

Russia Should Look at Africa

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May 26, 2013

The  **Moscow Times**

President Vladimir Putin's recent meetings with African leaders have had skeptics once again raising doubts about the utility of Africa to Russia's economic and business interests. But a good understanding of the importance of Africa should begin with an appreciation of the huge potentials of African economies, many of which, until recently, have been locked into a multiplicity of trade relationships with Western nations.

The time for Russian businesses to act is now, and Russian companies already operating in Africa should consider expanding. Africa has a huge consumer market potential that can translate into the most important consumer target markets for companies in Russia. According to a recent report by McKinsey & Company, in 1980 just 28 percent of Africans lived in cities. But today, 40 percent of the continent's 1 billion people live in cities, a proportion roughly comparable to China's number of city dwellers and larger than India's number. By 2030, that share is projected to rise to 50 percent, and Africa's top 18 cities will have a combined spending power of \$1.3 trillion.

The return on investment is higher in Africa than in other developing regions, which is why Africa should be part of Russia's investment strategy.

If recent trends continue, Africa will play an increasingly important role in the global economy. By 2040, it will be home to one in five of the planet's young people, and the size of its labor force will top China's.

In 2000, roughly 59 million households in Africa had \$5,000 or more in income. By 2014, this number is forecast to reach 106 million. Africa already has more middle-class households, defined as those with yearly incomes of \$20,000 or above, than India. Africa's rising consumption will create more demand not just for local products but can also spark demand for made-in-Russia items, which have found it so hard to compete in European markets.

Nor can Russian executives and investors afford to ignore the fact that Africa has almost 60 percent of the world's uncultivated arable land and a large share of the natural resources.

The rate of return on foreign investment is also higher in Africa than in any other developing region, another compelling reason why a strategy for Africa must be part of Russia's long-term planning.

Despite longstanding commercial ties with Europe, Africa now conducts half its trade with developing economic regions, "or south-south trade," according to the McKinsey report. From 1990 through 2008, Asia's share of African trade doubled, to 28 percent, while Western Europe's portion shrank, to 28 percent, from 51 percent. New foreign direct-investment projects into Africa is expected to reach \$150 billion by 2015, according to Ernst & Young, creating up to 350,000 jobs per year. There is a very good chance that when BRICS is up and running, this south-south trade flow will be dominated by the trade-bloc member states.

One of the hard lessons of the global financial crisis is that emerging economic powers should build institutions and forums that are alternatives to Western-dominated ones. Such institution is BRICS, of which Russia and South Africa are members. Together the BRICS economies account for 25 percent of global output and 40 percent of the world's population. One of the key BRICS objectives is to build an effectively functioning internal market capable of easing movement of goods and people within the BRICS member states.

This rapidly changing economic landscape in Africa remains a direct challenge for Russian companies. Russia's peers in BRICS have been investing heavily and striking multiple business deals on the continent, with China leading the pack with more than \$100 billion

in trade and investment.

One of the hard lessons derived from the global financial crisis is that emerging economic powers need to build institutions and forums that are alternatives to Western-dominated ones. BRICS, with Russia and South Africa taking a dual-leadership role, is an excellent example of a non-Western-dominated institution. Suffice it to say that South Africa leads the world in such critical fields as organ transplant and energy technology.

Therefore, it's not a question of whether Russia and Africa need each other. It's a question of whether one can prosper without the other.

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