

Forgotten Africa? Certainly not for China!

An FDI story from the Latin American experience

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IESE June 2010

Key points of presentation

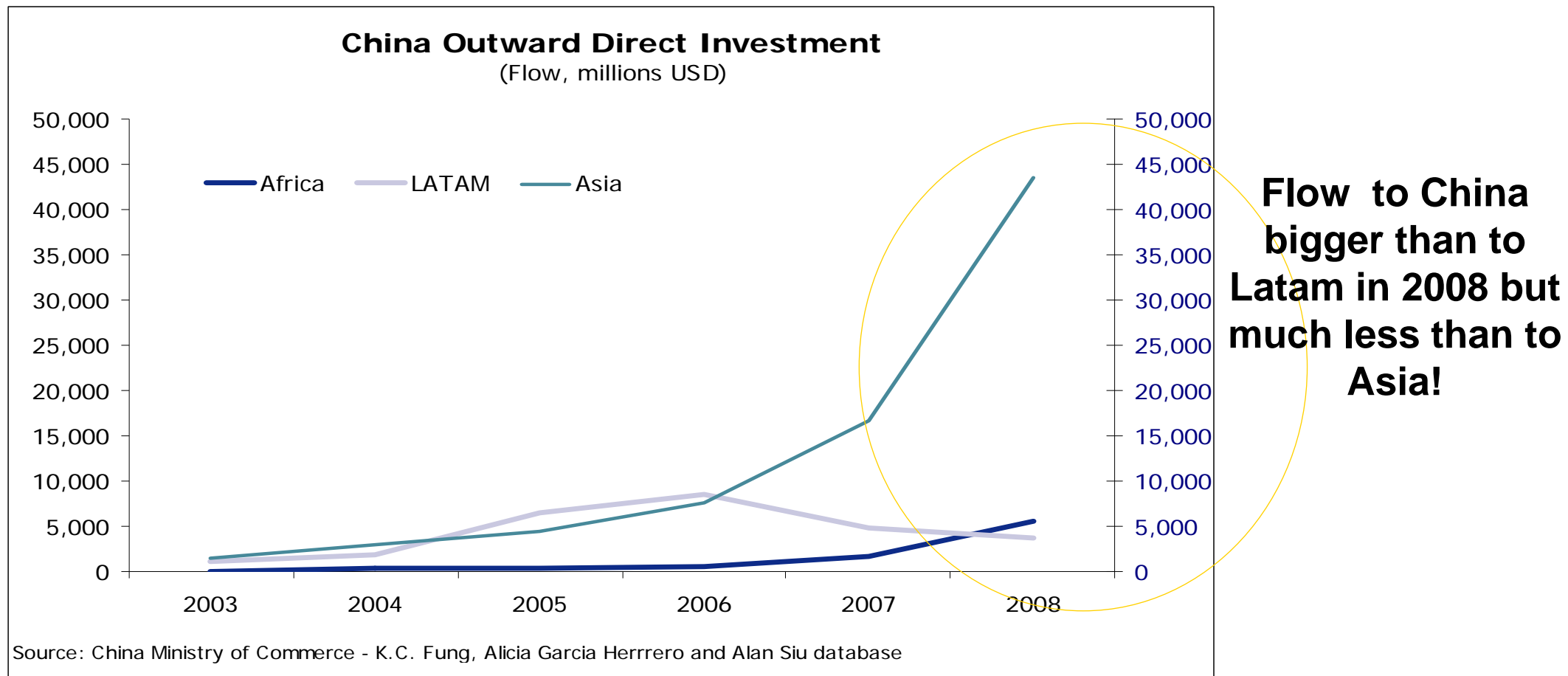
- 1. China's interest in Africa not new**
- 2. From aid to business relations: FDI**
- 3. The importance of oil**
- 4. Other reasons**
- 5. Fears**
- 6. Hopes**
- 7. Conclusions**

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 8th largest bilateral donor in Africa already in the 1980s.
 - Such aid has been the springboard for Chinese FDI into China once it was allowed
 - This means that ***Chinese companies ARE FOLLOWING the Party's international policy*** (not the other way around)

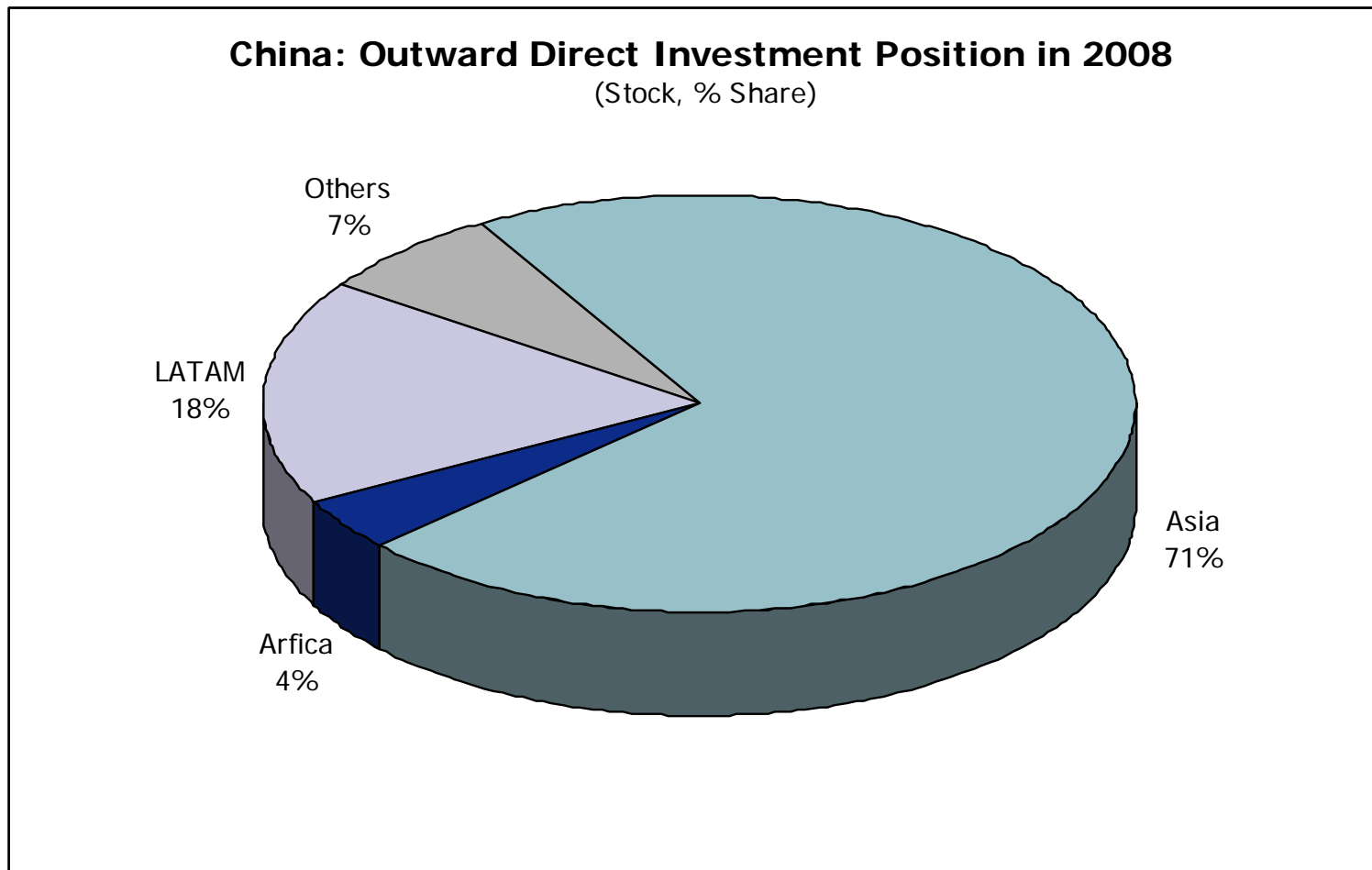
2. From aid to business relations: FDI

- 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).



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

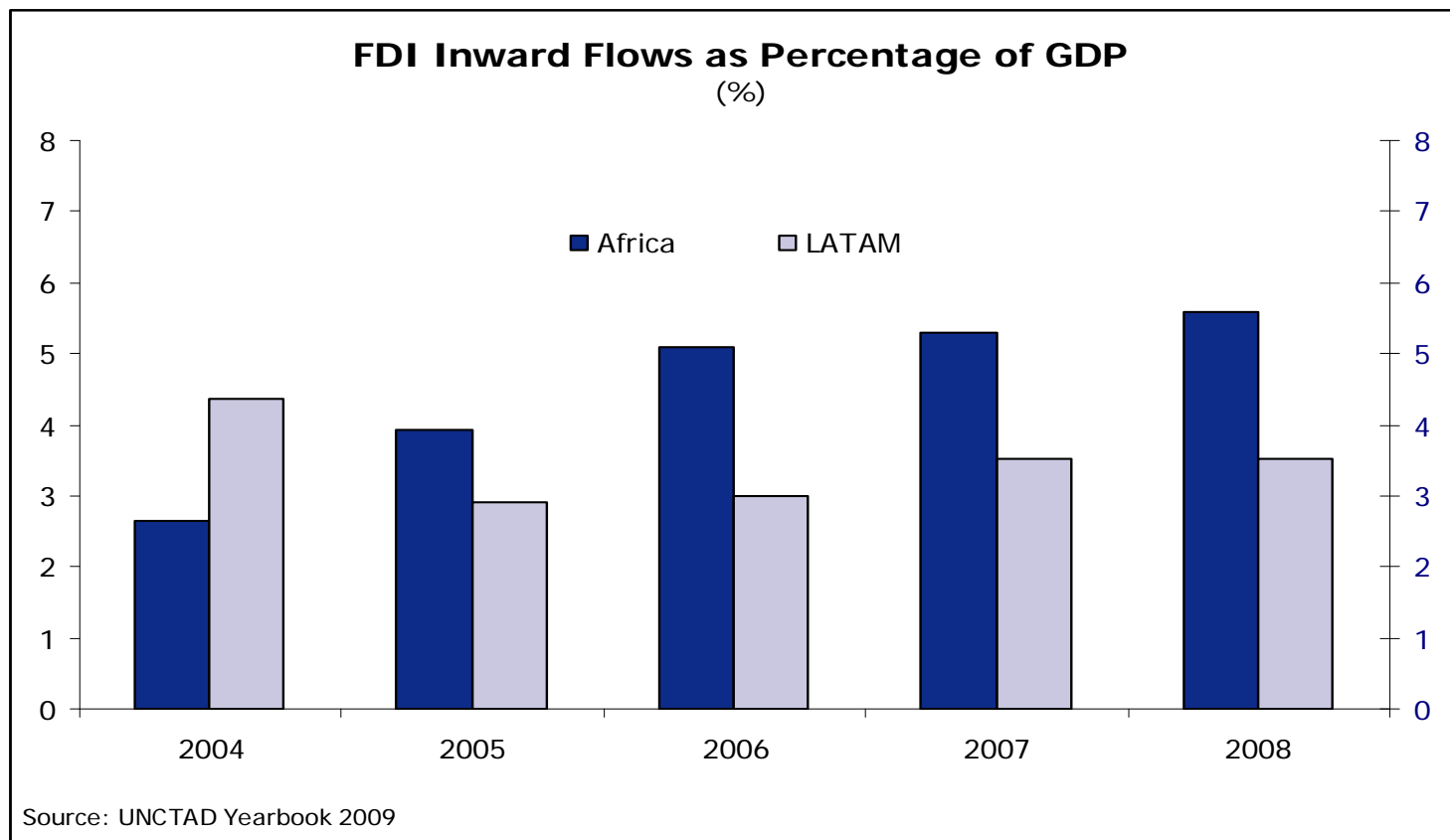
When one looks at the stock of China's outward FDI, Africa remains clearly smaller than Latin America and the king of the recipients is clearly Asia



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

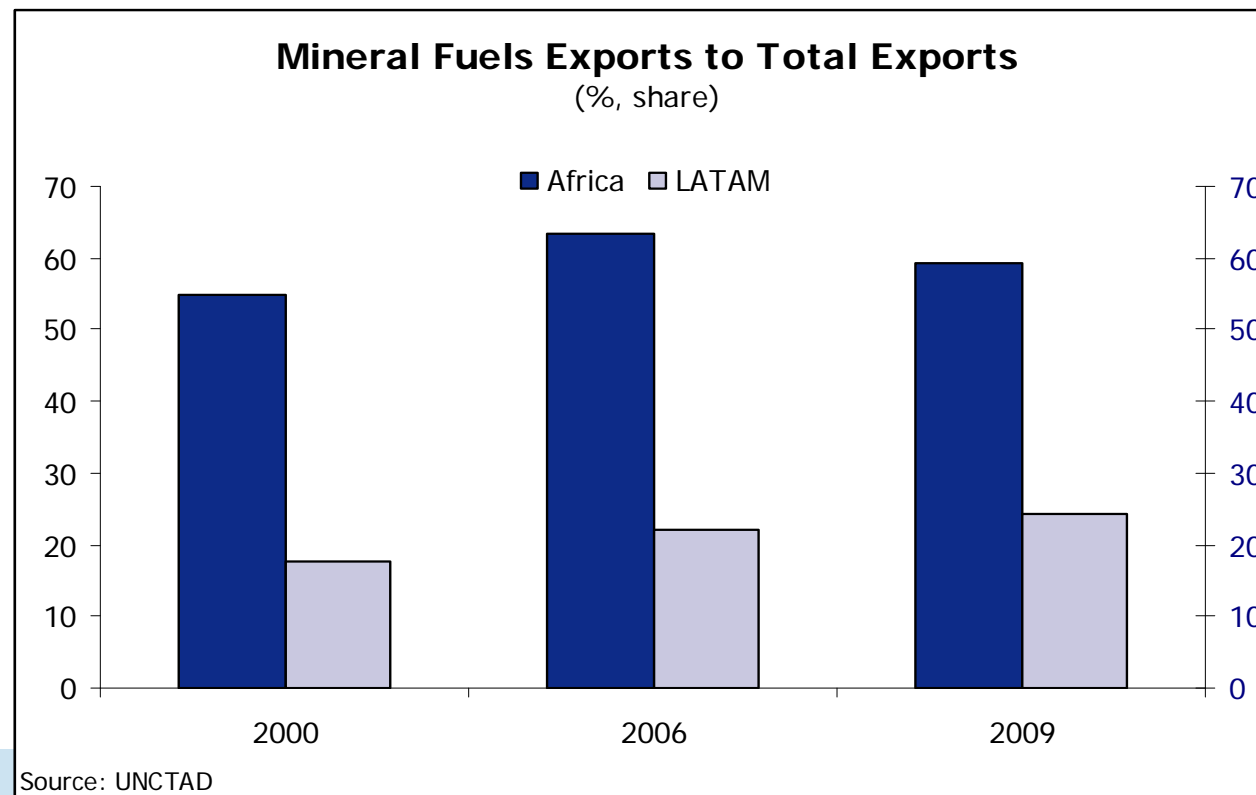
In any event, what matters is that such Chinese investment is very important for Africa!:

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



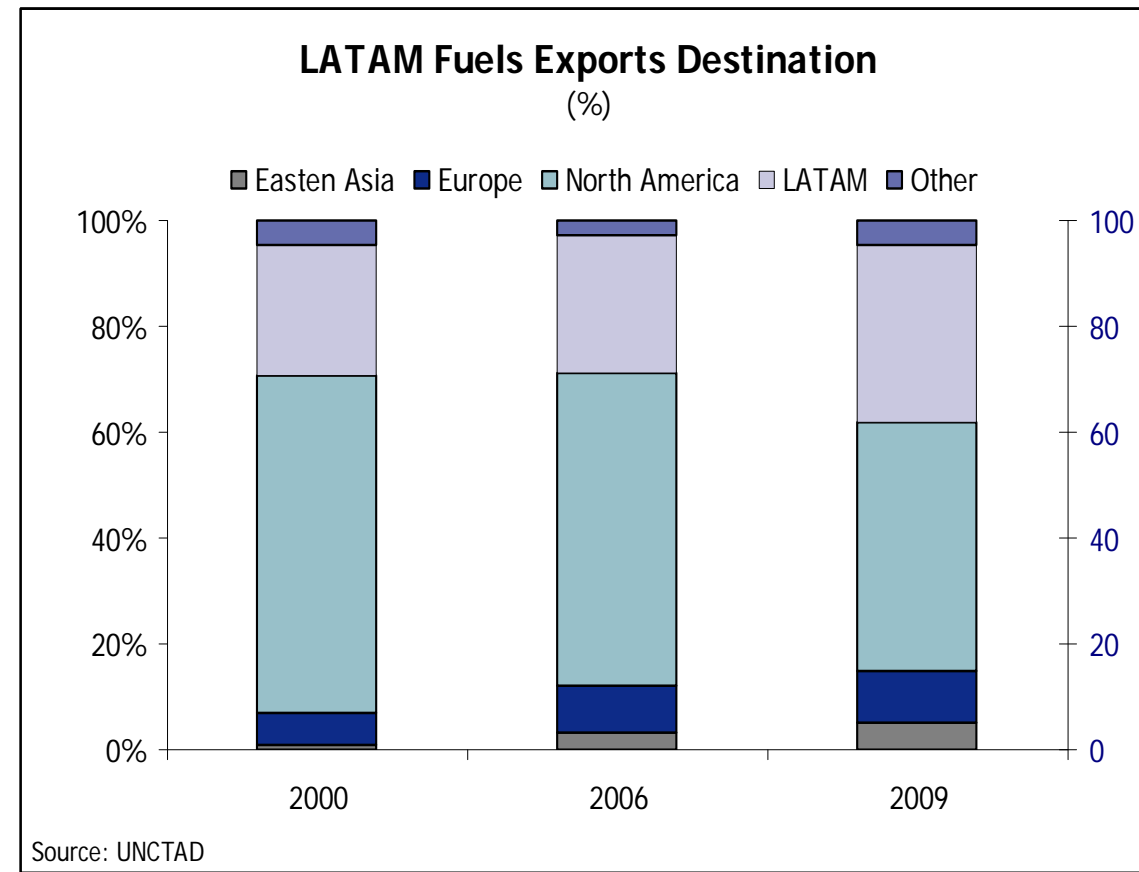
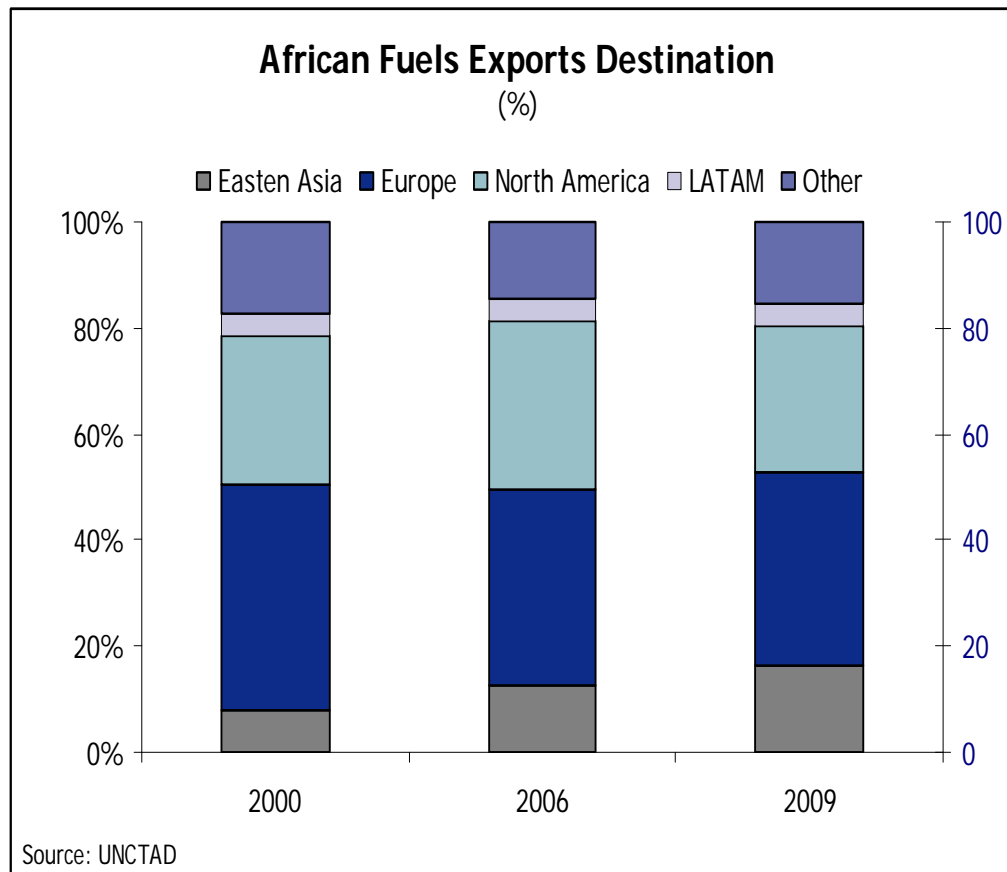
3. The importance of oil (I)

- 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