

Proposal for Improving Chinese Private Investment in Africa China Development Bank

In an international environment marked by complexity and change, developing and emerging markets are becoming key drivers in the world economy. China and Africa are poised to adapt to these shifting trends by deepening their strategic partnership and expanding cooperation in investment and trade.

Since the turn of the millennium, China and Africa have seen a rapid development of commercial ties. China has been Africa's largest trading partners for the past five years, and is one of Africa's top ten largest sources of foreign direct investment (FDI). Africa has emerged as China's second largest market for overseas contracting and its fourth largest destination for outbound investment.

Business ties between China and Africa have seen extraordinary proliferation in recent years, with bilateral trade growing 30% annually, reaching a new high of US\$222 billion in 2014. Chinese FDI to Africa continues to increase steadily, with a 14% year-on-year growth to US\$4 billion in 2014.

Business ties between China and Africa are also reaching new heights beyond the nominal growth in investment. Over 2500 Chinese companies have established themselves in over 50 African countries, employing 140,000 staff and gradually broadening their scope of activity from conventional investments in mining, manufacture, and construction into resource processing, advanced manufacturing, finance, agriculture, aviation, and real estate.

The China-Africa Development Fund—one of eight initiatives launched at the Forum on China Africa Cooperation (FOCAC) in 2006—has committed to investing US\$3.15 billion into 82 projects in 34 countries across the continent. Once this committed capital is deployed, it has the potential to drive an additional US\$16 billion in African-bound FDI, increase African export volumes by US\$2 billion annually, boost tax revenues by US\$1 billion, and directly and indirectly benefit one million Africans in local communities.

Chinese financial institutions are also increasing their support for Africa through a range of innovative financing and investment solutions. At the 2009 FOCAC 4th Ministerial Conference, China announced it would establish a “Special Loan for the Development of African SMEs.” As of the end of 2014, this program has committed a total of US\$1.761 billion in loans—with US\$1.418 billion contracted and \$1.232 billion disbursed—to support local development in sectors such as agriculture, forestry, fishing, processing and manufacturing, and trade facilitation.

As disposable income rises and patterns of consumption evolve over the coming decade, tremendous opportunities will emerge in African agriculture, manufacturing, and retail services. There is also great potential for fixed asset investment, as African governments are currently investing less than US\$20 billion against a US\$90 billion annual demand.

While China-Africa cooperation has made ground-breaking achievements, there are also a number of outstanding obstacles and challenges, including:

- An unstable political and security situation in some African regions
- Regional economic impacts caused by the European sovereign debt crisis that may exacerbate volatility in commodity prices
- Threats to the efficacy, sustainability, and reputation of China-Africa cooperation stemming from a lack of sophisticated, efficient and refined cooperation practices, and inconsistent standards of product quality, management, labor rights, etc.

There is also room for improvement in China-Africa cooperation on peace and security, and people-

to-people and cultural exchange.

Chinese companies have an important role to play in implementing the Chinese government's policy on engagement with Africa. Aggressive progress should be balanced by rational decision-making and a commitment to win-win opportunities for common development. Substantive measures should be taken to address outstanding issues in China-Africa business activities, and to promote a healthy model of partnership based on new synergies and drivers of growth. With that in mind, we offer the following proposals:

1. Cooperate in a spirit of sincerity and equality.

The long-standing friendship between China and Africa is an important foundation of our commercial ties. The initiative for African countries to seek cooperation with China is rooted in historical good-will and fraternity. This friendship extends from the national and political level down to the corporate and community level. Upholding this friendship is not only a precondition to progress in the China-Africa relationship, but is also a valuable capital necessary for sustainable business development in Africa. As such, it should be seen as central to the interests of Chinese companies active in Africa.

2. Seek mutually beneficial means of development.

China believes that its own development must take place in the context of the developing world as a whole. This is not an empty slogan, but rather a commitment to pursue a partnership with Africa that is mutually beneficial and not a zero-sum game. While seeking to profit from cooperation with Africa, Chinese companies should also seek to bring real benefits to the communities in which they operate. Chinese entities should be more considerate of African countries' needs and the ideas of their African partners, and should not seek to maximize their own profit or neglect the concerns and interests of partners. Development solutions—including industrialization and improved quality of life—are a top priority for African countries. Chinese businesses should remember that their projects and staff in Africa are representative of China, and contribute to its international image. The governments and people of both sides expect that they will act in a manner that promotes mutual benefit and respect, friendly consultation, and common development.

3. Raise the level of investment in Africa.

Chinese investment in Africa consolidates the foundations and self-sufficiency of Africa's development. This investment has the dual benefit of enhancing Africa's competitiveness in the global economy and promoting the internationalization of Chinese commerce. However, direct investment still accounts for a relatively small proportion of China-Africa cooperation, and in many sectors this cooperation remains at a surface level. There is a lot of contracting and construction, but too few business operations and management. There are many individual projects, but few project clusters or ecosystems being built. Economies of scale are being lost in the absence of robust industrial chains. Moving forward, the Chinese government will continue to support Africa with its US\$30 billion loan commitment for cooperation in sectors such as resources/energy, infrastructure, industrialization, urbanization, and modern agriculture. The proposed “four platforms” for governments, finance, investment, and people-to-people exchange will secure positive corporate involvement in the development and operation of projects.

4. Strengthen cooperation in agriculture and food security.

Agriculture plays an important role in the poverty alleviation and stable development of Africa. It is a pillar industry and development priority in most African countries, and it offers a broad arena of potential for China-Africa cooperation. Moving forward, the Chinese government will work broadly to promote China-Africa cooperation in agriculture, and Chinese companies in Africa can explore new avenues for investment and technical cooperation, build and engage with new collaborative institutions, and strengthen bilateral cooperation in agricultural technology, information, processing, trade, infrastructure, and seed resources as well as training of the labor force.

5. Deepen collaboration in infrastructure.

Infrastructure lies at the root of Africa's efforts to improve living standards as well as investment environments. It plays a critical role in the social and economic development of the continent. The Chinese government and financial institutions have provided enormous preferential/concessional, as well as commercial, lending to support the development of infrastructure in Africa. China will continue to deepen its bilateral cooperation with African nations in fields such as transport, communications, and social welfare, with an eye toward promoting regional integration and exchange. Companies and financial institutions can also play a diversity of roles in helping African countries achieve regional connectivity through investments in projects related to road and rail, telecommunications, power, and aviation.

6. Emphasize community development and people-to-people exchange.

African economies have maintained relatively rapid rates of growth over recent years, but there are still outstanding development gaps that pose a great challenge to meeting the United Nations Millennium Development Goals. As China seeks to develop its own economy, it should seek also to do everything possible for its African partners, extend aid on politically unconditional terms, and ensure that the fruits of development benefit the people of Africa. In recent years, Chinese SMEs, healthcare, and education organizations have undertaken programs to strengthen cultural and technical cooperation with African countries and enhance the continent's capacity for self-sufficient development. The Chinese government is encouraging companies to enter partnerships that build capacity in Africa around healthcare, education, and technical training. As ambassadors of friendship between China and Africa, Chinese companies should increase their investment in community development and local understanding and exchange. True sustainability in the China-Africa partnership will be driven by respect for the African people in both economic and cultural interactions.

7. Improve local awareness of business operations and management.

As more and more Chinese companies invest and build operations in Africa, there is increasing interaction as well as a greater potential for friction. Over the past few years, there have been a number of disputes stemming from the Chinese business presence in Africa, including low cost goods flooding African markets, environmental concerns, and labor rights issues. Some of these concerns even emerge as highly visible platform issues in African elections. Chinese companies operating in Africa should take it upon themselves to comply with all laws and regulations of their host countries, be considerate of local customs and cultures, and strengthen internal management systems to ensure strict compliance with labor and environmental standards. Chinese companies should develop a heightened awareness of local issues, embrace their corporate social responsibility, and actively engage with and give back to the communities in which they operate. An enlightened approach to business involves winning the support of residents and communities in addition to earning a profit.

8. Create emergency and risk control systems for Chinese investment in Africa.

Chinese companies investing in Africa undertake a certain degree of risk, including political and operational risks. Some African countries are politically unstable or unsafe, and may occasionally experience terrorist activity. Chinese companies doing business in Africa should be prepared for these regional vulnerabilities, conduct appropriate security training for staff, and devise detailed plans and mechanisms for emergency response. Effective warning systems to identify, assess, and control risk for overseas investment are also necessary to minimize these risks through tracking, surveillance, reporting, and response measures.