

# Forgotten Africa? Certainly not for China! An FDI story from the Latin American experience

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# Key points of presentation

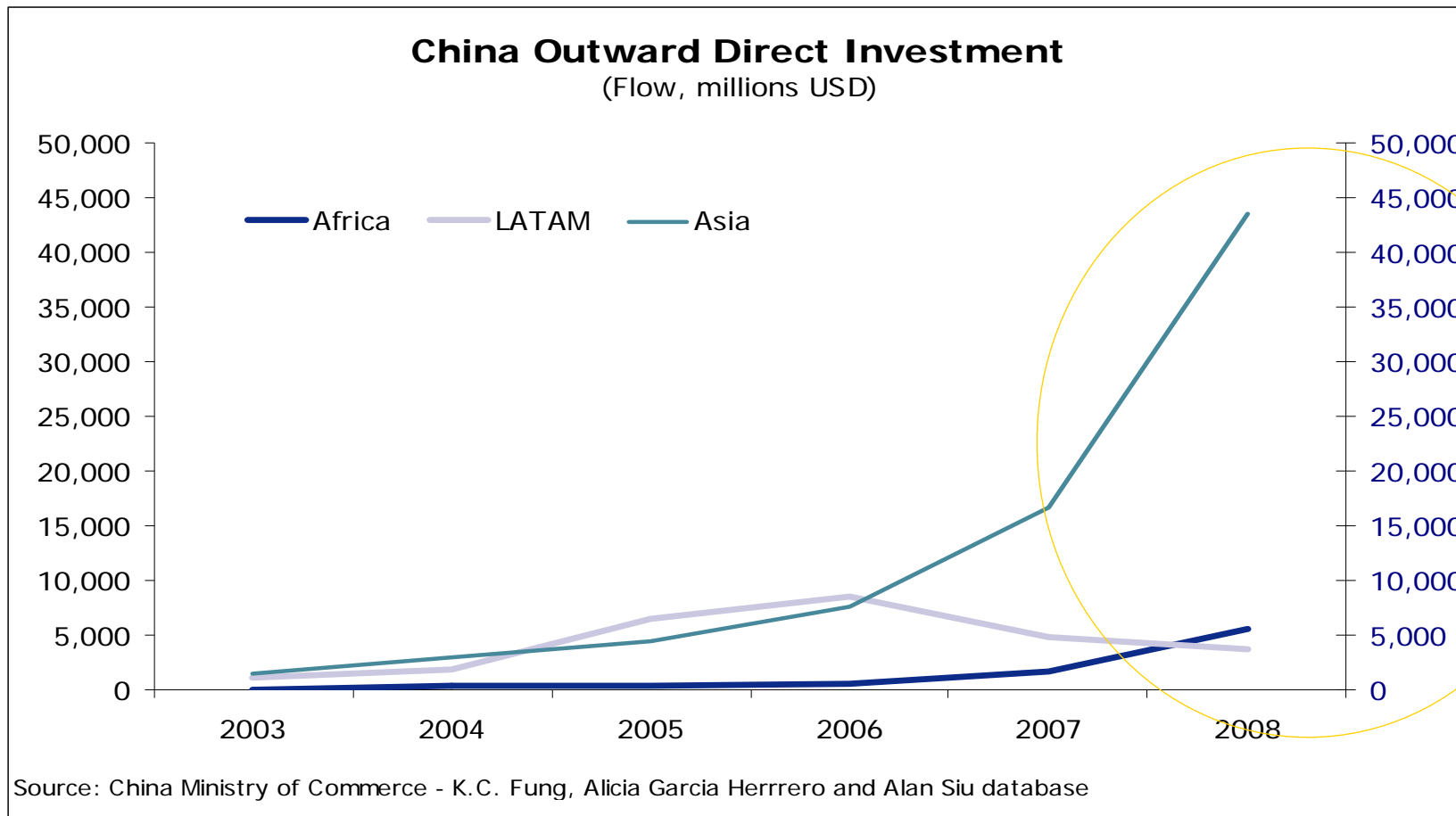
- 1. China's interest in Africa not new**
- 2. From aid to business relations: FDI**
- 3. The importance of oil**
- 4. Other reasons**
- 5. Fears**
- 6. Hopes**
- 7. Conclusions**

# 1. China's interest in Africa not new

- China's interest in Africa has recently become a hot topic but the interest is long standing
  - Mao already approached Africa after the failure of the Great Leap Forward
  - “Barter” trade frequently agreed between China and African countries (China's exports in exchange of raw materials) already in the 1980s
  - China was the 8<sup>th</sup> largest bilateral donor in Africa already in the 1980s.
  - Such aid has been the springboard for Chinese FDI into Africa once it was allowed
    - This means that ***Chinese companies ARE FOLLOWING the Party's international policy*** (not the other way around)

## 2. From aid to business relations: FDI

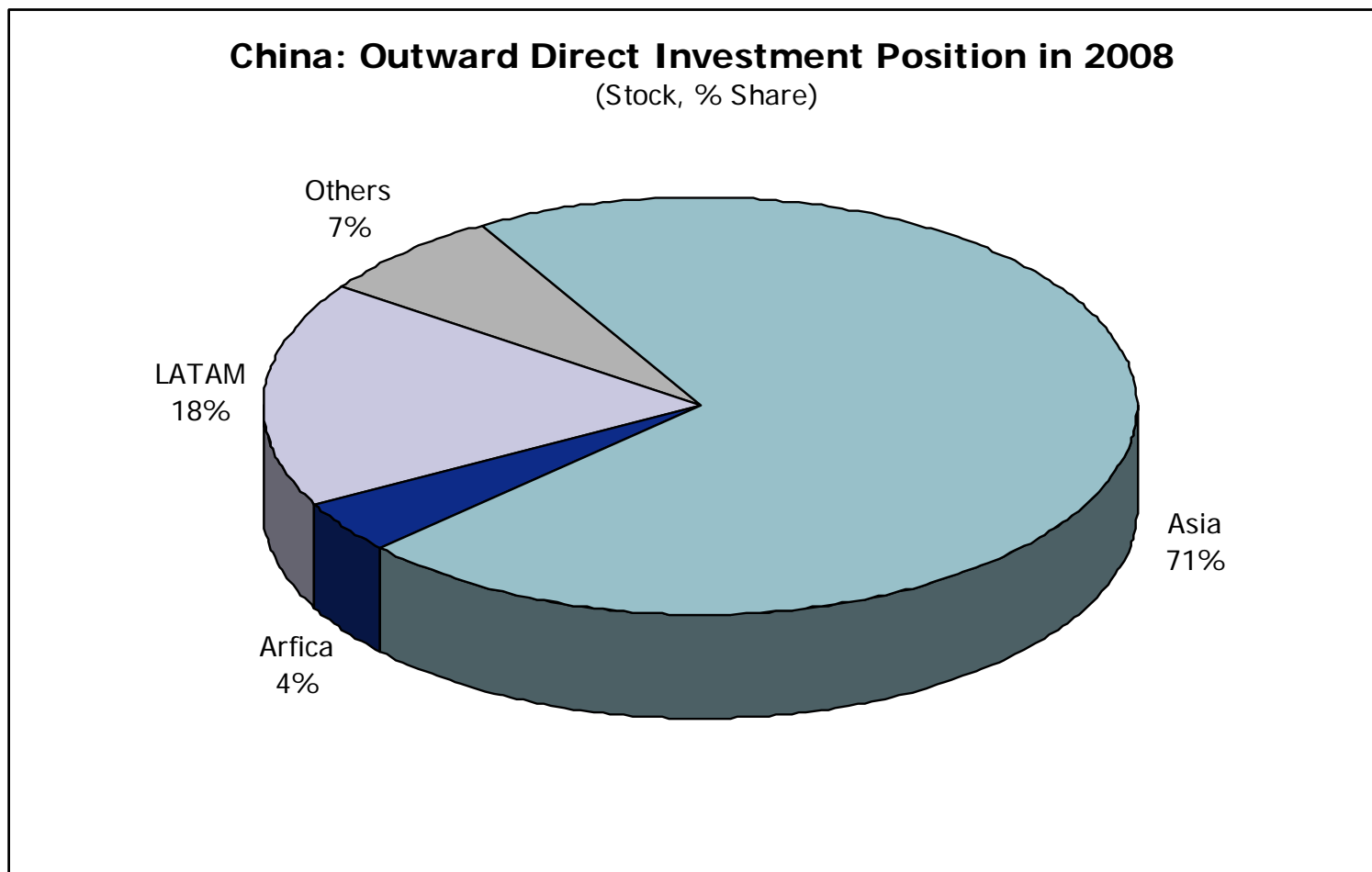
- China FDI into Africa has been increasing but so much more since 2007 and specially 2008 (nearly 6 billion USD and close to 10% of total outward FDI investment from China).



**Flow to China bigger than to Latam in 2008 but much less than to Asia!**

## 2. From aid to business relations: FDI (II)

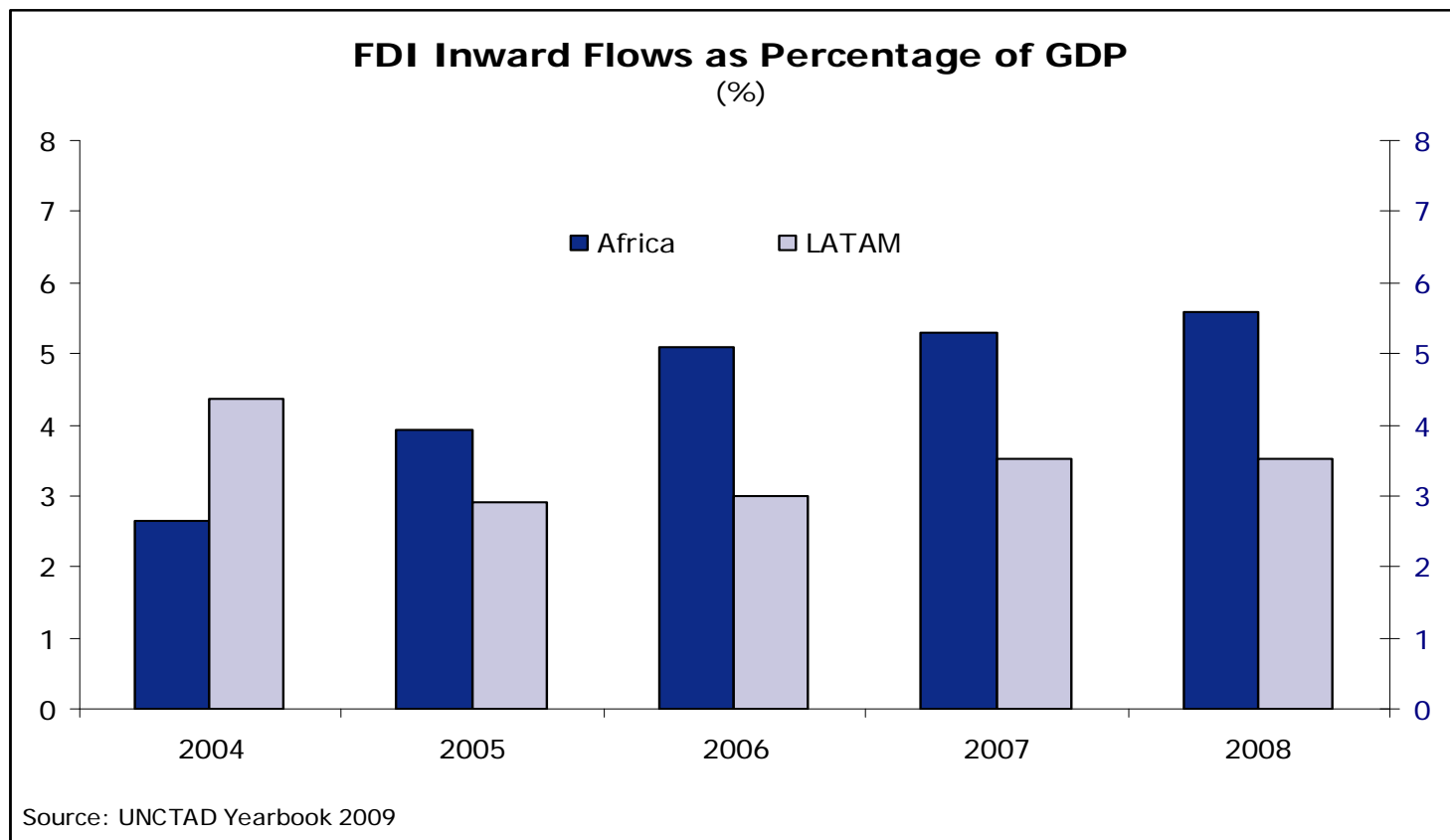
When one looks at the stock of China's outward FDI, Africa remains clearly smaller than Latin America and the king of the recipients is clearly Asia



## 2. From aid to business relations: FDI (III)

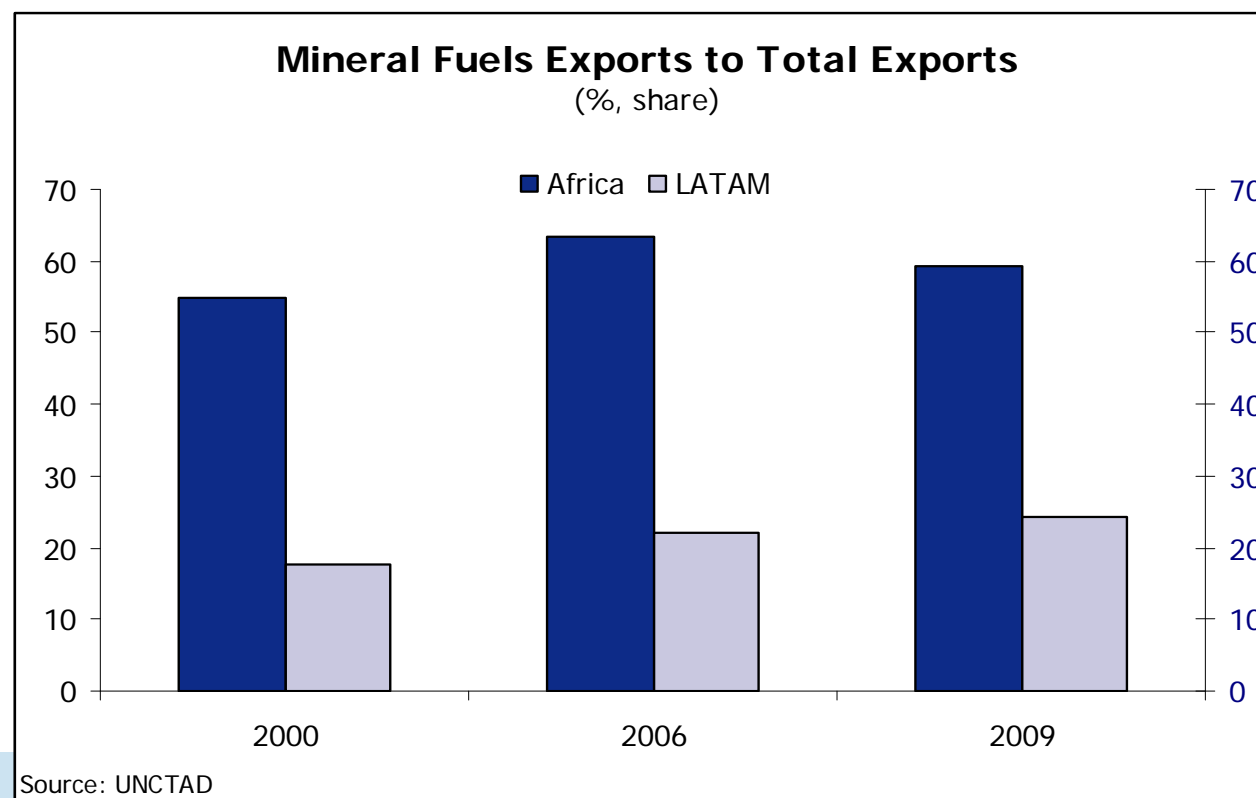
In any event, what matters is that such Chinese investment is very important for Africa!:

Total inward FDI is much larger in terms of GDP for Africa than for Latam!



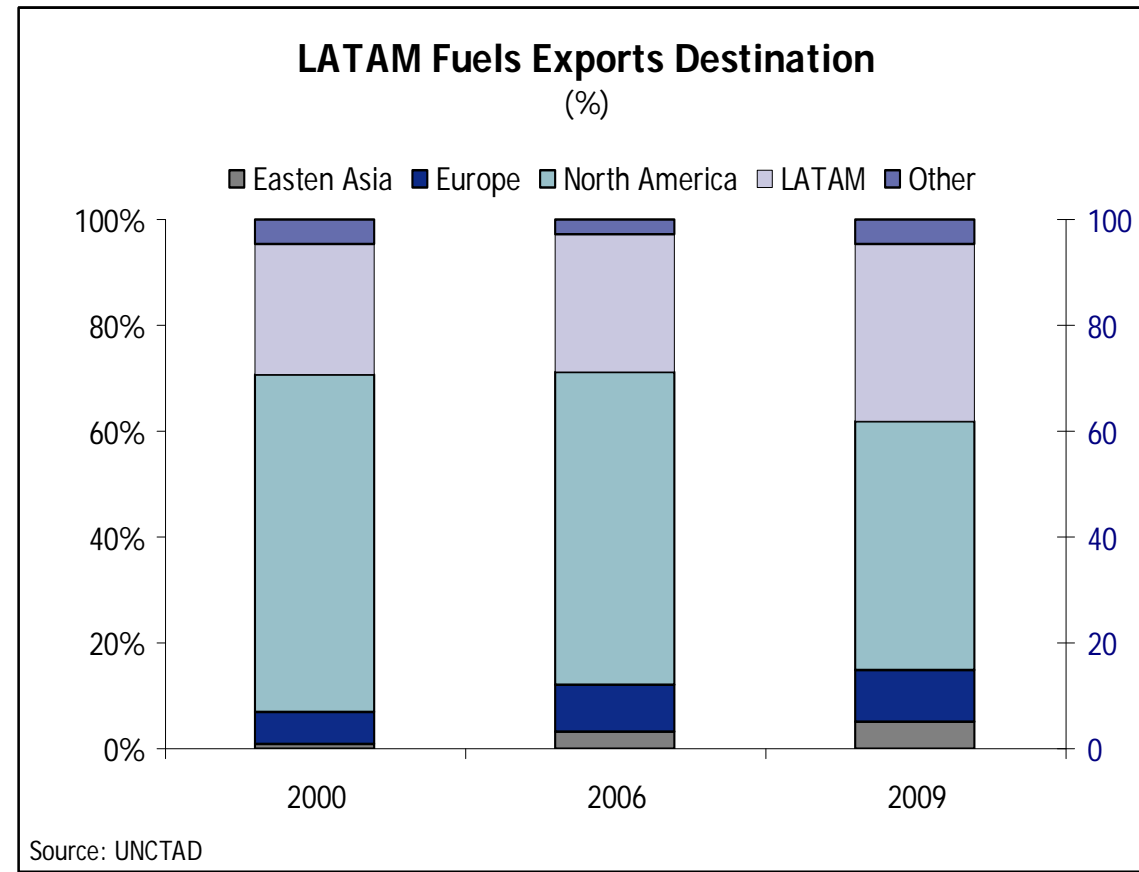
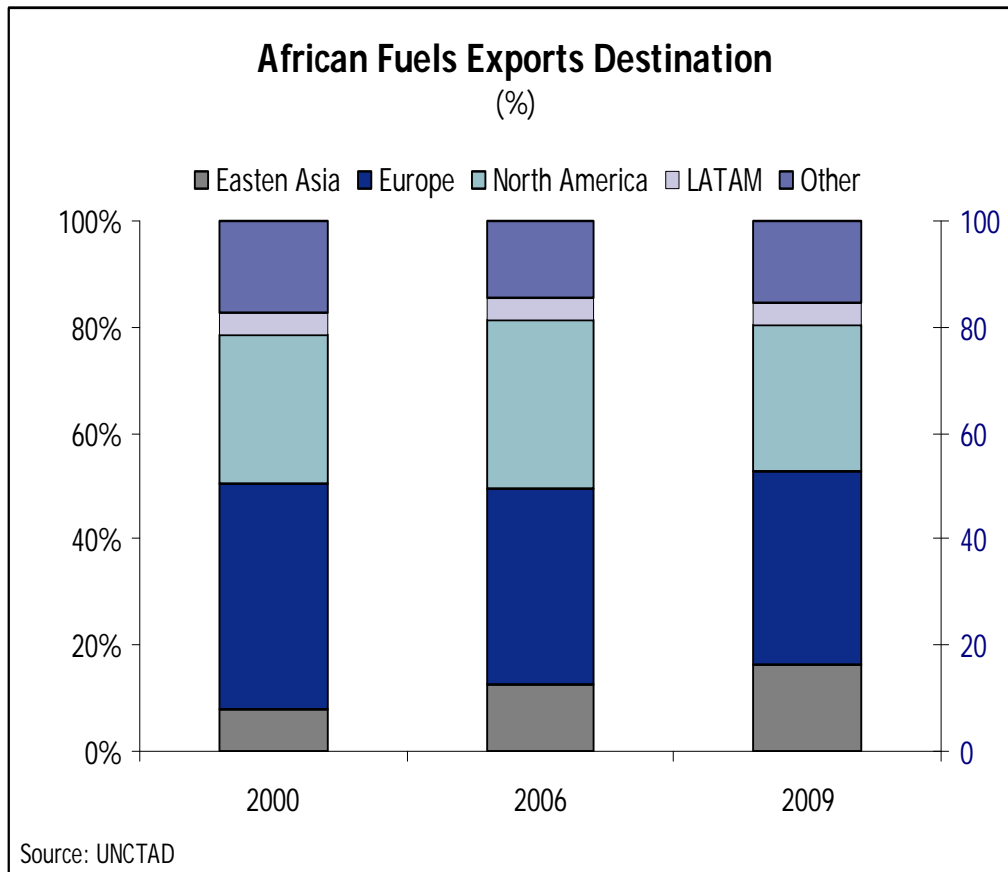
### 3. The importance of oil (I)

- Although some argue that China's interest is not so much about oil – or even natural resources as a whole (Brautigam, 2009), this is hard to believe by looking at the importance of natural resources in China's total outward FDI and that of oil in African economies
- Africa more than twice as dependent on fuels exports than Latin America



# 3. The importance of oil (II)

Furthermore, the fuels export is more focused on Asia than in the case of Latam





## 4. Other goals for Chinese FDI into Africa

- (i) direct access to the market,
- (ii) increase market penetration,
- (iii) securing access to natural resources
- (iv) reuse of idle equipment and
- (v) circumvent import quotas on Chinese products

## 5. Fears related to Chinese FDI into Africa

- **From African themselves:** resources may end up facilitating China's development without tangible benefit for Africa (similar to what happened with Europe's industrial development)
  - One concrete fear is to be stuck with commodity exporting and even to lose control the ownership of such raw materials
- **From the West:** China seems to be turning a blind eye to autocracy and corruption as long as it has access to natural resources
- **From Chinese:** Others have lost their investment in Africa before so the same may happen to them

## 6. Hopes

- China has given signs that it may need to join forces with others.
  - The best example may be the China-Africa Development Fund (CADF) created in 2007 and with \$5 billion in resources to invest in infrastructure in JV with European countries with good knowledge/ex-colonial ties
  - By end 2008, about 20 projects approved worth about \$2 billion but not much evidence of foreign participation. However, CADF has been opened to African projects without Chinese involvement. However not much news on teaming up with other countries
  - China's increasing role in international institutions should also help
- Perhaps the most important hope is that the previous model was not working either!

## 7. Conclusions

- China has a long-term goal and no purely private interest in its outward FDI. This is why it can afford certain projects
- It is not only about business although it is clearly important, political influence is also key
- Excessive dependence on oil is a problem: diversification into other sectors and geographical sources of FDI key for China (but also for the West to remain influential in Africa)
- The fears from all parts are understandable but there should also be hope
- Multilateralization –specially for oversight of project – might be warranted, specially from the African and Western point of view. This might end up being useful even for Chinese to avoid failure with some projects