their access to multiple ports as well and its central location to many growing countries puts it in a prime location to thrive.

Foreign investment in Tanzania is high and the government is continually working towards creating a business friendly environment. Realizing the information silos and lack of consistency within each sector, Tanzania has enlisted the help of Malaysia to implement a framework for future growth. The framework, dubbed Big Results Now (BGN), is currently being introduced, and the government is getting specialized training from Malaysian officials to implement these changes.

Stagnated poverty has been a presence for the past decade with no signs of decreasing. As part of the BGN, the government realizes the emphasis they need to put on education quality and initiatives. They have seen improvement from these initiatives, but the true success has come from the fact that outside Malaysian officials trained the government officials. By working off of their expertise and knowing what did not work for Malaysia, Tanzanian officials have a head start.

The recent discovery of oil will be generating lots of revenue for the government. The biggest risk from this is the possibility of corruption skyrocketing. The way in which the government manages this influx of money is crucial in determining the country's future success. Unfortunately, the track record for the government being able to efficiently and effectively handle tasks, pass reforms, and enforce regulations has been dismal. Already high levels of corruption plague certain sectors, most notably the judicial system. The government does not have the resources or manpower to

effectively implement their policies and ideals countrywide. Though there have been laws and reforms passed that have good intentions, the execution has been ineffective.

Overall, it is a country to keep on the lookout for. The way in which the government handles the new flows of revenue from the oil industry will greatly shape the future of this country. If managed well, education and basic humanitarian needs could reach those of developed countries. In addition, major investments could build up its infrastructure and attract foreign companies outside of the oil industry. The next five years are critical to its growth and success as a viable option for business and supply chain operations.

### **Supply Chain Implications**

The development of the natural gas industry and entrance of global companies will help expedite the development of infrastructure, mainly around the gas reservoirs. Companies looking to enter the country would be wise to locate close to these locations to leverage this development so that they would not have to start from scratch. In addition, this industry will attract a growing population. Port dwell times and time to trade across borders could increase overall in addition with the entrance of these companies.

In addition, the entrance of these global companies along with the corporate social responsibilities they have will have the potential to introduce better transparency and accountability in the government. It would take initiative and enforcement by these companies though to enact this change. Unfortunately, historically corruption increases as industries such as the natural gas industry develops. Companies could play a role in reversing this trend for Tanzania. The government has already declared it is pushing for



better practices and wants to eliminate its corruption level and deter it from rising. It is imperative to remember that the same people making these promises are the government officials accused of corruption.

Tanzania is a country I would recommend keeping track of over the next 5-10 years. As infrastructure and other basic needs develop in result of the natural gas industry, there could be a prime opportunity for companies to enter the economy. The government has seen oil take over other African countries' economy, and they want to mitigate the risk of overreliance on that sector. Therefore, there will be opportunities for manufacturers and companies within the industrial sector to partner with the government to gain tax advantages, cheaper land, etc. The main supply chain concern with this growth will be the availability of skilled labor, which as of now is very low.

## Cross Case Analysis and Discussion

Comparing Botswana, The Republic of Congo, Tanzania, and Ethiopia across the EPIC framework there are many similarities in challenges they face, yet there are fundamental differences in how each has handled them and the respective successes they have achieved as well as the respective failures they have seen. The following gives a brief overview of similarities between these countries as well as reasons they stand out from one another.

In regard to the economic environment, each country is recognizing the need for FDI and diversifying its economy. Instead of looking for short-term profits, governments are setting goals for long-term sustainability, growth, and goals for becoming developed countries. To do so, many are focusing on implementing long term goals and visions, which set benchmarks for each respective country to reach. Within these four countries, there are two factors that affect the success of moving towards and achieving these goals: ability of the government to enforce initiatives (which involves the political structure of a country) and whether or not they get help from outside their own government. Ethiopia is an excellent example of success through its partnerships with businesses and countries. Tanzania can rise to become a success story if it effectively manages the growth of the oil industry. The training and help its receiving from Malaysian officials can help push them forward and make the right decisions now to push their country towards a developed state. Botswana's partnership with De Beers has been beneficial and effective for the country and that industry within Botswana, but has yet to translate to success within other industries. The government had too narrow of a focus and now needs to diversify and transfer its practices with De Beers and what it has learned to other entering corporations.

In regard to the political environment, governments are struggling with balancing the need for growth and managing FDI with the need to push humanitarian efforts and meeting the needs of its citizens. To reach these long-term goals, governments are focusing on creating attractive tax structures, developing infrastructure, and focusing on improving the education and skills of their populations. The means by which they do so vary. The biggest problem many governments face is corruption and the resources to enforce initiatives and changes. Too often personal agendas and personal gains take precedence over effective change and fair bidding practices. To combat this, governments pass initiatives, but usually they are not fully implemented across all sectors due to the lack of manpower and resources at the government's disposal. This has caused a continuous cycle and is a common problem among all countries, except for Botswana. Botswana has very little corruption due to the accountability and influence De Beers has had within the government. As these countries diversify and introduce new industries, corruption has the potential to increase. In order to mitigate this risk, countries must rely on help from outside sources, preferably non-biased sources such as the World Bank or NGO's. The current audits the World Bank has been doing in African countries, such as Tanzania, create dialogue within the country and help enable the government to begin addressing these issues and pinpointing the root causes.

In regard to infrastructure, these four countries are all severely behind having even an adequate, usable, nation wide network. Additionally, the money that is being allocated towards current developments is detracting from the amount these countries should be allocating to future growth. Governments have found success in giving construction bids to foreign companies. Currently, China is the predominant contractor

for road, bridge, and rail construction while Indian owned companies are beginning to manage the power supply. Unfortunately, these companies are being called out and accused of not producing quality results and valuing speediness over making sure a solid foundation is being built, both in electricity and roads. Botswana is leading the charge against these countries and is reaching out to other foreign owned countries to bid on their projects. As other countries begin to show the same interest within Africa as China and India have shown, these projects will be held to higher standards. Currently, in order for companies to be successful, the majority will have to develop its own infrastructure to fit its needs. In Ethiopia, Botswana, and Tanzania there are opportunities to build close to current existing developed areas, such as small industrial zones (Congo and Botswana), ports (Tanzania), and other areas of economic activity (Ethiopia). Unfortunately the quality of infrastructure is very fragmented within each country, which means a company must assess the risk and benefits and decide what trade-offs they allow in terms of safety, infrastructure quality, and proximity to suppliers and existing distribution channels.

In regard to competency, all countries are lacking in terms of labor skills and education. Although some, like Botswana, boast higher literacy rates than others, there is still disconnect between education and the skills the people leave school with. In order to succeed, a company must establish their own training practices both for new hires and for continuous training. In countries, like Ethiopia and Botswana, their agricultural background has created a low-skilled population. In Tanzania, education reforms have proved faulty due to the lack and inexperience of teachers as well as how unstandardized these measures have been implemented and taught. As companies enter into this region,

the skill set will increase. Until then, it would be wise for these countries to gain help from developed countries or other outside organizations. For Congo, Tanzania, and Ethiopia, they need a solid foundation to be built, not just reforms. The earlier the change can happen the better. To successfully do this, money is required. In Tanzania this money could come from the new natural gas industry, while Ethiopia can re-allocate part of its budget back into education development. No matter how they do it, there will be pressure to begin this change both internally and externally. Without change, these countries will continue its cycle in poverty, income inequality, and driving away foreign investment.

The main differentiating factor between countries in sub-Saharan Africa with other developing and developed powerhouses such as China and India is how fragmented this African region is. China and India have had the advantage of a singular tax structure, a multitude of diverse resources, large populations, and a singular political ruling power. Many small countries make up sub-Saharan Africa, each with different cultural backgrounds, cultural strife, political make-ups, tax structures, economic policies, etc. Historically, it has been an “each country for itself” mentality, which has led to severely differing levels of development and growth. In order to attract long-term growth and investments, these countries must partner together to create an attractive region, not just country. Hints of these partnerships are forming in Eastern Africa with the Kenya-Tanzania Road Project and the Ethiopia-Kenya Power Line Project. By pooling resources, they are building a better foundation as well as better connecting their countries for future trade and mutually beneficial economic activity.

To prosper as an economic center in the future, countries within African must also play a huge part in this development. These countries should create long term partnerships to create freer trading zones, develop connected infrastructure, form trading councils, and other strategic partnerships. These partnerships will strengthen the individual countries as well as the region as a whole. When the countries are more economically stable and are close to being developed nations, hopefully within the next 10-20 years, considerations for establishing a formal economical union. A structure such as the European Union, yet less regulated could succeed and be highly beneficial. Although this area is nowhere near the point where this could be a reality yet, it has grounds for success based on the size of the countries, geographical proximity, and shared resources.

For companies looking towards the near future, high investments are critical to success within all of these countries. Companies must plan on bringing training of technical and basic skills to its employees. In addition, these companies need to learn from the successes and mistakes of corporations already in the country. There are a lot of risks, but there are opportunities for well-established corporations to establish supply chain operations in growing sub-Saharan countries. These opportunities vary depending on the needs and strengths of the companies entering.

Additionally, as these countries develop even further and per capita income rises, there will be a potential demand for more products. As countries such as China and India have grown, there has been a high demand for “western” products, which has opened up new markets for global companies. Foreign companies should consider this potential

future and strategically plan on if the investment into these countries with their current state is worth the future reward.

Overall, this is a region of major potential. The best opportunities stem from partnerships with either the government or existing companies within the area. Without access to local knowledge, a company cannot succeed. This region is unlike any in the world and has been plagued with mismanaged foreign aid, civil wars, a historically tribal cultural structure, and high corruption. The current conditions within the majority of the countries show high potential though. There is major development going on and lots of initiatives and both the governments and corporations within China and India are ahead of the game and recognize the potential there. They also realize that in order for its success, they must take action and invest in the infrastructure, education, and other essentials to truly benefit from entering these markets. Other countries, especially the UK and other southeastern countries are slowly making moves to take advantage of their cheap labor and future potential. To stay competitive in cost and location, companies in American should begin evaluating the potential of these areas for their supply chain.

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