

# International Monetary Fund

## Topic A: Foreign investments in Africa and its global impact.

### INTRODUCTION

The International Monetary Fund (IMF) was established on July, 1944, at the United Nations conference in Bretton Woods. IMF is an organization tasked of maintaining global and national economies stabilized. It counts with 189 member nations, represented by 24 Executive Directors. IMF works with three major ways to ensure economic stability worldwide. It constantly surveilles the economies of its Member States, it lends money to countries that are suffering a crisis and it trains nations so that their economies and policies can be modernized.

Every year, the International Monetary Fund releases a stability report where it details how each of its Member States have advanced economically, its areas of opportunities and its recommendations. They constantly give feedback to Member States about their legislations,

policies and markets. IMF is also in charge of promoting high employment and sustainable economic growth and facilitating international trade. Foreign investment has been an important factor in the economical growth of developing countries over the past couple of decades. Also known as Foreign Direct Investment (FDI) in economic terms, it consists on investments made by a company or individual from one country into another, in the forms of business operations or assets.

Foreign Direct Investment is a widely discussed topic amongst investors and economists, as it can have both positive and negative impacts on a country's economy. On one hand, FDI works as a stimulant for economic development, work opportunities, income incrementation, and international trade. On the other hand, FDI can also lead to potential abuse by economically superior countries towards developing countries and can even damage their economy.

Since the 1990's, the African economy experienced a period of exponential growth; where many social, political and economical factors contributed to it. There was an increase in commodity prices worldwide and a wave of foreign investments, as well as national

efforts to establish stable infrastructures and eradicate conflicts; such efforts reengaged the continent's economy and its exponential growth. In 2015, the Sub-Saharan economic growth rate reached 3.7%, and despite it having lowered into 2.7% in 2017, it was expected to reach 3.4% in 2018.

Since the 1970's, Africa has seen foreign direct investment rates growing gradually. Most investors were, and still are, skeptical to expand their businesses to Africa; as the continent has been linked to images of poverty, violence and instability for many years. However, FDI in Africa has led to a significant improvement of their infrastructure, their markets and, overall, their economy. Foreign Direct Investment has also led the way for the development of new technologies and renewable resources in the continent. In 2015, the amount of FDI projects in Africa totaled at 705 and 495 foreign companies invested in the continent. 24% of the investments in the region were directed towards coal, oil and natural gas sectors, accounting for \$15.7bn. South Africa, Kenya and Morocco were the countries with the highest number of foreign projects, with 118, 85 and 71 respectively. Several

foreign companies and groups, such as Italy-based Eni SpA, Kuwait-based Al-Bader International Development and South Korea-based Kaonmedia, have made efforts to expand their services, operations and products in the continent.

China has remained one of Africa's major foreign investment partners, alongside the United States. Chinese investments have focused majorly on the oil and mining industries, and have given more loans to developing countries in Africa than the World Bank. They have also greatly expanded their economical influence over the continent, and countries such as Nigeria and Zambia have seen up to US \$100 million per year invested in them. (Riley, n.d.).

Foreign direct investment in Africa has been, and will continue, to be a crucial aspect in its economic development over the years. It has enabled the continent to increase its production of materials in multiple markets and become internationally competent; and it has strengthened its political, diplomatic and social relationships with its investors. This is why determining the type of foreign investment that Africa will receive in the future years is so important, as it

will shape the development of the continent in several aspects. There could be hundreds of outcomes from FDI in Africa, as there are multiple factors that FDI in Africa affects; ranging from their economy, independence and environment to their culture and education. There are more than 10,000 Chinese firms located in Africa; and it is speculated that approximately 90% of them are privately-owned. There is Tecno, a mobile phone brand; it has tailored devices for the customers in Africa.

Twyford is a state-of-the-art factory located in Nairobi, Kenya; it has provided hundreds of Africans a job.

Sunshine Group is a company that focuses on mining, agriculture, manufacturing and transport. StarTimes is a pay-television provider, it counts with over 10 million subscribers in, at least, 30 African nations. Huawei is a telecommunications company, it is one of the companies that has made it possible to enhance African service levels.

“According to McKinsey’s research, Chinese companies are involved in substantial transfer of technology in Africa – nearly 50% have introduced a new product or service, and over a third have brought in new technology” (Maritz, 2017).

## HISTORICAL BACKGROUND

China and Africa’s relationship can be traced back centuries, as both have been intertwined in many historical events. However, it wasn’t until 1990 that China truly began to strengthen the economic bond between them, by beginning to greatly invest and trade with them. They approached Africa with a non-interference policy, granting the continent political security and independence from China. This gave them the necessary confidence to partner with China.

The African economy began to resurface with the collaboration of the Asian countries and more specifically, China. Africa is responsible for 99% of the total chromium of the world, 54% of gold, 68% of cobalt; and is the continent that produces the most quality diamonds in the world. It is a holder of oil, fundamental for Asian development. Because of this, many Asian investors, including China, were interested in investing in Africa and trading with it.

Between 1993 and 1992, the African economy fell, with -0.3%. Since 1994, its economy and gross domestic product (GDP) began to increase 5% per year and

since then, the Africa economy has continued to increase a similar annual percentage. Africa had a great economic growth between 2004 and 2006 due to direct investment from foreign countries such as Hong Kong, Republic of Korea and Singapore; having a historical record of 39, 000 million dollars, and their abroad investments quadrupled in that same period.

With the incorporation of Chinese investment, Africa growth increased exponentially; rising in the congress held in 2006 (Beijing) when the Chinese top executives dealt with 50 heads of state and African ministers. Since then, their economic interactions continued to increase from 2000 to 2007, their trade flows went from 11,00 million to 57, 000 million dollars. Globalization in Africa was possible thanks to private and public investment, technology transfer, access of its exports to world market and improvement of its financial infrastructure. This phenomenon was evident, as since 2005 a middle and working class with greater purchasing capacity has flourished, and although the relative number of people with straitened circumstances has decreased since that same year, the absolute number of people with lack of resources has increased.

Many African countries have become service-oriented economies due to the fact that services, like storage and the communication sector, contribute to almost half of the continent's production. In fact, the growth of services has been dynamic in Africa, with a rate of more than double the world average, from 2009 to 2012. The fastest growing service sectors in Africa have always been transport, storage, the economy sector and work. The service sector constituted 32.4% of total employment in Africa during 2009-2012. However, the provision of services continued to be deficient and with a high cost. Several regulatory and policy deficiencies prevail and explain these inefficiencies and prevent Africa from fully capitalizing on the possibilities of its service sector.

China experienced spectacular growth indicators and, for this reason, it had to look for strategic alliances that guaranteed the supply of raw materials and energy sources in order to sustain its development. Chinese investment in Africa has been related to its strategic need for oil, agricultural and mining products with heavy investment in countries such as Angola, South Africa, Sudan or Nigeria. It also focuses on 5 export-oriented

industrial zones in Zambia, Tanzania, Ghana, Chad and Nigeria, where capital is provided by the Chinese; but raw materials, labor and tax exemptions are offered by African countries.

#### CURRENT RELEVANCE

Over the past couple of years, Africa has continued to receive great amounts of FDI from China and has remained one of its most relevant trading partners. In 2015, trade between them reached US \$300 billion, and as of 2017, it was estimated that 10,000 Chinese firms were operating in Africa. Heavily investing in Africa and trading with the continent has brought China many benefits, as well as means to fuel their own domestic economic development. Considering that Africa is rich in raw resources and accounts for about 30% of all the world's reserves of hydrocarbons and minerals, China's intentions in Africa are clear. (Mourdoukoutas, 2018).

Chinese and foreign investments in Africa have brought the continent benefits as well. Foreign projects, such as dams, airports and roads, have urbanized the African landscape, and the companies running them have become a source of new jobs for locals (in 2015, it was

estimated that China created 14,127 jobs for Africans). African workers have been better trained, and the middle class has continued to grow. The lower class has also been benefited, as farm productivity has increased throughout the years, keeping their incomes high and world food prices low. Overall, African countries have also gained social and economic profits from FDI.

Raw materials and business deals have not been China's only interests and benefits from trading with Africa. In expanding their economical domain to Africa, China has also expanded its sphere of geopolitical influence. Many economists and politicians have argued that China's investments over the past decades in Africa have been settling the way for China to gain a geopolitical foothold that will enable them to expand their markets and increase their capacities. In other words, China's investments in Africa are increasing China's economic influence on the world.

These allegations have led many African politicians to complain against China's FDI in Africa. Many have claimed that this is a way of modern colonization; as China is taking social, political and economic advantage of Africa due to their desperate need of

foreign investments. Former Zambian president, Michael Sata, said in 2007 “European colonial exploitation in comparison to Chinese exploitation [...] focused on taking out of Africa as much as can be taken out, without any regard to the welfare of the local people.” (Taylor, S. 2018).

These beliefs have only been reinforced with a sudden wave of worker abuse allegations from Chinese companies towards African workers. This has happened in countries such as Zimbabwe and Kenya, where workers claim that Chinese supervisors abuse them in physically, psychologically and verbally ways. However, despite the multiple controversies surrounding Chinese foreign investment in Africa, the continent has benefitted from such. Chinese FDI in Africa has accelerated growth rate, infrastructure development, raised incomes, improved human capital and increased productivity in several sectors (Riley, n.d.). In fact, many people even argue that China’s intentions in Africa are far from being a modern colonization, but rather a mutual benefit situation where both parties can grow economically while remaining independent from each other.

Professor Ching Kwan Lee, from the University of California, argued in 2017 that Chinese corporations have a “long-term horizon in mind” and they make for “good local citizens.” She also argued that China investing in Africa was enabling the continent to become economically independent from other nations, as they are helping the continent “stand for themselves.” (Mourdoukoutas, 2018).

Overall, China has continued to greatly invest in Africa in the past couple of years and build their social, political and cultural ties to expand their sphere of influence and support the continent, and they will continue to do so. At the 2018 China-Africa cooperation forum, China revealed they would invest \$60 billion US dollars in Africa. In their Forum on China-Africa cooperation Beijing action plan from 2019 to 2021, they also established that they could continue fortifying their social, political, economical and cultural ties with the continent. Clearly, China has no intentions to halt their multiple progresses in the African continent, as it is a key factor in their overall plan to expand their markets, economy and infrastructure. Many countries have been involved in this situation over the past couple of years.

Some of the most relevant are:

#### 1. China

China is Africa's biggest investor and trading partner. In 2018, Chinese president, Xi Jinping, announced that China would invest 60 billion US dollars into Africa in 2019. 15% to 16% of China's exports go to Africa, and 14% to 21% of their imports come from there. In 2017 it was estimated that 10 000 Chinese firms were operating in Africa.

#### 2. Nigeria

Nigeria has substantial help from Chinese investors. Over the past decade, 186 km of rail line have been built between the cities of Abuja and Kaduna, with Chinese investment; currently a new line is being built between Lagos and Kano. New terminals for Nigeria's four largest airports are being constructed by the China Civil Engineering Construction Corporation. Between 2017-2018, they received a total of 10.58 billion dollars in investments, accounting for 17% of China's investments in Africa.

#### 3. Botswana

From 2017 to 2018, China invested a total of 200 million US Dollars in its energy and transportation sectors. In 2017, exports from China to Botswana were equivalent to 16 million dollars, and exports from China to Botswana to 60 million. In the 2018 Botswana-China business forum, president Masisi of Botswana extended a personal invitation for Chinese businesses and investors to come to Botswana and "set up shop."

#### 4. Angola

8% of China's total investments in Africa are directed towards Angola. The country received 3.36 billion dollars from 2017-2018 in investments and contracts, and it was China's third largest oil supplier in 2016.

#### 5. Democratic Republic of Congo

The Democratic Republic of Congo accounts for 5% of China's investments in Africa, and it was subject to 1.12 billion dollars in investments by the country. China is mostly focused on the raw materials in the DRC, especially metals. This year, China's Zhejiang Huayou

Cobalt Company is expected to invest 147.2 million dollars to a copper project in the Lukuni region of the country.

#### 6. Ethiopia

From 2011 to 2014, Ethiopia received a total of 1 billion dollars of Greenfield foreign direct investment. Like Angola, it accounts for 8% of China's investments in Africa, which stood at 1.78 billion dollars from 2017 to 2018. These investments are focused on the agriculture, energy and real estate markets. In 2018, China was responsible for 85% of the funding of a major railway in Addis Ababa.

#### 7. Kenya

Kenya is one of China's biggest trade and investment partners. Their investments are focused on the transportation and energy sectors, but they are involved in multiple markets, such as utilities and real estate. They account for 6% of China's investments in Africa and from 2017 to 2018 received 4.92 billion dollars.

#### 8. Sudan

In 2018, Chinese investments towards Sudan were estimated at 10 billion dollars; they focused on sectors such as agriculture, oil and minerals. In 2014, they received a total of 2.13 billion dollars from Chinese investment.

#### 9. Mozambique

Mozambique is also one of China's greatest trading partners, accounting for 4% of their FDI in Africa. From 2011 to 2014, their Greenfield Foreign Direct Investments stood at 3 billion dollars, and from 2017 to 2018, they received 1.32 billion dollars from the Chinese in investments and contracts on the transportation sector. Just last year, four projects worth 100 million dollars were signed between such countries.

#### 10. South Africa

China's interests in South Africa are spread across markets, but are focused on energy and real estate sectors. They received 2.56 billion dollars in investments and contracts from 2017 to 2018 from China, and they

account for 5% of China's total FDI in Africa. They are the country's largest intra-regional investor, and from 2011 to 2014, received 3 billion dollars in Greenfield Direct Investments.

#### 11. Ghana

Ghana receives a substantial amount of manufacturing investments (ranging from steel to pharmaceuticals) from China, which have increased in the past decade. They received 1.06 billion dollar from 2017 to 2018 in Chinese investments and contracts. In 2018, the Chinese government agreed to invest 2 billion dollars to fund infrastructure, road and railway construction projects.

#### 12. Zambia

Zambia holds 5% of China's foreign direct investment in Africa, and from 2011 to 2014, received 2 billion dollars worth of Greenfield FDI projects. Chinese investments in Zambia are focused on agriculture, entertainment, real estate and transportation sectors, and stood at 3.54 million dollars from 2017 to 2018.

#### 13. Gabon

Gabon is very keen on continuing to increase their foreign direct investment, especially from China, in all sectors, such as manufacturing, agricultural, tourism and banking industry. From 2017 to 2018, China invested 300 million dollars in total, focused on the energy sector. In 2016, bilateral trade reached 1.77 billion dollars between them.

#### 14. Egypt

Egypt is a key trading partner to China, considering that it functions as a commercial and logistic hub between China, Africa and Europe. Chinese investments hit 15 billion dollars in 2018, focused on the real estate, transportation and energy sectors. Trading between the two countries quadrupled its value since 2014 and totaled at 200 billion dollars in 2017.

#### 15. Namibia

Namibia is a country that offers many business opportunities. It provides specialized legal advice for the implementation of companies, opening of

black accounts as well for the search of business opportunities. Some advantages that investment in the country represent are the investment conditions set by the government.

#### 16. Tanzania

Tanzania has enjoyed political stability and peace since independence, it has a great wealth of natural resources. However, these advantages are not reflected in a better standard of living for the majority of the population. China and Tanzania have a very solid business relationship since 1964, supporting projects that other countries abandoned because they believed that Tanzania was economically unstable.

#### 17. South Sudan

The economic and the political situation is strong, China has invested some 20,000 million dollars in Sudan, encompassing almost all sectors of the country's economy; from the construction of dams and power plants to the agricultural and textile industry, without ignoring the arms industry.

#### 18. Morocco

Since Morocco is an emerging country, China is interested in deepening its commercial relations, specifying the signing of 15 bilateral agreements in various fields of cooperation. This two countries have negotiated a foreign exchange swap that will last three years.

#### 19. Mali

Mali had socialist influence for a long time and when Russia took away its support, China took the opportunity to invest in its mines and natural resources, providing in return support and investments for the development of this African country where the most important mineral is the indispensable energetic mineral for the generation of energy of many French plants.

#### 20. Cameroon

Cameroon is determined to improve strategic cooperation with China and welcomes China's increased investment in industry, agriculture, energy, transportation, housing and new technology.

### 21. Senegal

Relations between China and Senegal have had a healthy and stable development since the restoration of diplomatic relations in 2005. The relationship was elevated to a comprehensive strategic partnership of cooperation. China is currently Senegal's second largest trading partner and the largest source of financing.

### 22. Sierra Leone

China has provided valuable assistance to Sierra Leone in economic and social development. Sierra Leone does not forget the unconditional support of China during its most difficult moments in the fight against Ebola.

### 23. Guinea

Since the establishment of diplomatic relations between China and Equatorial Guinea 48 years ago, the relationship between both countries has deepened; such as the support that Guinea gave to the People's Republic of China after the Sichuan earthquake in 2008, and the construction in Hunan province of the Primary School of Friendship by the Equatorial Guinean

Government. There are also some projects such as the Thousand Talent Recruitment Program and the project to start the construction of the free trade zone and the negotiation of the Free Trade Agreement.

### 24. Ivory Coast

China and Ivory Coast have the purpose of strengthening their bilateral relations. China has made several proposals such as the Strip, a Route, which includes the Economic Belt of the Silk Road and the Maritime Silk Road of the 21st century, aiming to build a trade and infrastructure network connecting Asia with Europe and Africa.

### 25. Guinea-Bissau

China and Guinea Bissau have always respected and treated each other with equality and for China this Portuguese-speaking African country is important as it is a country rich in mining and oil extraction.

### 26. Liberia

China attaches great importance to the comprehensive

cooperation partnership with Liberia. It is willing to work to strengthen cooperation in various economic aspects as the Asian country is extremely interested in the production of rubber, iron and diamond extraction of this African country.

#### 27. Uganda

In the bilateral relationship between Uganda and China, this African country hopes to deepen practical cooperation with China in areas such as industrial parks, infrastructure construction and electricity. It welcomes more Chinese companies to invest and develop in Uganda. As for China, its interest lies in copper, cobalt and coffee.

#### 28. Chad

In the relationship between China and Chad, this African country is willing to improve cooperation with China in transport, infrastructure, telecommunications, finance and agriculture, as well as coordination in the main international and regional issues. Chad brings China its large oil reserves.

#### 29. Zimbabwe

China has been the economic protector of Zimbabwe since it has intervened in its political affairs supporting coups of state in spite of other countries that have shown rejection before these events. China is interested in obtaining minerals and tobacco in this commercial relationship.

#### 30. United States of America

The African Growth and Opportunity Act (AGOA) has increased two-way trade between the United States and Africa over the years. The United States has supported the African Union, which is a group of heads of state of 55 African nations. Since its inception in 2002, and is the first non-African country with a mission in the Union. Conflict prevention and mitigation and peace operations are among the most priority strategies in the relations between the United States and the African Union.

## INTERNATIONAL ACTIONS

Many actions have been taken by several countries regarding China's investment in Africa, reflecting the situation in various ways. For instance, on May 2012, Nigerian officers arrested 45 Chinese traders in the city of Kano. This was done because the officers considered that the Chinese traders were trafficking textiles illegally, thus "hurting" the nation's economy. Nigerian laws ban foreigners from trading textiles, as many Nigerians consider that foreigners are "depriving" them of their jobs. This event reflected the cultural clash between Chinese immigrants and locals in Africa.

Tensions have also grown between China and other non-African countries. For example, in 2018, the government of Djibouti, a small country in the horn of Africa, seized control of a Dubai-based DP World controlled port, ignoring British court rulings forbidding it. They are expected to hand over operations to Chinese state-connected firms. This situation demonstrated how China's interests are outweighing those of other countries, something that could cause potential international issues in the future. Many international actions have contributed to the development of

strong diplomatic bonds between countries. The Comprehensive Strategic Partnership between China and South Africa is an example of such a situation. Signed in 2010, the partnership outlined 38 bilateral cooperation agreements and joint efforts in multiple sectors, varying from agriculture to technology.

The United States has also taken multiple actions to strengthen their relationship with African countries. One of the most important has been the African Growth and Opportunity Act or AGOA. The Act was passed by U.S. Congress in 2000, enhancing market access to Sub-Saharan Africa in the United States. It has been renewed for 2025, and it has enabled trade and investment between both entities to increase significantly in the last decades.

Another important action taken by the US was the foundation of the United States Agency for International Development, in 1961. Although the agency's main purpose, which is to support governments in the reduction of poverty, increase of human rights and strengthening of diplomatic ties, is not specifically directed towards Africa, it does heavily support trade and market growth in said continent. It seeks to deepen

regional economic integration, promote two-way trade with the US and attract investment that leads to commercial expansion.

#### UN ACTIONS

Although the United Nations has not been as involved in Chinese investment as other countries, it has taken actions related to the topic. To begin with, The United Nations established the Sustainable Development Goals in 2015 to tackle several world issues. SDG 9 (Industries, Innovation and Infrastructure), target 9.A seeks to “Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States” (United Nations, n.d.).

The establishment of the Sustainable Development Goals determined the UN’s priorities in world developments. Such was the effect with SDG 9, where the UN was able to direct some of its efforts in to fulfilling the targets established under this goal. Since its creation, the UN has conducted several development

programmes and organization focused on reaching these goals (such as the UN Industrial Development Organization).

The United Nations, specifically the General Assembly, is also in charge for voting on the Fairtrade Africa Board, an independent non-profit organization established in 2005, every two years. The Fairtrade Africa organization seeks to raise wages for local producers in Africa, give them better opportunities and increase the quality of working environments. Having the GA appoint its board enables other non-African countries to participate in the matter and it distributes power over the situation more fairly.

The United Nations also founded the United Nations Conference on Trade and Development in 1964, which is an intergovernmental body of the UN that seeks to support developing countries into accessing the benefits of globalization. The UNCTAD has ever since helped African countries aiming to do so. For example, under the GA Report of the Secretary General on “Information on work undertaken by the United Nations Conference on Trade and Development in support of the promotion of long-term private financial flows,

especially foreign direct investment" from 2001, they established the resolution to "[organize] workshops and conferences in Asia, Latin America and Africa to promote the understanding of international investment agreements". The UNCTAD also works on a regional level, focusing on African policies. In 2019, the UNCTAD and ECA conducted a three-day seminar to "strengthen the capacities of national and regional policymakers and stakeholders to measure and analyze value chains and design services policies aimed at enabling higher integration into global and regional value chains" (UNCTAD, n.d.).

#### POINTS TO DISCUSS

- Does China's FDI in Africa count as modern colonialism?
- Will the benefits of Chinese FDI in Africa outweigh the consequences?
- What actions should be taken to address China's plan to expand their geopolitical sphere of influence?
- Should China be allowed to seize control of most of Africa's markets and ports?
- How can the socio-cultural differences between Chinese and African workers be

addressed in Africa?

- Are Chinese investments in Africa promoting their economic independence or are they stalling it?
- What actions can be done to ensure that Chinese and foreign investment in Africa does not lead to a new "Scramble for Africa?"
- What should be the main markets in which foreign powers invest?
- How can the African environment be preserved with the expansion of their industries?
- Should foreign companies be allowed to overtake projects in Africa or should they be given to nationals?
- Should the United States present an economic competition for China in the African markets?

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