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An opportunity to drive modernization and growth

Separating fact from fiction in the China-Africa relationship

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An opportunity to drive modernization and growth

By Harry G. Broadman

China's investments in Africa have become increasingly diversified in recent years. While oil and mining remain an important focus, Chinese foreign direct investment (FDI) has flooded into everything from shoe manufacturing to food processing. Chinese firms have also made major investments in African infrastructure, targeting key sectors such as telecommunications, transport, construction, power plants, waste disposal and port refurbishment. Given the scale of Africa's infrastructure deficit, these investments represent a vital contribution to the continent's development — an issue that I have been engaged in for many years in a variety of capacities, including as author of *Africa's Silk Road: China and India's New Economic Frontier*, and other works on which this article is based.

There are many examples of China's burgeoning interest in African infrastructure. In Zambia, Chinese investors landed a deal to construct a $600 million hydroelectric plant. In South Africa and Botswana, Chinese firms have been building hotels and other tourist infrastructure. The Chinese telecom giant Huawei won contracts worth $400 million to provide cell phone service in Kenya, Zimbabwe and Nigeria. Meanwhile, Chinese firms are constructing roads, bridges, sewage systems and government

On cover: A South African mine
Above: Trading at the port of Barra, Gambia.

90%

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buildings across the continent. According to China's National Bureau of Statistics, the five African countries with the highest inventory of Chinese FDI stock in 2011 were South Africa, Nigeria, Madagascar, Guinea and Sudan.

In countries such as Ghana, Ethiopia, Angola, Kenya and Tanzania, Chinese multinationals have taken the approach of bundling together a package of products and services. These might include ports, water systems, cell phone networks, railways and soft infrastructure such as schools — all of which can be brought to market simultaneously by highly diversified Chinese firms.

The dramatic rise of Chinese trade and investment in Africa has sparked a backlash, with some critics going so far as to suggest that China's underlying motive is colonization. The heated nature of this debate isn't surprising, since much is at stake for the welfare of 800 million Africans, including 300 million of the world's poorest people. But, in reality, the commercial relationship between China and Africa has nothing to do with colonization, and everything to do with economics and diplomacy. Simply put, this is a case of one developing nation trading and investing profitably with other developing nations, based on mutual self-interest. China has its plate full of domestic challenges, and it would be naïve to conclude that its leaders would complicate matters by chasing impractical colonial dreams.

Another common misconception is that Chinese companies now rule the African economy. In fact, about 90% of the stock of FDI in Africa still originates from firms in advanced countries, most of them in the US and the European Union.[1] However, the growth rate of FDI flows into Africa in recent years has indeed been dominated by Chinese multinational enterprises. The real picture that emerges from such and similar data is that China is not yet a dominant force in Africa, but that its presence and influence are rapidly rising.

This is part of a broader economic trend of accelerating commerce between African nations and other emerging countries. While China has led the way, FDI flows from India, Brazil, the Middle East and Russia have also surged. This has prompted concerns among some Western businesses that the first-mover advantages in Africa will go to companies from the developing world.

It's often assumed that China only recently discovered Africa's allure. But, in the modern era, Chinese companies have been involved there for decades, with most of their early infrastructure "investments" actually given as gifts by the Chinese government to its African counterparts. While the relationship is nothing new, the real change lies in the extraordinary pace and scale of China's current investment and trade with Africa and the increasing commercial nature of such transactions.

What's driving this intensifying interest is the recognition in China that the economic landscape in Africa has fundamentally changed. Over the past decade and a half, much of Africa has enjoyed uninterrupted growth. Even during the global economic crisis, Africa proved remarkably resilient, confounding the fears of African policymakers and the international donor community, alike.

Chinese investors have been far quicker than their counterparts in developed nations to acknowledge — and benefit from — this economic outperformance. Surprisingly, I have found that there is scant recognition among investors from advanced countries of the extent to which Africa has changed. Indeed, there is a persistent belief in the West that Africa remains a highly risky, and possibly dangerous, place to invest. It's true that it's a difficult environment in which to operate. But, in several

1 See Harry G. Broadman, "China and India Go to Africa", *Foreign Affairs*, March 2008.

African nations, the risks of doing business are far lower now than in parts of Asia, Latin America and the former Soviet Union.

Africa's greater economic resilience has not come about by accident. In large part, it's a result of hard-won economic reforms. Over the past two decades, African policymakers have built a much more solid economic foundation. Among other measures, they have liberalized trade policies, reduced entry barriers to new businesses, privatized many state-owned enterprises, and boosted the reliability of critical infrastructure such as electricity generation and distribution. The vast scale of investment now taking place in Africa would not have been possible without such policy advances.

Another persistent misperception about Africa is the belief that its only real economic success stories are oil-exporting nations. While it's true that oil-rich countries have exhibited high growth rates, they also suffer from the "resource curse" and from heightened growth volatility. In recent years, the most sustained high growth in Africa has, in fact, come from countries that are not dependent on natural resources. Recognizing that the opportunities have broadened, Chinese companies are investing heavily in these increasingly robust markets.

Chinese investors are particularly well positioned to take advantage of the improved economic environment in Africa. The typical Chinese firm operating there is a large state-owned enterprise. These tend not to be the most efficient companies. But they do have a major competitive edge: they can avail themselves of subsidized credit from their deep-pocketed home government, enabling them to out-compete other bidders for African procurement contracts, not only other foreign investors but also African firms. These Chinese multinationals conduct most of their sales in Africa directly with government entities. This has its advantages, but there is also the risk that state-to-state deals can potentially provide opportunities for corruption.

It's important for African policymakers to take responsibility for protecting their own society's best interests. Among other things, they must ensure that the contracts signed by foreign investors include provisions to safeguard the environment and the health of African workers.

Beyond these concerns about corruption, others complain that many Chinese companies have operated with insufficient regard for the health and safety of workers or the protection of Africa's vulnerable environment. In a lot of African countries, Chinese firms have discovered that few regulatory constraints exist, leaving them free to focus on maximizing profits.

Whatever their concerns about the conduct of foreign investors, many Africans recognize the benefits of their presence. As these Africans realize, their nations need to integrate more fully into international markets, and for better or worse China's involvement in Africa is hastening that process. For example, China's investments in trade-enabling infrastructure, such as ports and railways, are helping to drive both the level and diversification of Africa's exports.

Of course, Africa's global integration comes at a price. Many African countries are now undergoing the difficult transition that occurs when any nation becomes more exposed to international competition. This process brings some pain in the short and medium-term, including the threat of factory closures and job losses.

Chinese companies will need to act responsibly, even in this lax regulatory environment. But it's equally important for African policymakers to take responsibility for protecting their own society's best interests. Among other things, they must ensure that the contracts signed by foreign investors include provisions to safeguard the environment and the health of African workers. Africa's attractiveness to foreign investors means that its policymakers now have enough leverage to require high standards.

China's investment in Africa has already yielded handsome profits for its multinational enterprises. But this relationship also represents an important economic opportunity for Africa. The challenge for African policymakers is to use this opportunity wisely — to raise living standards, enhance global trade, and build infrastructure that drives further modernization and growth.

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