Foreign Players Realizing the Potential of Africa's Economies

WASHINGTON, October 18, 2016 (Buziness Africa) -- The African Development Bank estimates show that 21 African countries are expected to grow above 5% in 2016. And an additional 19 countries are projected to grow at between 3% and 5%. Africa is not falling apart. African economies are resilient! Africa is still the second fastest growing destination in terms of foreign direct investments, second only to the Asia-Pacific region.

African governments are also making improvements in business reforms to attract more private sector investments. World Bank's "Doing Business 2016 Report" showed that Sub-Saharan Africa accounted for more than 30% of the regulatory reforms in the world during 2014 and 2015. Despite conflicts and instability in some parts, Africa's fast growth and development, at least during the past decade, has attracted several external countries mainly from Asian region, European Union (EU) and the United States.

In this special interview, **David Shinn, an Adjunct Professor in the Elliott School of International Affairs, a former U.S. Ambassador to Ethiopia and Burkina Faso, and who previously served as a Director of the Office of East African Affairs in Washington**, explains some ways to engage Africa. He further discusses the important institutional differences in each BRICS member countries that impact on the implementation of policies in Africa, whether to compete or cooperate jointly on development infrastructure projects, and finally identifies the tools and tactics some countries use to achieve their respective goals on the continent.

Professor Shinn spoke recently with Kester Kenn Klomegah, an independent research writer on Russia-African affairs. **Interview excerpts follow:**

Q: How unique is East Africa and the Horn for foreign investors and who are the proactive countries there?

David Shinn: This region, especially the Horn of Africa, has more than its share of conflict, which poses a special challenge for foreign investors. The three East African countries—Kenya, Tanzania, and Uganda--have been more successful in attracting foreign investment because they have experienced less conflict in recent years and made a special effort to reach out to foreign investors. The investment has come from a variety of countries including the United Kingdom, Netherlands, India, Canada, South Africa, China, United States, Germany, and France. The Horn of Africa is witnessing a growing amount of investment from the Gulf States, but political instability is limiting investor interest. Before the independence of South Sudan, there was considerable investment in Sudan’s oil sector by China, India, and Malaysia.

While that investment remains, it is now shared between Sudan and South Sudan. Conflict in South Sudan has stopped new investment. Somalia and Somaliland attract investment from the Somali diaspora but foreign countries have been reluctant to go into both entities for different reasons. Somalia is not sufficiently stable and Somaliland is not recognized internationally and, therefore, poses legal challenges for potential investors.

While Djibouti and Eritrea are politically stable, their markets are too small to attract significant foreign investment. Of all the countries in the Horn, Ethiopia has in recent years been the recipient of most foreign investment from countries such as China, Turkey, Bangladesh and the Netherlands. Political protests that began last summer are beginning, however, to impact foreign investment. A number of foreign investments were destroyed during the most recent protests concerning a range of grievances. This will discourage others from coming.

Q: China is still leading with investment in infrastructure, but are the United States and European Union competing or cooperating with China?

Shinn: China is the largest builder of infrastructure in Africa today, but this is not foreign direct investment. These are contracts with Chinese state-owned companies financed by loans from Chinese government institutions, the African Development Bank, World Bank, etc. In some cases, the African governments finance the projects. Once the infrastructure project is completed, China almost never has any ownership involvement. Hence, it is not foreign direct investment, but a commercial deal financed by loans that have to be paid back by the African government. Private US and European companies are in a much weaker position to win these contracts because they have less access to financing from their own governments and tend to submit higher bids than Chinese companies. There are exceptions such as the Italian company that is building the Grand Ethiopian Renaissance Dam on the Blue Nile. In any event, this is an area where the US and European Union compete with China.

There are areas where China, the US, and EU cooperate. All three seek political stability in Africa and cooperate on UN peacekeeping operations, African Union efforts to achieve peace such as in South Sudan, and the anti-piracy campaign in the Gulf of Aden. There is occasional collaboration on aid projects, but there is room for much more, especially in the areas of health and agriculture. All three parties have partnered with Africa to achieve development and they all want to see Africa succeed economically. There is one area of major difference. The US and EU, to varying degrees, encourage open political systems, the rule of law, and free and fair elections in Africa. China is satisfied with whatever form of government exists in a particular African country and has no desire to be critical of any governmental system. African governments prefer the Chinese approach; many African civil society organizations prefer the

US and EU approach.

Q: In your view, can Russia (a member of BRICS) make any practical and effective headway into the region?

Shinn: The short answer is yes and, to some extent, it has. Following the end of the Cold War, Russia pulled back sharply from Africa, although it maintained most of its diplomatic missions there. Serious economic problems in Russia prevented it from reengaging in Africa until relatively recently. There has been an increase in Russian investment in Africa, especially North Africa and several countries in Sub-Saharan Africa. There are prospects for greater Russian investment in Africa. Russian trade with Africa has been especially disappointing. In 2014, it exported $9.3 billion to Africa, most to North Africa, and imported $2.8 billion from Africa. This is less trade than Turkey has with Africa. Russia is energy self-sufficient; Africa just does not have much that Russia wants to buy. This situation is not likely to change any time soon. At the political level, Russia has demonstrated minimal high-level interest in Africa. Until it makes a decision to pay more high-level attention to Africa, it is difficult to see greater engagement at the political level. For the time being, Russia is preoccupied with Syria, Ukraine, and relations with China and the US. I doubt that it will be in a position in the foreseeable future to devote much attention to Africa.

Q: What's the best way for foreign countries to engage Africa?

Shinn: I assume your question about the best way to engage Africa refers to engagement by governments outside Africa. If so, I think the process should be as follows. First, foreign governments should determine what kind of engagement individual African governments prefer. The foreign government must then decide if it is prepared to engage in that manner. If not, it should explain frankly to the African government why not.

If the engagement sought by the African government is the kind of interaction that the foreign government is prepared to do, then both sides should discuss the details. At this point, it is essential that the foreign government not mislead the African government that it can do more than is, in fact, the case. Western governments, compared to statist driven governments, have a handicap because so much Western engagement comes from the private sector, which Western governments do not control. This handicap also applies to a number of non-Western governments.

Q: Now, looking at BRICS (Brazil, Russia, India, China, and South Africa), are there institutional differences in implementing business policies in Africa?

Shinn: There are institutional differences among the BRICS. The private sector is proportionally much more important in India, Brazil, and South Africa than is the case in China and Russia. The state-owned sector of the economy is especially important in the case of China. BRICS' business practices and the degree to which their governments control business practices vary widely from one member to another.

Unlike many Western countries, however, none of the BRICS attaches political strings to their business engagements although they all, to varying degrees, impose economic conditions. These conditions include, for example, infrastructure loans tied to construction companies from the offering country and contractual arrangements for a percentage of labor from the offering country.

Q: Can BRICS members, say for example Brazil, China or India, compete or cooperate with Russia on development projects in Africa?

Shinn: I believe there are cases where BRICS' members have already competed for winning contracts in Africa. This has especially been the case between India and China in the petroleum sector. While I don't know of specific examples involving Russia, I would be surprised if Russia has not competed against another BRICS' country for winning a contract in Africa. By its very nature, business interaction usually involves competition. At the same time, companies from two different BRICS' member countries can team up in their effort to win a contract or start a business in Africa.

The area where there is more likely to be cooperation is foreign aid. China and Brazil have been cooperating on agricultural research in Africa. Theoretically, all BRICS' members, including Russia, could cooperate on a development project financed by two or more BRICS' members. The BRICS' New Development Bank has approved its first package of four loans to Brazil, China, South Africa, and India worth some US$811 million. They are all in the field of renewable energy; South Africa received a loan for US$180 million. This is an example of cooperation but, so far, only to the benefit of BRICS' members.

Q: Do they have strategic differences that make it difficult for a unified approach in Africa?

Shinn: I believe the BRICS have strategic differences that will complicate a unified approach in Africa. Each BRICS' member country has its own interests in Africa. Each one has a different development model and political system. The size of their respective economies varies enormously from China's nominal GDP of US$11.4 trillion to Russia's US$1.1 trillion and South Africa's US$266 billion. These countries have more differences than they have commonalities. I don't believe this will result often in unity of action. **Interview by Kester Kenn Klomegah, an independent research writer on Russia-African affairs. (Source: Buziness Africa)**