

## 8.3 ASSIGNMENT QUESTIONS

## ASSIGNMENT 1: INTERNATIONAL BUSINESS

DUE DATE: 9 SEPTEMBER 2014

Read the case study below and answer all questions that follow:

A deep at investment opportunities in Central Africa

**Editor's Note: For this article, Central Africa includes Cameroon, Central African Republic, Chad, Congo, Democratic Republic of Congo, Equatorial Guinea and Gabon**

The trip from the airport to downtown Kinshasa, the capital city of the Democratic Republic of the Congo (DRC), is a telling storyline of the Central African region. Segments of the road look finished. Other parts look un-finished or simply faltering at an early stage from poor material inputs. Visitors to the city centre are greeted by wide roads, newly constructed architecture and well-maintained colonial style buildings with neglected rundown properties peppered throughout.

Anxious youth stroll the streets looking for opportunities to make a living – some in worn casual clothing and others in their best Sunday Church outfits. Optimistic businessmen speak of a plethora of investment opportunities in the country. The buoyancy stems from the growing mining sector and a robust economy in the country. Reports coming from the continent, detail Africa's emergence, not only indicating robust growth for African giants, including Nigeria and Angola, but also sustained growth for Africa's frontier markets, including the DRC and Cameroon. Yet Central Africa's potential goldmines for development and growth struggle to reach their potential.

There are the positives that make for a great foundation. Cameroon's commercial hub Douala hosts the Douala port that serves landlocked neighbours such as Chad and the Central African Republic (CAR). Gabon and Equatorial Guinea boasts significant oil wealth. And the DRC sits on a wealth of mineral and agricultural potential. Yet the Douala port's potential is overshadowed by an embezzlement case while the CAR and the DRC are hampered by pockets of conflict throughout each country. Squashing corruption and eliminating conflict would go far. But capturing the economic opportunities requires more skills in-country and capital investment that goes beyond aid and conflict-resolution efforts.

### The Foreign Direct Investment is coming

An improving perception of Africa as an investment destination bids well for the entire continent. Foreign direct investment (FDI) to the African continent grew by 5% to nearly \$50 billion in 2012 despite an 18% drop in global FDI, according to the United Nations Conference on Trade and Development (Unctad). Central Africa benefited greatly in 2012, seeing its inflows climb to a record high of \$10 billion. The region dominated FDI inflows into Africa between 2002 and 2004 but experienced fluctuation and decline thereafter until returning to its top position in 2009. Since 2009, it has experienced upward trending FDI growth.

As a vital element of globalization, FDI drives technological progress and bolsters employment. It also underpins the linking of foreign exchange between countries and drives development and growth. But economists caution that Central Africa's rise is not necessarily a confirmation of a shift in the right direction. The region's natural resources attract a significant portion of the FDI, largely from mining companies, including AngloGold Ashanti's construction of its Mongbwalu mine in north eastern DRC. Other segments of the regional economies, including a struggling agribusiness sector and an underdeveloped manufacturing sector, fail to garner the comparable attention and funds.

Driving more capital to the non-energy sectors is vital to achieving the greatest results from FDI. But regional conflicts in the CAR and the DRC could undercut the prospect of sustained foreign investment. Earlier this year, Axmin Inc., a Canadian gold explorer, initially delayed opening its mine in the CAR as rebels made efforts to capture the capital. Regional wars and sub-wars in Central Africa could burden the region in 2013 and 2014, according to World Bank reports, as millions of innocent people suffer amongst the turmoil.

### The arrival of private investors and private equity

Placing capital in these fragile markets tests the resolve and creativity of investors. But Dutch fund manager XSMIL is doing just that with its Central Africa SME fund, which held final close at \$19 million earlier this year. The team, based in Kinshasa, has made 12 investments from the fund, defying foreign perception that opportunities are lacking in the country outside the mining sector. New York-based Warburg Pincus backed a \$600 million early-stage investment into Delonex Energy, a start-up Africa-focused exploration company focused on Central and East Africa. As investors make bigger plays in the region, more private capital will follow, all of which should bid well for the countries.

Still the governments will need to do more. Reports by non-governmental organizations (NGOs), such as the Carter Centre, stress a lack of transparency and indicate that the Central Africa's growth potential could be shackled by the potential appropriation of mineral wealth. Their concerns are not unfounded. A 2012 African Union report estimates that Africa loses \$148 billion per year to corruption. One local DRC expert (who wanted to remain anonymous) estimated that the mining sector in the region, especially in the DRC and Cameroon, lose investments worth of \$700 million indirectly and directly.

Several of the oil producers in the Central Africa, including Gabon and Equatorial Guinea, have failed endlessly to increase wealth in the country let alone boost non-energy based investment from abroad. Many locals accuse their leaders of not supporting economic sectors outside of oil and gas industry and not dedicating the surplus wealth and capital resources to the development of local businesses. Some locals argue that money is simply being pilfered by officials from both the public and private side.

All locals tend to agree on one thing despite differing views on who is to blame: supporting a growing wave of entrepreneurship in the region will require banks making more capital available to new businesses, especially small and medium enterprises, and some of that newly available capital will have to come from the regional governments.

### Betting on opportunity and commitment

There are excellent opportunities in the region. Mining is the easiest potential to unlock. But investors could have greater impact through investments that enhance the value chain for cash crops, such as cocoa, improve agricultural inputs and fertilizers and strengthen the processing capacity of the overall agricultural industry. Warehousing and logistics are in dire need of capital and expertise injection. Grocery store owners speak to a storage facility deficit, particularly for cold storage. According to the U.N.'s Food and Agriculture Organization (FAO), more than 15% of the vegetables and legumes are lost annually in the Central African region, a great amount due to a lack of proper processing and storage.

Logistics and storage for non-agricultural products, including the mining sector, remain underfunded, stalling the processing and export of many mineral resources across the Central African region. The manufacturing sector is staggering. Financial services require greater investment and expertise in order to access a vastly sized and untapped population (see State of Banking in West and Central Africa).

Investment in physical infrastructure, specifically roads, ports and energy will have to come first from regional governments. The African Development Bank (ADB) estimates that the Central African region requires more than US\$4 billion per country annually to upgrade infrastructure and sustained economic growth in the long term. Regional parties have operated effectively together on many issues in the past, for example, by eliminating cross-border tariffs in many sectors and reducing barriers in trade between countries. Some policies still require greater cooperation, including visas and labour laws. If previous regional efforts of integration are however any indication, the region will not fail for a lack of effort and policy initiative.

Source: [http://www.ventures-africa.com/2013/10/central-africa-investment-radar/?utm\\_source=Monday%2C+14th+October+2013&utm\\_campaign=PR%2C+Africa+Business%2C+Africa+Economy%2C+Africa+Entrepreneur%2C+Ventures+Africa&utm\\_medium=email](http://www.ventures-africa.com/2013/10/central-africa-investment-radar/?utm_source=Monday%2C+14th+October+2013&utm_campaign=PR%2C+Africa+Business%2C+Africa+Economy%2C+Africa+Entrepreneur%2C+Ventures+Africa&utm_medium=email) date accessed 15 October 2013

- Assignment Guidelines**
- Please take note of the following guidelines
- **Format:** Assignments must be presented in 11pt Arial font and in 1 and a half line spacing.
  - **Structure:** The assignment should be structured as follows:
    - Title page (1 page)
    - Table of contents (1 page)
    - Question 1: Answer (approximately 4 pages)
    - Question 2: Answer (approximately 4 pages)
    - Question 3: Answer (approximately 4 pages)
    - Question 4: Answer (approximately 4 pages)
    - Question 5: Answer (approximately 4 pages)
    - Bibliography
  - **Length:** Your answers to the five questions combined must be approximately 20 pages (i.e. 5000 words)
  - **Use of Literature & Referencing:** It is imperative that you utilise relevant literature in answering all five questions. At least ten references (including textbooks and journal articles) should be consulted. In-text referencing must be provided. A bibliography must also be provided. The Harvard Referencing technique must be used.
  - **Only Utilise the Facts about Central African Region indicated in the Case Study:** When answering questions 1-5, it is imperative that you restrict your analysis to the facts on Central African Region presented in the case study.
  - **Organisation:** In answering each question you should give attention to the structure of your answers. Each answer should begin with an introduction and end with a conclusion. You should also give attention to the logical structuring of your arguments so as to ensure the coherent flow of discussion.
  - **Professional Standard of Work:** It is imperative that you proofread and edit your assignment prior to submitting it. Assignments must be free from errors and a professional standard.

- QUESTION 1** (20)  
 Critically discuss the various drivers of globalisation responsible for economic growth in the Great Lake Region of Africa
- QUESTION 2** (20)  
 Discuss the role and influence of the instruments of trade policy in strengthening the various economies of the Central African Region.
- QUESTION 3** (20)  
 Noting economic growth in the Central African Region, critically discuss the various political and economic arguments for governments of each member states to intervene in economic development issues.
- QUESTION 4** (20)  
 Using relevant theories of Foreign Direct Investment, critically analyse investment opportunities in the Central African Region.
- QUESTION 5** (20)  
 Discuss the various levels of economic integration that member states in Central African Region can explore.