



## Schneidman: New Africa Middle Class Lures Investment

By Witney Schneidman - Aug 8, 2011

For too long, the story of [Africa](#) has been about government corruption, war and disease. The economic news was bad, too; from 1975 to 1995, the continent was mired in negative growth, indebtedness and hyperinflation.

Now that story is changing. During the past 10 years, six of the world's fastest-growing economies have been in sub-Saharan Africa, according to the [Economist](#) magazine. Over the next five years, the Democratic Republic of the Congo, Ethiopia, Ghana, Mozambique, Nigeria, Tanzania and Zambia may grow at an average of 7.2 percent annually, the Economist says. Over this period, the average African economy will outpace its counterpart in [Asia](#). Africa has become an important emerging market and, compared with other regions, it has a relatively high rate of return on investments.

In many countries, political reform has accompanied economic growth, allowing local entrepreneurs to thrive. By 2030, Africa's new middle class -- more than 300 million strong, -- will spend \$2.2 trillion a year, which amounts to about 3 percent of worldwide consumption, according to the [African Development Bank](#).

[China](#) is one of the many nations that have taken notice. Its companies are doing business in each of Africa's 54 countries. Trade between China and Africa will almost triple to \$300 billion by 2015, according to [Standard Bank of South Africa](#).

Companies from India and [Brazil](#) are likewise pursuing commercial opportunities across the continent. [The European Union](#) is aggressively negotiating agreements that will give EU businesses access to African markets as well.

As for the U.S., in June, Secretary of State [Hillary Clinton](#) led a large delegation to the 10th [African Growth and Opportunity Act](#) forum in Lusaka, Zambia, in an effort to deepen U.S. commercial relations. U.S. companies have been slow, however, to recognize Africa's potential. The last time a U.S. commerce secretary visited the region was in 2002, when Donald Evans was there.

Although troubling news of election-rigging and civil war continues to be reported from places such as

Somalia, Sudan and [Zimbabwe](#), many other countries are experiencing improved government accountability. In 1989, only three sub-Saharan nations qualified as democracies, according to [Freedom House](#), a nonprofit institution that assesses the state of governance around the world. By 2008, there were 23. This year, 19 African countries will hold national elections.

The majority of African governments have developed strategies to reduce poverty, and this has led to improvements in public health and education. Business leaders and civil- society organizations, among others, are contributing to a new spirit of debate and tolerance. Africa's moment is at hand.

### [Angola](#)

Angola's 27-year civil war killed as many as 1.5 million people and displaced an additional 4 million. Since the war ended in 2002, the country has been working to rebuild its roads, bridges and communications networks, drawing on lines of credit from several countries, including Brazil, China and [Germany](#). Angola, a member of the [Organization of Petroleum Exporting Countries](#), produces about 1.9 million barrels of oil per day and is one of Africa's top exporters.

### [Botswana](#)

Botswana has a flourishing multiparty democracy, with roots in Setswana traditions such as the village council, or Kgotla. The powers of traditional leaders are limited by law and custom. Recently, the national government has made significant investments in education, health care and roads and other infrastructure projects to help create one of Africa's most dynamic economies. Mineral extraction, principally diamond mining, dominates the economy, though tourism is growing, as people from around the world are drawn to Botswana's extensive nature reserves. The country has one of the world's highest rates of HIV/AIDS infection, but also one of Africa's most effective programs for preventing and treating the disease. After two decades of democracy and economic growth, the middle class has expanded to encompass almost half the population.

### [Ethiopia](#)

Ethiopia is the second-most-populous country in sub-Saharan Africa, and one of the world's oldest civilizations. From 2003 to 2007, its economy grew rapidly, enabling the country to withstand the recent global economic crisis better than most other developing nations did. Ethiopia's exports include a quality highland Arabica coffee, most of which is harvested organically. The country is the world's 10th-largest producer of livestock, including cattle, goats and sheep, which are exported throughout the Persian Gulf and the [Middle East](#), as well as Asia. And it sells a range of high-quality hides and skins. In

an effort to sustain the country's economic performance, the government has devalued the currency and, to mitigate high food prices, imported cereals. It has also sold some retail shops, hotels and restaurants that were state-owned.

## [Ghana](#)

Since Ghana became independent from the U.K. in 1957, its economy has been based on a diverse mix of natural resources, including gold, diamonds, manganese ore and bauxite. Agriculture has been important, too, contributing more than a third of GDP and about 55 percent of formal employment. Ghana's primary cash crop is cocoa, which accounts for a third of export revenue. In 2007, oil was discovered off the coast, and the country is projected to become the third-largest oil producer in West Africa within five years. Ghana is on track to meet the [United Nations](#)' Millennium Development Goal of halving extreme poverty by 2015. And it is the one of the few nations in Africa where democratic elections have removed the incumbent party from office. Ghana's emerging middle class is buoyed by entrepreneurs returning from the U.S., the U.K. and elsewhere to take advantage of the country's progress.

## [Kenya](#)

Kenya has struggled to stamp out government corruption and recover from election violence in 2007 that left 1,000 dead. In 2010, however, 67 percent of voters approved a new constitution, which restored stability by limiting the powers of the president, instituting a bill of rights and sharing power with local governments. This has helped stabilize Kenya's position as the financial, communications and transportation hub of East Africa. Kenya's fastest-growing economic sector is now banking by mobile phone. Almost a quarter of the population relies on "mobile money transfers" to access and save capital.

## [Mozambique](#)

In 1992, when Mozambique's civil war ended, the country ranked among the poorest in the world. The government began a program of reform, resettling civil-war refugees and working to create a business-friendly environment. Ultimately, more than 1,200 state-owned enterprises were sold to private buyers. From 1994 to 2006, gross domestic product grew about 8 percent. In April 2000, Mozambique was the first African nation to qualify for debt relief under a program of the [World Bank](#) and the [International Monetary Fund](#), and this led to forgiveness of a significant portion of its bilateral debt. There is considerable scope for further growth in transportation, tourism and especially agriculture, which could lead to the continued growth of Mozambique's middle class.

## [Namibia](#)

Since becoming independent from South African administration in 1990, Namibia has been politically stable and has enjoyed relatively strong economic growth. Known for its diverse wildlife -- including elephants, black rhinoceroses and lions -- the country has written conservation measures into its constitution. As a result, more than a million eco-tourists are drawn to the country each year. Also important to the country's economy are mining and the processing of gem-quality diamonds and other minerals. And the waters of the South Atlantic provide Namibia with some of the richest fishing grounds in the world.

## [Nigeria](#)

Nigeria is the U.S.'s largest trading partner in sub-Saharan Africa; the country supplies 8 percent of U.S. oil imports, accounting for almost half of Nigeria's production. For the past 30 years, an over-reliance on crude oil has hurt the country's agricultural and light-manufacturing sectors, and has led to a decline in employment and per-capita income. However, small shops and other "informal sector" businesses are expanding, and are now estimated to represent as much as 75 percent of the total economy. Thanks to help from donors such as the [World Bank](#), the IMF, the U.S. and the U.K., Nigeria's external debt has declined to less than 4 percent of GDP in 2007 from 36 percent in 2004. The government has strengthened its market-based economy by reforming the banking sector, selling its interest in eight oil-service companies, deregulating fuel prices and creating a commission to investigate financial crimes. Nigeria's elections in April suggest a new standard of integrity for the country's political process, and this should encourage more skilled emigrants to return and join the expanding class of entrepreneurs.

## **Senegal**

Senegal's economy is based on fishing, tourism, peanuts and phosphate mining. Dakar, the former capital of French colonial West Africa, is home to banks, telecommunications providers and insurance companies that serve the broader West African region, and this has given rise to the country's growing middle class. Dakar is also a regional hub for shipping. Senegal has one of the best-developed tourism industries in Africa, and since it became independent from France in 1960 it has been one of the few countries on the continent that has never experienced a coup.

## [South Africa](#)

South Africa has a first-world economy, based on mining, manufacturing, services and agriculture. Yet the nation also faces developing-world challenges, such as unemployment, an inadequate housing supply

and pressures on its health-care system stemming from a high HIV/AIDS infection rate. The peaceful transition to a democratic government in 1994 started a national debate on how to redress socioeconomic disparities. And for the past 15 years, the government has pursued an economic policy that has brought greater financial discipline and macroeconomic stability. Significant economic shortcomings remain, but the private sector has expanded as South African businesses have become more integrated into the global economy. Shaking off the oppression of the apartheid era, upwardly mobile blacks have gained access to education, jobs, loans and property.

## Tanzania

Bolstered by strong gold production and tourism, Tanzania's GDP grew 7 percent from 2000 to 2008. Agriculture, for its part, provides 85 percent of exports and employs about 60 percent of the workforce. Although Tanzania's industrial sector -- which includes meatpacking, textile and apparel production, leather tanning and plastics -- is one of the smallest in Africa, it has also been one of the fastest-growing over recent years. The government has worked to improve the business climate by rewriting tax codes, floating the [exchange rate](#) and licensing foreign banks, creating new opportunities for local businesses.

## Zambia

Steady growth in mining, construction, telecommunications and tourism helped Zambia's GDP rise at an average rate of 5.6 percent a year from 2001 to 2010, and sustain the expansion of its middle class. When the annual increase in GDP reached 7.6 percent in 2010, the World Bank named the landlocked country one of the world's fastest-growing economies. To promote this growth, over the past several years the government has streamlined its budget process, removed subsidies on electricity rates to attract more private participation in the sector and sold to private buyers state-owned enterprises, including a copper-mining business and a telecommunications company. It is also promoting agriculture, tourism, gemstone mining and hydropower to diversify the economy and create more employment opportunities for Zambians.

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