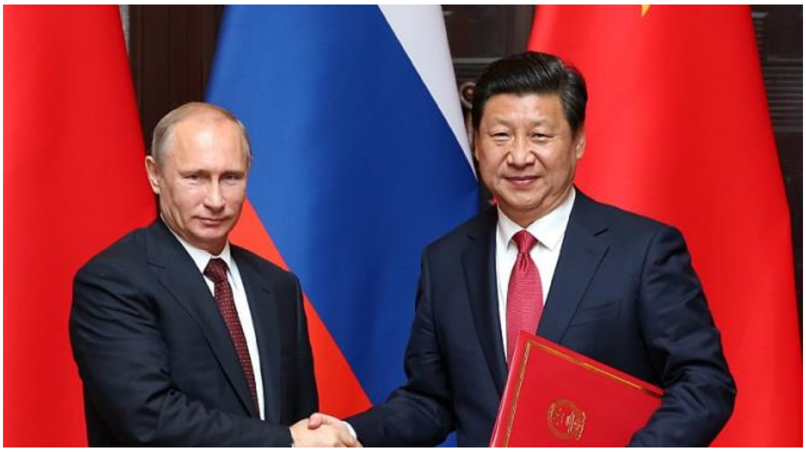
Scoreboard: China 5.0, Russia 0.5



By Kester Kenn Klomegah*

MOSCOW, Sept. 05, 2016 (Buziness Africa) -- Lack of credit support and investment guarantees from the Russian government and financial institutions have been cited as the major impediments for Russian companies willing to invest in the African continent. These setbacks have culminated in the world's biggest country by size lagging behind such economic powerhouses as the United States and China in expanding a footprint in Africa.

Companies from Russia, the Eurasian country, are said to be seeking to expand its business ties with Africa, most particularly in line with the country being grouped alongside South Africa in the BRICS (acronym Brazil, Russia, India, China and South Africa bloc, a formation of the world's fastest growing economies.

In an interview, business leaders said the lack of credit lines and guarantees were stumbling blocks, recommending this had to change through political authorities and Russian financial institutions systematically working out a comprehensive policy plan towards improving the economic engagement with Africa.

“An increased economic partnership between Russia and African countries is necessary and will reaffirm the desire to continue developing business dialogue with interested companies in efforts to pursue active involvement in international programmes and projects for Africa,” said Dmitry Golovanov, Chairman of the Management Board of Eximbank of Russia.

In addition, he raised some specific proposals necessary for facilitating business between Russia and Africa. Besides, joint implementation of projects in the area of infrastructural development will positively influence development of contracts between Russian and African companies, he said. Golovanov, however, pointed out that transparency and possibilities for medium and small business to access contracts within the framework of implementation of major projects are required.

Such projects, said, generally had significant multiplicative effect in terms of comprehensive development of territories. One more direction of stimulation of cooperation may be provision of Russian and African companies with assistance in creation of value-added chains, including creation of joint ventures which base their competitive potential on the use of country advantages, Golovanov added in an interview.

“Russia is a large developing market with growing purchasing capacity, interested in development of competition and improvement of quality of products supplied from abroad. We often face a problem that companies willing to enter international markets cannot simply find foreign purchasers for their products,” said Golovanov.

Dr Scott Firsing, a visiting Bradlow fellow at the South African Institute for International Affairs (SAIIA), and a senior lecturer in international studies at Monash University in Johannesburg, concurred.

“The absence of export credit guarantees can be a real obstacle to some in countries such as Russia because there are businesses and policy holders that look for these guarantees to help alleviate the fear of doing business in high risk markets like Africa,” he added. Firsing highlighted the crucial role played by American institutions like their Export-Import Bank that supports American companies and their expansion into African markets.

These readily provided credits for American investors seeking to expand into this continent, a stance Firsing said was worth adopting by the Eximbank of Russia.

A good example of the continued willingness to fund American companies willing to invest in Africa, President Barack Obama’s latest African Power Initiative sees the Export-Import Bank granting up to US$5 billion in support of US exports for the development of power projects across sub-Saharan Africa.

“Russia can learn a lot from the approach of these countries,” said Firsing.

In an emailed response, Dr Martyn Davies, the Chief Executive Officer of the South African-based Frontier Advisory (Pty), suggested the adoption of a model by China to readily fund its companies interested in investing in Africa. He explained that the Chinese model of financing various infrastructure and construction projects in Africa had enhanced investments by the Asian country into the continent.

China, the world's second-biggest economy after the United States, is currently Africa's largest trading partner. There are an estimated 800 Chinese corporations doing business in Africa, most of which are private companies investing in the infrastructure, energy and banking sectors.

Davies pointed out and the main factor that had assisted this speedy market engagement between Africa and China was that Russian banks had "de-risked" the projects in Africa from a financial perspective.

"Russia's banking sector operates quite differently" Davies said. He highlighted that When the former Chinese President, Hu Jintao, while delivering a speech at the opening ceremony of the Fifth Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) held in Beijing in 2012, he indicated explicitly that "China will expand cooperation in investment and financing to support sustainable development in Africa."

China has provided US$20 billion of credit line to African countries to assist them in developing infrastructure, agriculture, manufacturing and small and medium-sized enterprises.

Comparatively, Japan has made a five-year commitment of $32 billion dollars in public and private funding to Africa, and the money to be used in areas prioritized as necessary for growth by the Fifth Tokyo International Conference on African Development (TICAD). TICAD is a conference held every five years in Tokyo, Japan, with the objective “to promote high-level policy dialogue between African leaders and development partners.”

Comparatively, apart from a $4 billion investment in an oil refinery in Uganda and $3 billion in a platinum mine in Zimbabwe, Russian investments in Africa are not as prominent as United States, the United Kingdom, France and China eclipse it.

Professors Aleksei Vasiliev and Evgeny Korendiasov, both from the Russian Academy of Sciences, Institute of African Studies (IAS), believe that that the situation in Russian-African foreign trade will considerably change for the better, if Russian industry undergoes technological modernization, the state provides Russian businessmen systematic and meaningful support, and small and medium businesses receive wider access to foreign economic cooperation with Africa.

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