

## **Capitalism and colonial approach reborn? Chinese economic involvement in Africa**

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### **Abstract**

Africa needs foreign investment for their economic development. Given the high risk of investing in Africa, it hampers many other potential investors from developed countries. Although China is considered as a developing country, it provides economic assistance to other developing economies. In line with increased Chinese investment to Africa, it has stimulated the debate that Chinese investment focuses more on expropriating colonised wealth and failed to provide same legal property.

## **1 Introduction**

When concerning long-term economic growth, Africa has always been of great concern. From 1960 to 2010 the economic growth rates of Africa were higher than the long-term average ranging from 2.5% in the nineties to 5.2% in the new millennium. This dynamic increase was also coupled with decrease in poverty. In 1980s, 58.4% of the population in Africa lived for less than \$1.25 a day. Such population has dropped to 47% between 2010-2013. These positive effects were due to the reversal of the deterioration of Africa's terms of trade since 2003. This trend had been dominating Africa for more than a century before (Geda, 2018).

One major source of this reversal of the trend is due to Chinese involvement. China has been a key player in providing foreign aid and investment to Africa in recent years. Since the beginning of the millennium China invested around \$210 million. The investment reached to \$3.17 billion in 2011. As one of the major Chinese aid projects, Belt and Road Initiative (BRI) was introduced to Africa in 2013. Its goal is to build connectivity between China, Asian, African and Eurasian countries (European Bank, online). The improved connectivity is supposed to stimulate global trade.

The purpose of this study is to examine whether the state-driven efforts of China will help Africa to provide more job opportunities and make big economic and social impact. The article proceeds as follows: First, we review the literature on economic relations between China and Africa, followed by a close examination of Chinese and Western involvement in Africa. Drawing upon the debate and opportunities brought by the Chinese investment in Africa, potential future research directions are provided.

## **2 Theoretical Framework**

### ***2.1 Belt and Road Initiative (BRI)***

The BRI aims to bring mutual benefits to all participating countries (OECD, 2018). Hence, Chinese aid comes with no contractual conditions attached, meaning it respects self-determination and national sovereignty of African countries (Matthews et al., 2016). Chinese aid encourages a self-sustaining development by acknowledging local circumstances, although it pays little attention to “market mechanism, regime types, private investments, local governance and accountability” (Huang & Cao, 2019). As a result, such aid creates a higher dependency level as well as it brings profits to both sides. Moreover, China is committed to transfer technology and knowledge to Africa such as teaching African farmers through a framework of Agriculture Technology Demonstration Centres (ATDCs) programme (Huang & Cao, 2019). This strategy aligns its practice with Beijing Consensus, which promotes the belief that every country needs to find its own methods (e.g. policies and institutions fit into local requirements) (Galchu, 2018). The Beijing consensus wants to help African countries by encouraging them to develop their economy through trade and investment in infrastructure and social institutions, without dictating terms for political or economic reforms (Thompson, 2005). Such an approach allows China to identify opportunities to help and to prosper businesses. China is putting Africa’s interest in front of their own. Consequently, mutual benefits can be achieved.

### ***2.2 Contradictory goal of BRI***

The central goal of the BRI and Chinese aid is to bring mutual benefits. Subsequently, the BRI focuses mainly on building infrastructure. The investments in African infrastructure increase business confidence. Relative investments in other sectors has helped to lower transaction costs

and facilitates trade (Edinger & Labuschagne, 2019). However, some critics argue that these benefits are unequal (Babaci-Wilhite et al., 2013). In fact, China has created neo-colonialism (Johnson et al., 2011) since China strategically selects projects where the investment benefits itself (Matthews et al. 2016). Since Chinese aid does not threaten African current regimes, it is preferred by African leaders (Huang & Cao, 2019). For instance, research by Dreher et al (2019) finds that African presidents often send three times as much aid to their country of birth while they were in power vcomparing with other regions. This would help to improve their chances of being reallocated into power for future elections. Geda (2019) claims that recent Chinese engagement in Africa reinforces historical adverse pattern of primary commodities trade in former economic relations with the West.

Africa needs foreign investments for their economic development (Outlook A. E., 2018). The investment in infrastructure is extremely important as the deficiency of African infrastructure is a major impediment to the trade expansion. In comparison, the private sector in OECD countries (e.g. The Organisation for Economic Co-operation and Development is an inter-governmental economic organisation with 36 member countries, founded in 1961 to stimulate economic progress and world trade) has shown little interest in investing in African infrastructure projects due to the high financial risks (Collier, 2014; The World Bank, 2019). Furthermore, investment in infrastructure projects generates very small impact on developing the necessary skills to assess the liquidity of global capital markets. The real interest rate on risk-free assets hovers around zero. However, such financial investments are urgently needed by the African countries to ensure that the economic development can be carried out at a sustainable growth rate (Lu, 2019).

The vacuum left by the other countries is filled in by China. Although China is considered as a developing country, it provides economic assistance to other developing economies (Mlambo, 2018). Almost 20% of infrastructure projects in Africa are financed by China. All

other international direct investments only count 14% (Edinger & Labuschagne, 2019). Chinese loans have lower interest rates in comparison with other countries' (Sautman & Hairong, 2019). They are usually longer term, which allows more time to repay. It also enhances the possibility that the investment will become profitable within the payback time (Sautman & Hairong, 2019). Moreover, Chinese loans provide a commitment technology using natural asset depletion and avoiding pressures to dissipate resource revenues in recurrent expenditure. For example, if the debtor is unable to repay its debt, it can also be repaid using natural resources such as oil or other future cash flows like electricity sales from a hydro plant (Collier, 2014; Bräutigam & Gallagher, 2014). Subsequently, outstanding Chinese loans to African governments have been significantly increased and reached to \$140 billion in 2017 (OECD, 2018). It leaves very little room for others to compete with Chinese investment (Lu, 2019).

### ***2.3 Chinese versus Western involvement in Africa***

On one hand, assistance packages offered by China provides the recipients with speed and a full range of services in which the infrastructure is designed, built, financed and transferred (Collier 2014). On the other hand, Chinese projects are usually not well-integrated into wider development of African strategies. It is hard to compare the price or evaluate the quality of the projects due to Chinese monopoly in such packages.

When Western involvement is considered, projects often operate through a different model with the Washington Consensus. Most of the time, Western involvement does not offer solutions for specific problems or lacks the ability to adapt the framework to local circumstances. However, it attempts to promote values such as capitalism, liberalization, privatisation and free markets (Babaci-Wilhite et al., 2013). Moreover, the Western approach

allows to address problems regarding the African political economy of growth. For instance, The African Economic Research Consortium (AERC) identifies those problems related to state controls, adverse redistribution, Inter-temporally unsustainable spending and state breakdown. AERC also points out that economic policy pursued by each of these regimes has a powerful effect on whether countries seize the growth opportunities implied by global technologies and markets (Fosu, 2008). Given the clear aims of Western projects, their aid is often perceived as imposing colonial values and standards on countries formerly dependent on Western developed countries.

Aforementioned, the difference between Chinese and Western involvement bores similarities to the model proposed by Acemoglu, Johnson, and Robinson (2001, 2002). Their study divides colonialism into two broad categories – settlement and extractive. With respect to current Western involvement, the colonial states help to create institutions which protect property rights and relatively effective legal systems. These institutions persist with the benefit for future development. In contrast, the Chinese investment belongs to the extractive approach, in which colonial state focus more on expropriating colonised wealth and failed to provide the same legal protection of property. According to the findings of Barro and Sala-i-Martin (2004), the settlement approach is much more beneficial if the economic growth is concerned. This is further reinforced by Lange (2004) who has analysed 33 former British colonies. Through indirect institutions Lange proves that the colonial rule shares the same characters with extractive approach, and has a strong, adverse relationship with postcolonial levels of political development. It can be reflected in state governance, state stability, and rule of law. All these issues positively influence long term economic growth and suggest that good policies are crucial for economic growth of Africa (Geda, 2018).

### **3 Conclusion**

The role of foreign direct investment as a source of capital become increasingly important to Africa. China becomes Africa's biggest trading partner with \$166 billion of exchange in 2014. The economist estimates that the trading volume will continue to increase up to \$1.7 trillion in 2030 (Esposito 2015). African countries strongly depend on China in exporting. Sixteen African countries export more than 20% of their total exports to China (Romei, 2015). Exporting from Congo or Sudan to China even exceeds 50%. A close inspection of this dependency reveals that the structure of the trade contributes to inequality (Romei, 2015). African natural resources such as mineral fuels, commodities and raw materials are the major exporting products to China. In contrast, China is exporting machinery, electronics, textiles and consumer goods to Africa with incomparably cheap prices (Esposito, 2015). The massive import from China has a big negative impact on local industries and employment rate, and further makes reliance on Chinese products (Adisu, Sharkey & Okoroafo, 2010). The dependency theorists assert that Chinese investment in Africa, although may spur short-term economic growth, it may generate and accelerate internal distortions and contradictions (Asiedu, 2002). Ultimately, such investment may depress or even retard the host country's economic growth (Jaspersen, Aylward and Knox, 2000). In line with increased Chinese investment to Africa, it has stimulated a vast amount of research and generated much debate between modernisation and dependency theorists. We therefore outline questions for future research directions below:

- What can African countries do to reduce the dependence on China?
- Whether African countries would have the power and courage to implement restrictions against China?
- To what degree African countries could diversify their trading partners in longer term?

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