Africa. But, Where in Africa?

With the talk of a continent-wide free trade and customs union by 2019, the African Economic Community (AEC) is even considering establishing a common currency and a common market. The African Free Trade Zone (AFTZ) envisages 26 participating member countries, with a combined GDP of about $624 billion (2008 figure, BBC Business).

Dr Dinesh Kumar

Seven of the 10 fastest-growing economies in the world are in Africa. With such a huge growth platform, the world eyes Africa as the next business destination says Dr Dinesh Kumar, associate director KPMG Services. All the household names and the biggest brands are moving to or expanding on this continent. With huge mineral investments and a huge population base, its little wonder some investors regard Africa as the next wave.

However, the question in the minds of countless global CEOs seeking to set up their businesses in Africa is – 'Where in Africa'?

While on one hand, the continent-wide transition to AFTZ is happening at a slow pace (World Bank, 2012) and on the other hand, economic growth in specific countries is fast, where should they focus in Africa? With 54 countries and 30 million km² of land area, it's a difficult question indeed.

However, the question in the minds of countless global CEOs seeking to set up their businesses in Africa is – 'Where in Africa'

Economic view

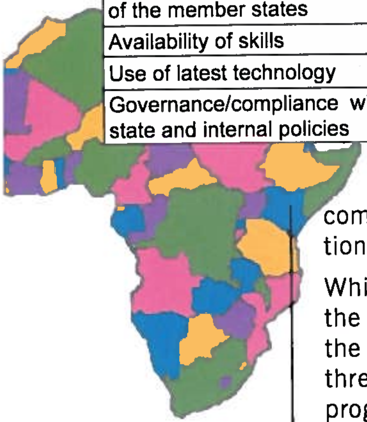
Africa has seen myriad political and economic liberations, in the course of which, trade relationships between countries are established, broken and re-established. While many African countries show tremendous growth, relations with next-door neighbours still count in the quest for sustainable growth.

Since only some African countries have stable infrastructure, connectivity (physical and internet), raw materials (mineral and other), labour, landmass and a customer base, they must always rely on regional collaboration to address their challenges.

Beware unseen barriers and limitations

The continent today has a number of functional regional trade blocs. Of these, three are more functional than others, namely the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). While these trade blocs overlap, with many members also belonging to the AFTZ, they also include members who do not belong to any alliances inside or outside the three blocs. Trade in such

Figure shows the positioning of AFTZ relative to other trade communities (www.marginup.com)



Criterion	COMESA	EAC	SADC
Growth in next two decades	Strong	Very-strong	Strong
Comparative maturity/stability of the member states	Not-strong	Strong	Strong
Availability of skills	Not-strong	Strong	Strong
Use of latest technology	Not-strong	Strong	Strong
Governance/compliance with state and internal policies	Not-strong	Not-strong	Not-strong

complex arrangements (with multiple permutations) can create unseen barriers and limitations.

While COMESA is the oldest and the largest and the EAC the youngest and smallest, the SADC is the most integrated of all the blocs. While these three trade blocs do collaborate to form the AFTZ, progress is slow. Therefore, for the next decade or so, all three will remain relatively autonomous entities. For the moment, SADC is the most successful trade coalition, but the next great spurt of economic growth will come from the other two trade blocs (World Bank, 2012).

The commercial perspective is however one silo view to compare these trade blocks. The emphasis for a practitioner is more on supply chain potential that these two trade blocks offer

Emerging economies in Africa

COMESA has the largest number of the emerging economies in Africa. Though it has its own challenges, the grouping is focusing on building regional infrastructure, particularly through the Eastern Corridor). Language is among the biggest barriers, with so many official languages and dialects, not to mention the regional spread of 19 member countries. To achieve efficiencies from this diverse set, is a considerable task.

The EAC on the other hand, is a rather smaller trade alliance with only five member countries and much greater integration and collaboration. While the structural complexity is different, between these trade blocs, the somewhat similar maturity/stability (in terms of economic, political and public) of the member countries favours the EAC.

The commercial perspective is however one silo view to compare these trade blocks. The emphasis for a practitioner is more on supply chain potential that these two trade blocks offer.

Supply chain view

While COMESA has the resource base, the slow pace of trade between member countries is a concern. The custom setup is another. It takes a few hours to a few weeks to clear consignment at various custom points in COMESA. The different custom requirements and regulations impose further burdens on trade. In addition, the unavailability of technology and skills in the member countries hampers progress toward integration. A few African countries are near the forefront in proficiency, but others lag way behind.

The EAC enjoys the benefits of similar maturity levels and technology among member countries, with Kenya leading the pack. The fact that Kenya continued paying export duties for five years after establishment of the EAC (because of its relative prosperity), shows confidence in the maturity/stability of the agreement. The growth rates of various sectors in the EAC (led by agriculture, then manufacturing and services) are among the strongest on the continent (www.eac.int, World Bank 2005). Skills availability is still challenging – but the situation is better than that of COMESA.

Compliance is an area of concern among all the three blocs. Little has been done in this area. Besides concerns over compliance, Kenya, within the EAC, is an attractive destination. However, potential investors might consider access to a wider market and resource base with a relatively similar success rate, simply by operating in the whole EAC trade bloc. The EAC is still the best proposition for a new African supply chain footprint for the next few years!

Dr Dinesh Kumar, KPMG, Tel: (011) 647-6968
Email: dinesh.kumar@kpmg.co.za