

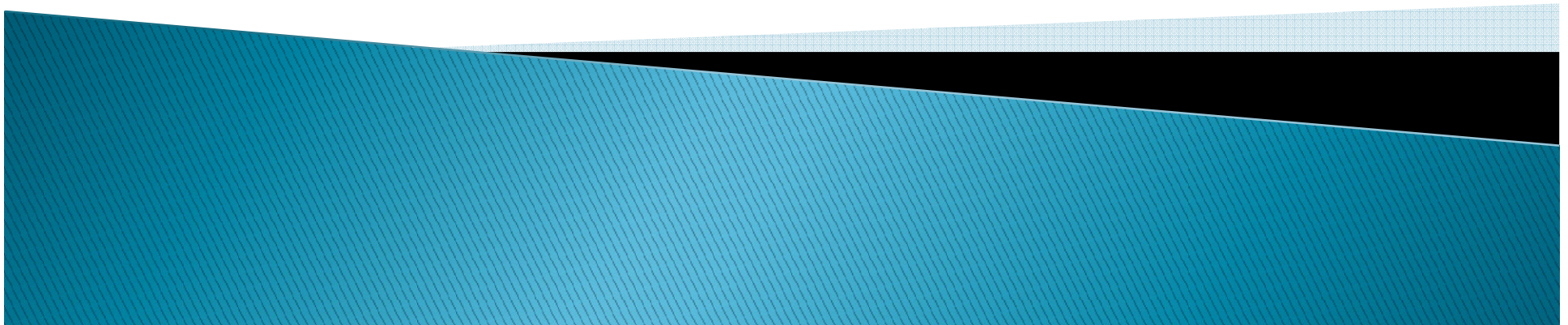
China's Role in Africa: New Dependency or FDI Bonanza?

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LSE Alumni, Beijing 15 May 2012

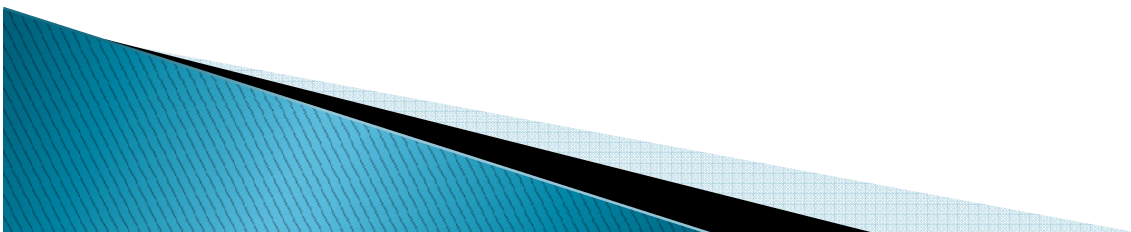


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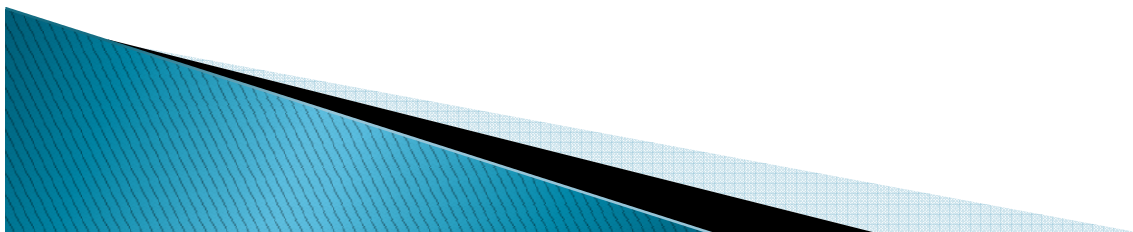
Outline

- ▶ What impact is China having on Sub-Saharan Africa (SSA) today?
- ▶ What challenges face SSA in the World Economy?
- ▶ Why is China in Africa?
- ▶ What will determine whether China's role is negative or positive for African development?
- ▶ What should China be doing differently with investment and aid?

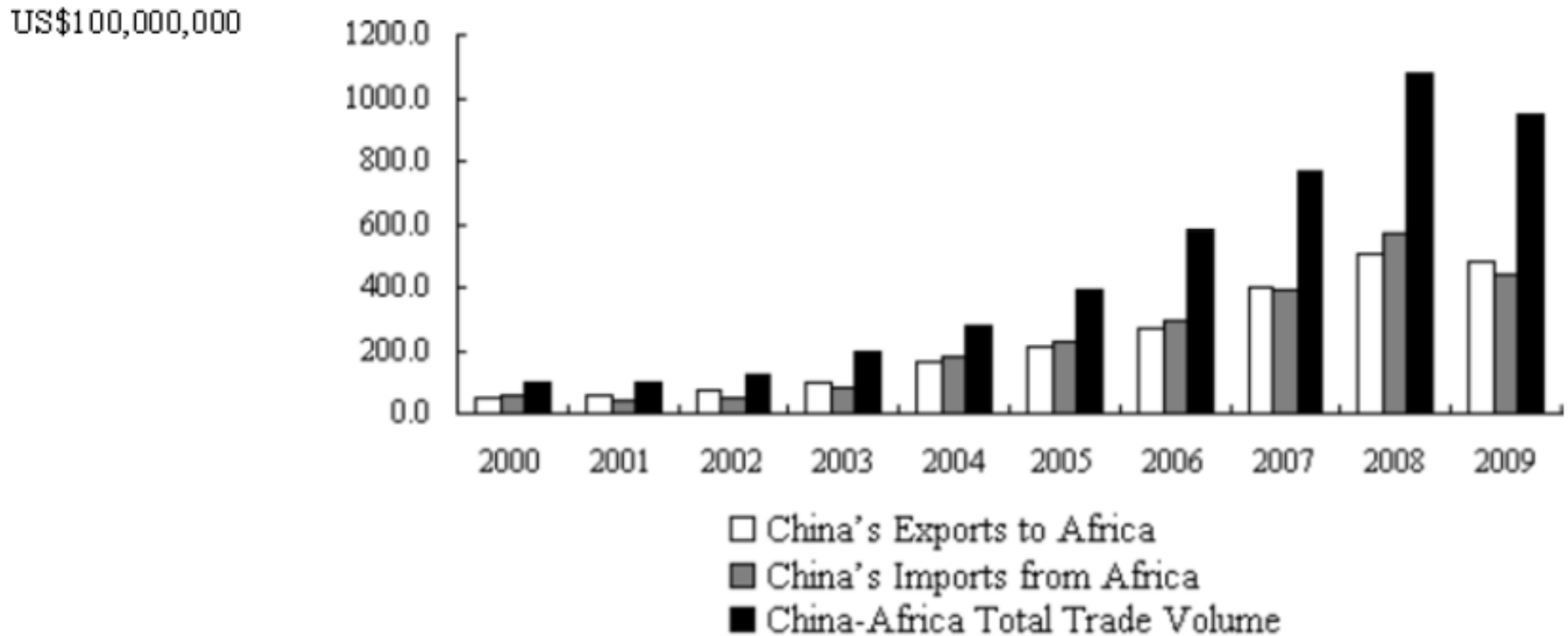


What impact is China having on Sub-Saharan Africa (SSA) today?

- ▶ New Trade Opportunities
 - * trade has grown over the last decade
 - * attention to balancing trade
- ▶ New Source of Investments
 - * FDI beyond mineral extraction
 - * Longer time horizons
- ▶ Potential Alternative to Western Aid
 - * Discard onerous aid conditionality
 - * Increased aid to production activities
 - * Longer time horizons



China's trade with Africa



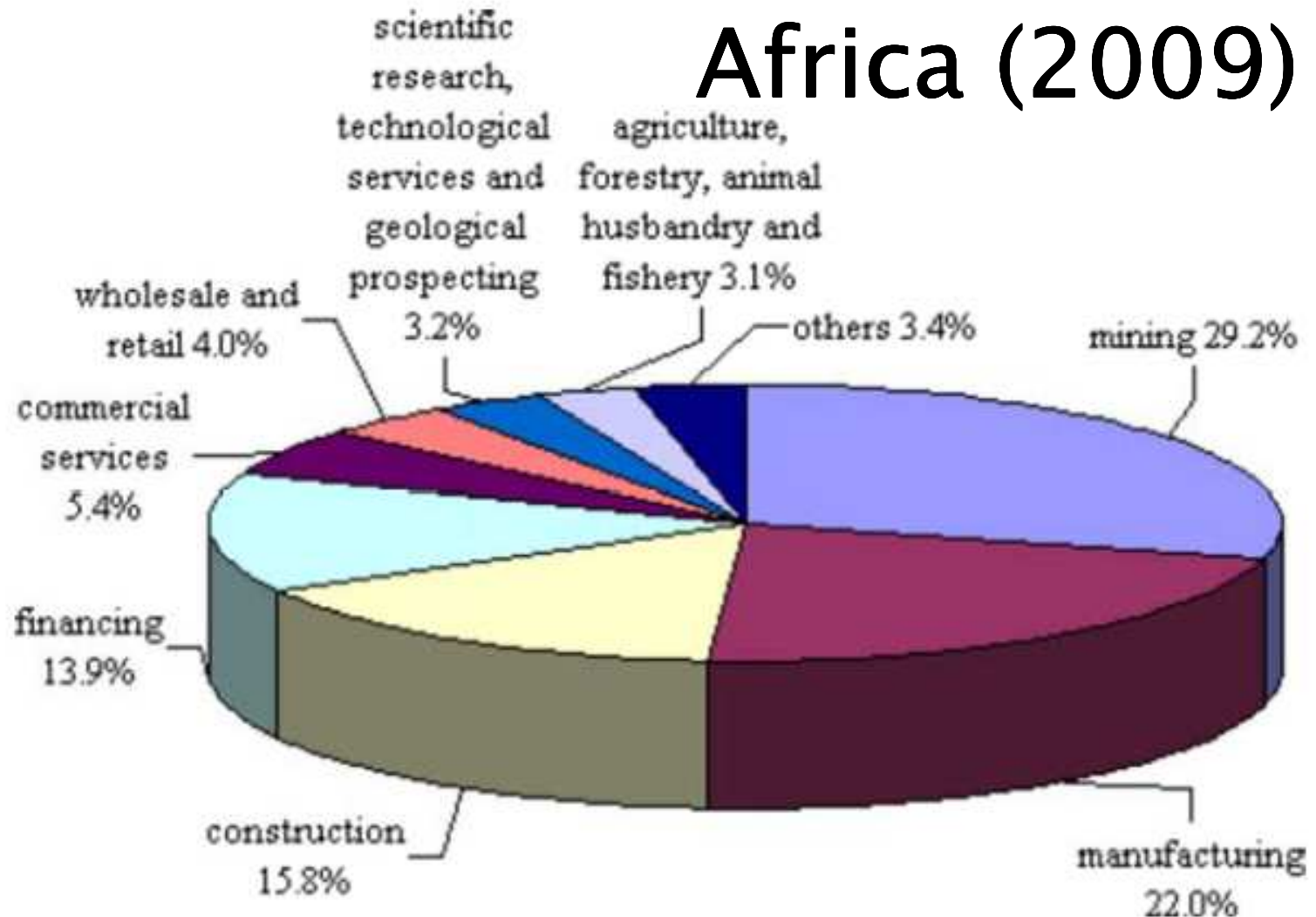
GPRC, Information Office of the State Council (2010)
"China-Africa Economic and Trade Cooperation"

Table 4. China: FDI Flows to Low-Income Countries

	2003	2004	2005	2006	2007	2008	2009	Average
(In millions of U.S. dollars)								
Total	118	411	449	694	2,375	6,555	2,358	1,851
Sub-Saharan Africa	68	152	201	362	1,297	5,480	1,070	1,233
of which LICs	47	126	139	262	767	598	943	412
Latin America	6	1	3	21	63	13	9	17
Asia	42	97	118	231	820	917	1,202	489
Middle East	3	161	128	81	194	145	77	113
(Annual growth rate, in percent)								
Total	...	246.7	9.3	54.6	241.9	176.0	-64.0	110.8
Sub-Saharan Africa	...	122.2	32.5	79.9	258.9	322.4	-80.5	122.6
of which LICs	...	167.1	10.3	89.3	192.4	-22.0	57.6	82.5
Latin America	...	-75.9	110.1	621.0	203.5	-79.8	-33.3	124.3
Asia	...	131.6	21.8	95.8	255.3	11.9	31.1	91.3
Middle East	...	5,759.3	-20.9	-36.1	138.6	-25.4	-47.1	961.4
(In percent of total Chinese FDI)								
Total	7.1	14.5	5.1	6.5	18.7	39.4	11.5	14.7
Sub-Saharan Africa	4.1	5.3	2.3	3.4	10.2	33.0	5.2	9.1
of which LICs	2.8	4.4	1.6	2.4	6.0	3.6	4.6	3.6
Latin America	0.3	0.0	0.0	0.2	0.5	0.1	0.0	0.2
Asia	2.5	3.4	1.3	2.1	6.4	5.5	5.9	3.9
Middle East	0.2	5.7	1.4	0.8	1.5	0.9	0.4	1.5

Source: Statistical Bulletin of China's Outward Foreign Direct Investment. Montfort and Takebe, IMF, 2011.

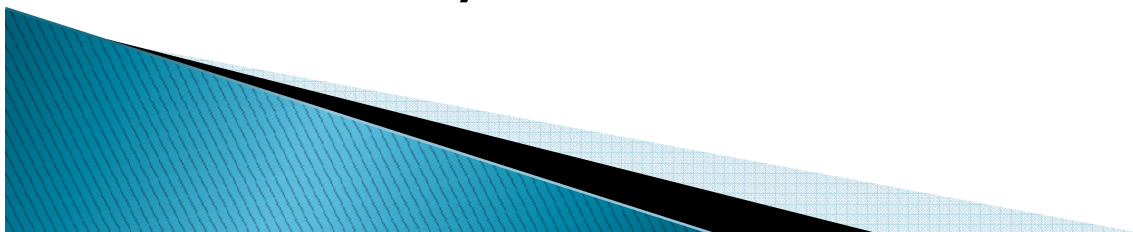
China's FDI in Africa (2009)



GPRC, Information Office of the State Council (2010)
"China-Africa Economic and Trade Cooperation"

What challenges face SSA in the World Economy?

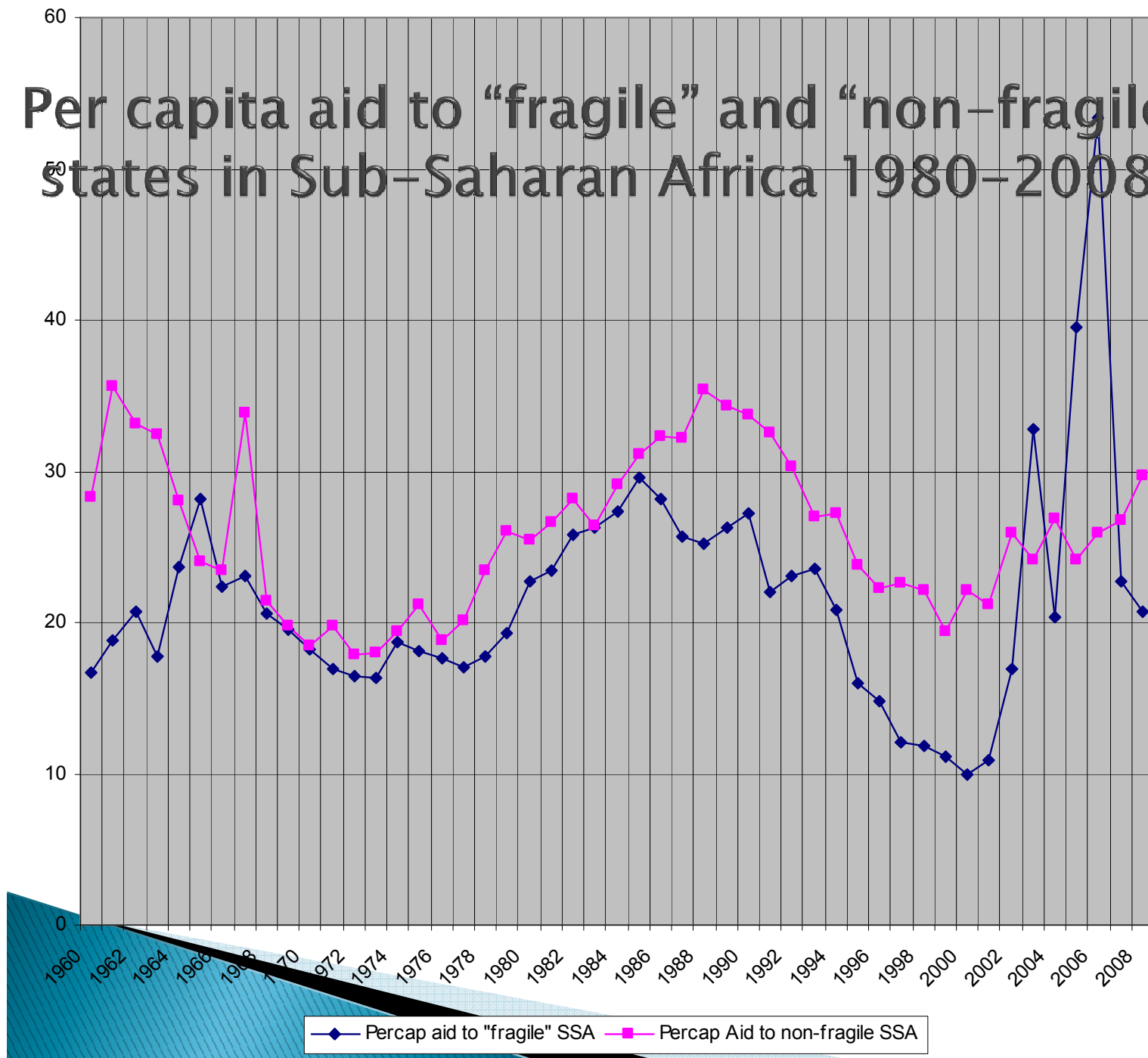
- ▶ African economies could not benefit from earlier periods of globalisation (Mkandawire)
- ▶ African states had only a decade and a half after independence before “structural adjustment was imposed”
- ▶ The promise of foreign direct investment (FDI) after adjustment never materialised
- ▶ OECD aid to Africa declined with emphasis on “good governance” after 1990
- ▶ OECD aid to production activities has radically declined



Per capita aid to “fragile” and “non-fragile” states in Sub-Saharan Africa 1980–2008

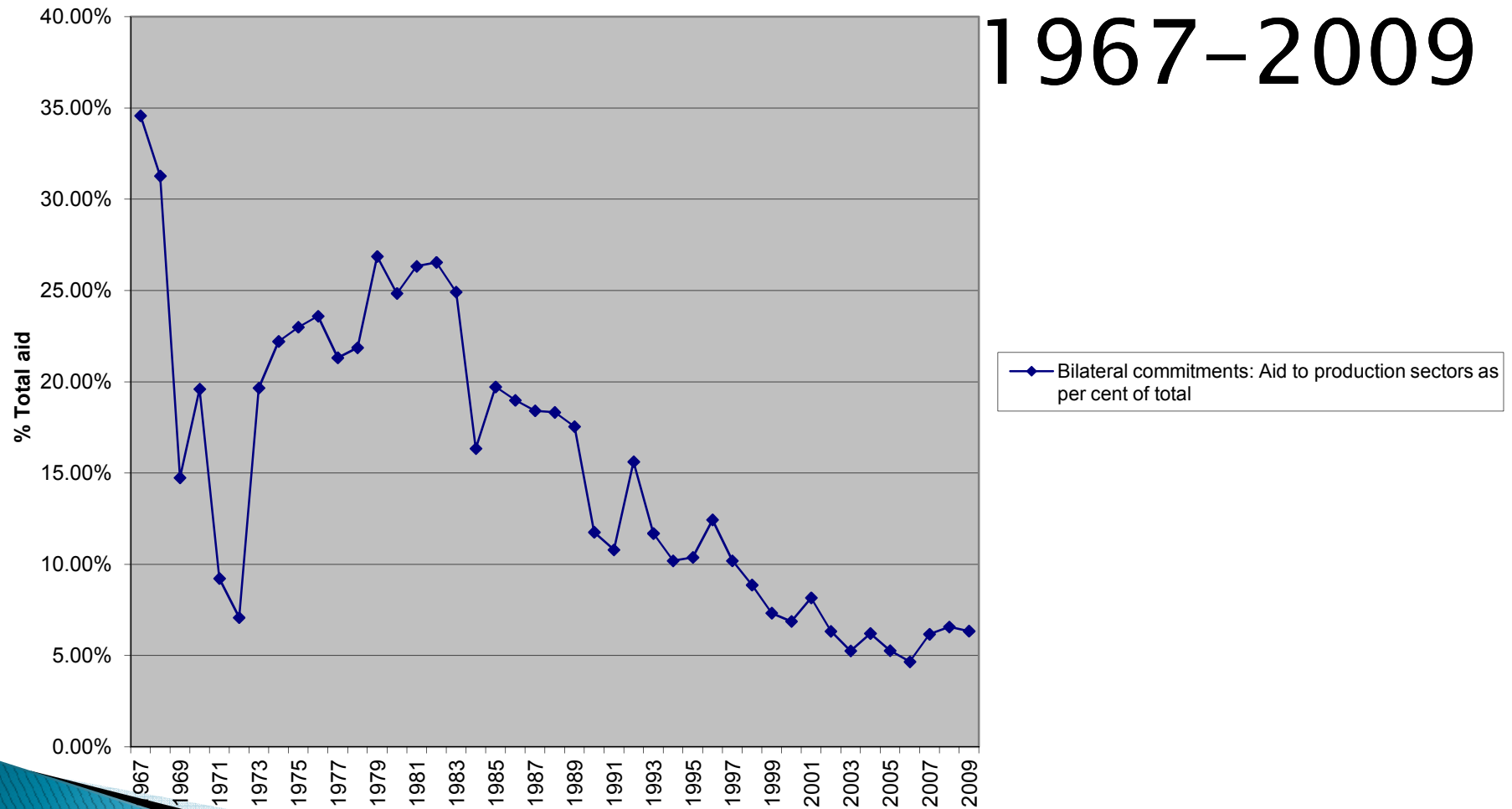
Source:

OECD.stat for data on bilateral aid in constant \$. UN Populations statistics for per capita calculations. Fragile and non-fragile are Sub-Saharan African countries below and above 3.2 respectively on World Bank's CPIA index 2009.



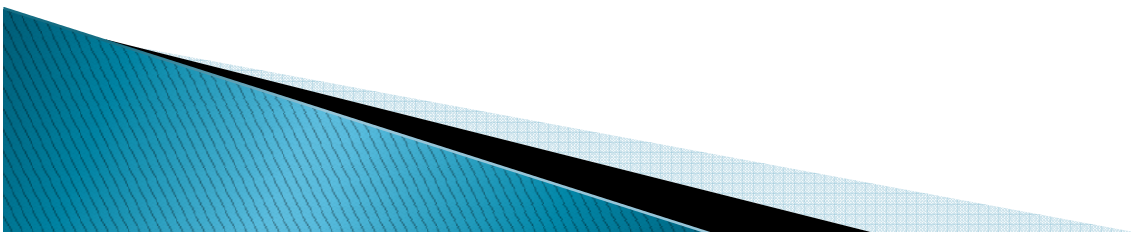
OECD Bilateral Commitments: Aid to production sectors as % of total

1967–2009



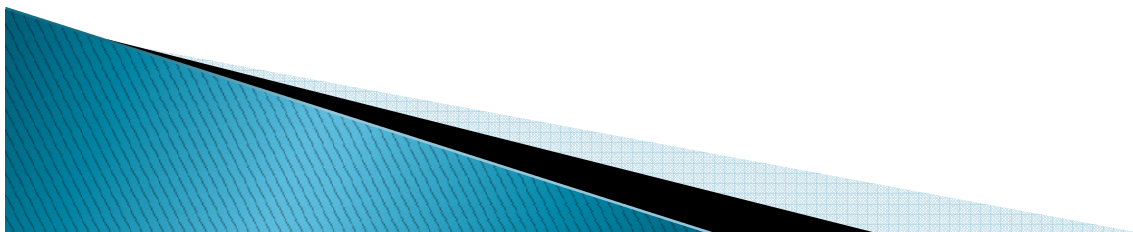
Why is China in Africa?

- ▶ Securing natural resources for Chinese growth
- ▶ Developing production platforms in Africa (as Chinese wages rise)
 - Agriculture
 - Manufacturing
- ▶ New markets for Chinese good and services
 - infrastructure projects for engineering firms
 - mass consumption markets as incomes increase in SSA



What will determine whether China's role is negative or positive for African development?

- ▶ Domestic politics and national development strategies within African states:
 - * Contrast Rwanda's "Vision 2020" with Tanzania's "Vision 2025"
 - * National governments need a strategy for national development
- ▶ Natural Resources: need to capture rents
 - * Contrast: Botswana to Zambia
 - * Strategic importance of political organisation BEFORE natural resource extraction

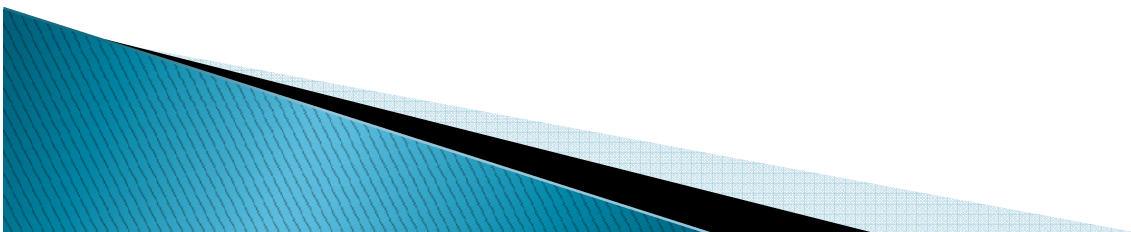


▶ Agriculture:

- * African governments need to sort out property rights
 - large farms and livestock operations;
 - small farms on contract-farming with agribusiness/agro-processing
- * African governments need to demand new research & technology (“green revolutions as in L. America and Asia)

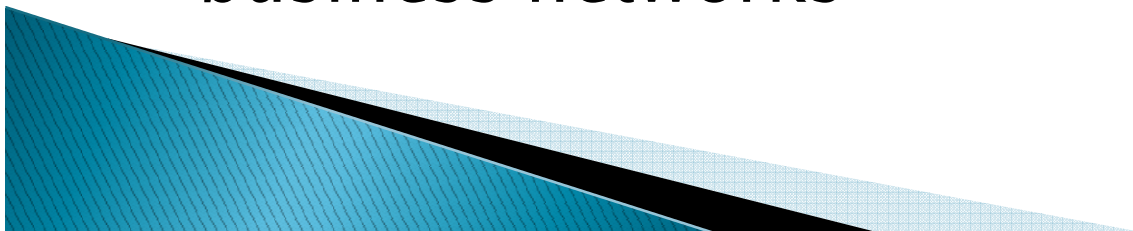
▶ Manufacturing:

- Follow Chinese example: local sourcing
- Strategy for climbing the value chain



What should China be doing differently with investment and aid?

- ▶ Training Chinese public and private sector actors how to behave
 - * Look to raise skills and employ local workers
 - * Educate private businesses, workers and officials about African cultures and politics
 - * Invest in learning local languages
 - * Invest in learning about local politics and business networks

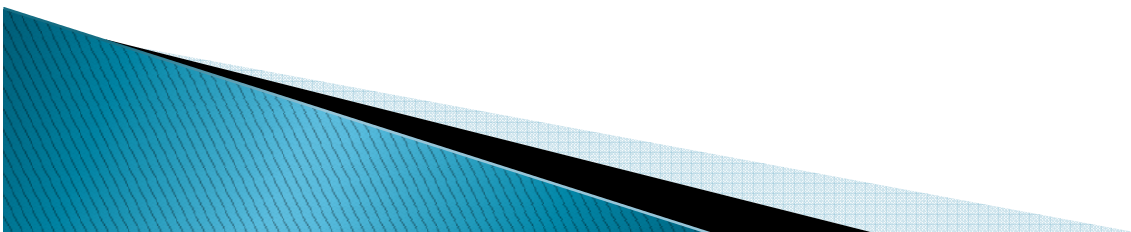


▶ Chance for China to behave differently than the West in investment:

- * Unlike previous eras, now is a time to harvest Africa's productive potential and its potential as a new market – Chinese companies can profit

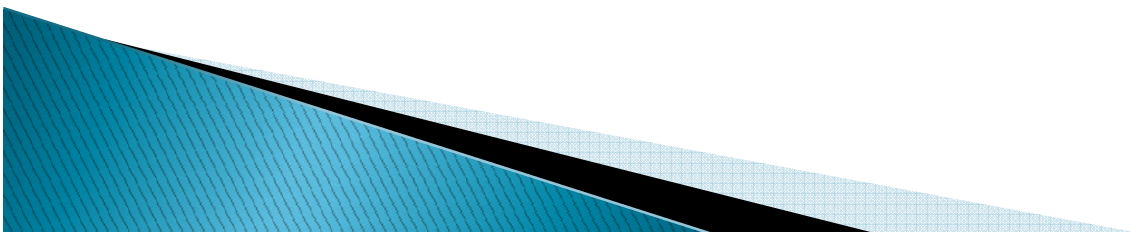
- * Resource extraction dominated Western FDI, but now Africa has new potential and Chinese actors can contribute to agricultural and industrial transformation.

- * Chinese public and private actors can operate on much longer time scales:
 - like in China, think about investment in terms of decades



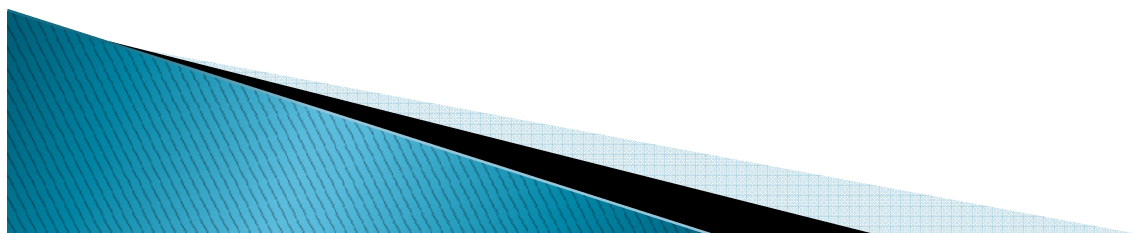
▶ Chance for China to Pursue a different approach to Aid:

- * Western aid has been too focused on
 - conditionalities,
 - long check-lists of governance reforms,
 - social welfare programmes associated with MDGs
- * This has seen aid to production sectors decline
- * Lack of expertise in Western donor agencies on all aspects of production



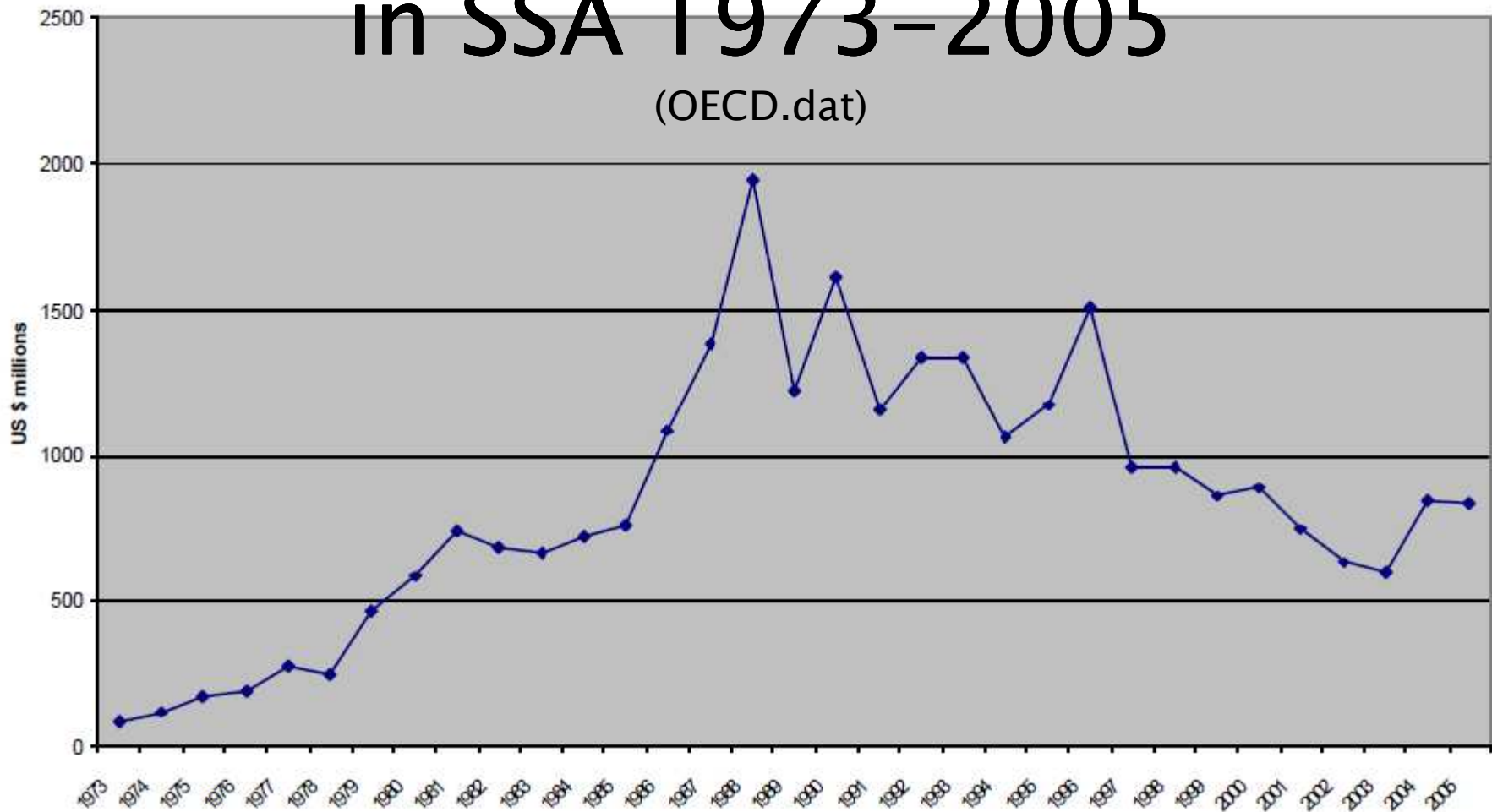
OECD Bilateral Aid 1985–2006 (commitments)

	1985	2006
▶ Aid to agriculture	12.3%	2.9%
▶ Aid to industry & other product'n	6.6%	0.8%
▶ Aid to economic infrastructure	17.1%	11.4%



OECD Bilateral Aid to Agriculture in SSA 1973–2005

(OECD.dat)



▶ China can be much more parsimonious in aid concerning governance:

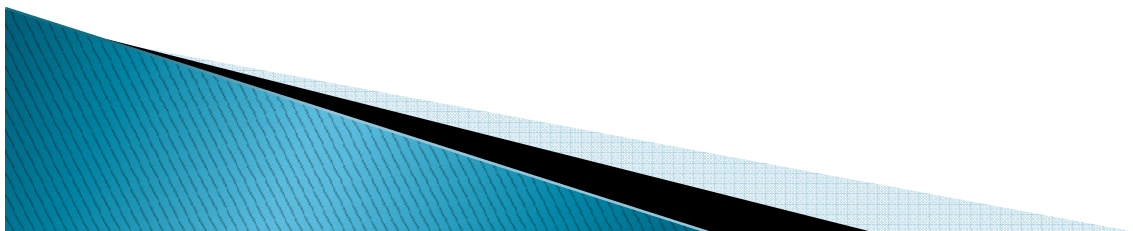
(1) Inform aid strategy with understanding of fundamental functions of a state:

- * legitimate security
- * territorial reach
- * taxation capacity of states

(2) improve statistical capacities of African states

(3) Assist African states in national planning

(4) Match aid with African states' own efforts to increase taxation



▶ China can deliver aid directly to production sectors:

– Agriculture:

- * research on seeds, on water management,
- * diversification of agriculture and high value production for urban/foreign
- * cooperatives in agriculture

– Manufacturing:

- * venture capital
- * rural
- * manufacturing cooperatives

