

Assessing China's Role and Influence in Africa

Hearing Held by
House Subcommittee on Africa, Global Health, and Human Rights
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Remarks by: Stephen Hayes
President & CEO, The Corporate Council on Africa

Chairman Ileana Ros-Lehtinen of the House Committee on Foreign Affairs, Sub-Committee Chairman Christopher Smith, Ranking Member Karen Bass and Distinguished Members of Congress,

I am honored to testify before you on the role of China in Africa and its effect on US relations with the continent. I have had long experience in Africa as President of the Corporate Council on Africa and before that worked with emerging Chinese leaders to build relations between the United States of America and China. The experience has allowed me a unique, albeit imperfect, understanding of the new dynamics being played out in Africa. As President of the Corporate Council on Africa I am also obliged to address the concerns of our member companies, which collectively represent about eighty-five percent of all US private investment in Africa.

For this reason, my organization invited a delegation from China to visit the United States in July 2011 to discuss our differing views on Africa, and in return we sent a delegation to China in February 2012 to continue the discussion and to examine whether this dialogue should be continued. The delegation to China included US business representatives, as well as our Chairman of the Board Michael Dignam and my fellow panelist today, Dr. David Shinn. Our counterpart organization was the Chinese Economic and Social Council (CESC), a part of the Chinese People's Political Consultative Conference, one of the four pillar organizations of the Chinese Constitution. Much of the policy and economic planning for the country originates from the CESC. During the visit to China we had a number of high level discussions with CPPCC officials, city leaders, leaders of State-owned enterprises as well as representatives of the private sector. Although I have been to China on many previous occasions this visit was perhaps the most enlightening. I came away from this visit that on some levels competition with China is inevitable and will be fierce, and on other levels cooperation on Africa is possible and should be pursued actively.

China has made changes in its political and economic landscape at a pace almost unimaginable to anyone, even, I suspect, to many Chinese. The cities have blossomed into world class cities, and there is a rapidly growing middle class. The price they have paid for this is severe in terms of environmental damage and to the health of individuals. A significant gap between the rich and the poor has also grown. It has been said by many that between 500-700 million people are now out of poverty and enjoying a better economic life, but that still leaves hundreds of millions in poverty and a growing rift of economic classes. These are serious internal challenges to Chinese stability.

It is for these very reasons that Africa is vital to China interests, and easily explains their growing engagement with Africa as a whole and with Africa's individual nations. To fuel China's growing energy needs, as cities develop and as they develop their own military needs, African resources are essential. Africa may also become very important to China for reasons of food security.

China's strong entry into the African market is significant and it is a reality that is likely to have long-term implications for Africa, China and the various other economic players in Africa. India, the Gulf States, Europe and America are already investing heavily, and we now see Brazil, Russia, Israel, Korea and Japan increasing their interests in Africa. Most of these nations recognize the opportunity for investment that Africa represents as well as the significance of the resources to the world economy.

A very high percentage of our energy needs come from Africa, as do many essential rare earth metals used in most aspects of IT, communications, satellites and common appliances. In these areas alone, Africa is essential to US security. Because more than two-thirds of the world's remaining uncultivated arable land is in Africa, Africa is also essential to world food security. It can be argued that we need Africa far more than Africa needs us, despite the fact that we are the largest donor of medicines, health care and development programs to the continent. In fact, Africa has asked for less aid and more trade and more private sector development and investment, areas where the US has not moved at a pace comparable to China, India and other nations.

By and large, the Chinese investment in Africa has been positive. China has supplied basic infrastructure sorely lacking in Africa until now, and there is much more to do. They have become the primary road builders in many nations, and have improved the railroads, and other forms of infrastructure throughout the continent. It has been said by some Africans that they are thankful for China, not only because of what they have done, but their involvement in Africa has awakened the rest of the world to Africa in a different way than being seen as the traditional basket case.

I do not believe that China entered the African marketplace because it wants to compete with the United States, but because Africa has been deemed absolutely essential to its own development. Once that conclusion was reached there was no turning back, and, de facto, the Chinese have become very significant competitors for the African marketplace, whatever the intentions, and, in my view, we are in the race of our political and economic lives.

The growing gap between the rich and the poor has also created other types of pressures in China, and the Chinese private sector has been encouraged to invest abroad as well. This has meant a movement of peoples, perhaps in the millions as traders and inevitably as settlers, perhaps not too different from the European emigration to the New World in from 1650-1900. We now see Chinese settlements throughout Africa, though numbers are hard to quantify. This will surely have long-term implications demographically, economically and politically throughout Africa. We have already seen that the issue of China was a pivotal issue in the recent Zambian Presidential election.

There are at least two forms of Chinese investment in Africa, and I am not convinced that they are necessarily linked. The first is the large project investment, controlled by the Chinese government, which takes a top-down approach to negotiations. In other words, the negotiations are government-to-government, and are of a nature that the US cannot match. The Chinese State-owned enterprises, such as those in mining, petroleum, construction and agriculture become the tools of the agreements made. China can produce the workforce and the industries in one package, and the finished product can be delivered in speed unimaginable to the processes we would need to go through. Furthermore, if China were to purchase petroleum, for instance, they can also bring in other assets to seal the deal. They can guarantee government buildings, road or other services as part of the total trade package. Our political and economic system cannot match that.

Just as importantly, the Chinese can guarantee financing from the beginning by using its Ex-Im Bank. Our system cannot match that either. In this regards our systems, economic and political, are quite different, and the advantage in this case is to China.

Much has also been said about the lack of political conditionality that China imposes on African nations. We, on the other hand, link political conditionality to our major trade agreements with African nations. Both AGOA and the Millennium Challenge Corporation compacts are strongly tied to political conditionality, as a means to improve the political systems under which people live. Not surprisingly, those leaders less inclined to democracy gravitate towards those who accept the respective political systems as they are.

The second form of Chinese investment in Africa comes through China's own rapidly growing private sector, which has been largely responsible for the economic growth of China itself. Loosening the reins of control on the private sector in China has led to far greater economic freedom internally, and a proliferation of consumerism throughout China. As the true private sector developed in China they were also encouraged to invest abroad. This loosened the internal economic and market pressures and allowed the most enterprising of Chinese to invest and travel abroad as they had never been allowed to do in their history. We now see many of these merchants engaged in Africa in shops, grocery stores and in small enterprises throughout Africa. They are not State-sponsored, nor are many of them State-financed. Rather most are what they say they are, entrepreneurial in every way. The problem is that these new entrepreneurs compete with the local small individual businesses in cities and villages, and are organized far better than the local population. They have suppliers in China, and a support network of fellow Chinese wherever they work and settle. It is here we may see more conflict than, say, at the higher levels of State Enterprises, ironically, although the latter is the primary source of the international competition. At the local level the migrating private sector is the source of conflict between the local population and the Chinese settlements.

The experience of the Chinese private sector in Africa has been mixed so far. The private sector companies with whom we met in China told us that they have found doing business in Africa as very challenging, not too different from the experience of US companies. These companies also cite the Chinese State-owned enterprises not as partners but more often as competitors. The State-owned enterprises have financing and political support that the private sector enterprises cannot get. In the rare instances where the private sector companies have competed for contracts with the State-owned Enterprises the private sector companies have been the losers. This should surprise no one.

China understands the importance of Africa to its future and therefore organizes for its investment at many levels. The most important Chinese government leaders visit Africa annually and they send many delegations of Chinese leaders to Africa every year. One need only note that the last visit of a US Secretary of Commerce to Africa was in 2002 to understand the implications of this. China sends trade missions to many countries, and through the Department of Commerce our trade missions are often limited to very few countries and usually the same ones time after time.

China also invites African leaders to China regularly, and often by region, and regardless of policies that these African governments may have. We tend to invite our friends and shun those whom we perceive as not consistent with our values. It is not difficult to understand why some African leaders prefer the Chinese worldview. The Forum on China-Africa Cooperation (FOCAC) has been created to build and develop the political relationships between Africa and China, and is already a key vehicle for a broad range of relationships. Each of the four pillars of the Chinese Constitution (the Communist Party, the Military, the People's Congress and the Chinese People's Political Consultative Conference, or CPPCC) will use FOCAC as the principal vehicle for their relationships with Africa, though I presume it will rest within the CPPCC. Of interest, however, is that some programs of the forum will involve the private sector of China.

By comparison, the US Government has a number of formal bilateral forums, particularly with South Africa, Angola, Kenya, Nigeria and others, yet so far, they have failed to engage the private sector as a partner in

these dialogues. In my view, this is a critical omission for it is the private sector that will offer the best opportunity to compete with China in Africa.

In terms of competing in Africa with China, I do not think we can compete with the State-owned Enterprises and the top-down forms of contract negotiation. This would require unprecedented public-private cooperation by the United States, and the system simply is not geared to this type of cooperation, particularly in the self-destructive political climate in which we now live.

Our best opportunity to compete effectively with China is to build the private sectors throughout Africa, and to partner with selected African private companies. In several countries, there are very strong private sector companies and we should be partnering with these companies. In the long-term, countries that will succeed in Africa will do so by developing a strong middle class (just as the Chinese are doing). The strong middle class can only develop by developing a strong private sector. This will also lead to greater economic and political freedom. If the private sector is indeed the future of successful African nations, then there is where we need to engage for our long-term interests.

I also believe that we should view the Chinese private sector as potential partners in Africa. A stronger private sector in China can only help our own political and economic goals, and can certainly help reduce Sino-American friction. Partnerships can and do reduce the risks a business takes in any new investment. Costs and risks are shared and not borne alone.

In that regard, CCA through the support of USAID has developed a US-Africa Business Partnership Center, whose purpose is to find partners for American companies wishing to invest in Africa, as well as find American partners for African companies wishing to invest in the United States. This center has enormous potential as a model for others, but will take a few years to build.

The Corporate Council on Africa is also working with our sister organizations in Canada, twelve countries of Europe, Japan, India and in key African countries to build partnerships as well. We now have an annual meeting designed to move our cooperation forward. We intend to expand that cooperation to include Turkey in the near future.

As for government policy, I believe we need to examine how we can best adapt to the changing economic environment of Africa. Some very basic recommendations would include:

1. Working more closely with the private sector in the bilateral dialogues with African nations. It makes little sense to have a dialogue with South Africa on economic cooperation, for instance, and exclude the private sector.
2. The US Ex-Im Bank needs to continue to look at ways to support US businesses wishing to invest. Clearly the leadership of Ex-Im is committed to this, but like every other institution they are bound by regulations and tradition. For this reason we support legislation like the proposed Durbin bill that would give Ex-Im more leeway for investments in Africa. However, Ex-Im can do little if no US banks are willing to invest in Africa, and very few are. Unless they can be encouraged to do so, we will lag further behind China and many other nations who are active in Africa.
3. We should examine the feasibility of setting up similar bodies to that of the Forum for China-Africa Cooperation. For instance, because we believe regionalization is important to the development of African markets for US investors, perhaps we should set up Forums by region, such as the US-SADC Forum on Cooperation, the ECOWAS-US Forum, the COMESA-US Forum, and so forth. In so doing we address the need for greater cooperation nation-to-nation in Africa.

4. We need a more broadly coherent policy on Africa. I am in great praise of State Department initiatives towards Africa. Secretary Clinton and Assistant Secretary of State Carson have developed exceptional initiatives. For instance, the recent cooperation between the US Department of State and the Corporate Council on Africa made possible one of the most important trade missions ever undertaken to Africa, a mission of US power companies to engage in one of the most critically needed sectors of Africa. No African nation is currently meeting its power needs for today, let alone its future. US engagement in this critical sector is vital for US and African interests. Other Departments of the Cabinet should also be looking at such creative initiatives. However, the State Department cannot be all things, and perhaps the USG should develop a broader and more aggressive policy on Africa that involves close cooperation with the private sector.

No one should challenge China's right to be in Africa. They have brought improvements to African nations, and they have also brought new challenges. This will continue and we need to be prepared to meet these competitive challenges. At the same time, ironically, we should be seeking ways to cooperate with China on Africa politically and economically. If we can link our private sectors more closely, we can also develop important links to the future of China, for if China is to continue to prosper, it will need to continue to develop its middle class through private sector development. Cooperation in Africa is one way to develop the cooperation. The alternative is to return to the mistakes of the past.

I am less worried about China competition in Africa over the long-term than I am now worried about European competition. The proposed European Partnership Agreements (EPAs), if successfully forced upon the Africans, will move most trade of the African nations away from the potential of trade with the United States and other parts of the world. The EPAs, if implemented, have the potential to destroy regional cooperation, one of the primary goals of US policy towards Africa. In the long-term these agreements would also affect Africa-China trade. Ultimately, the Africans will suffer most if EPAs are implemented.

In this regard, and as it regards China and other nations engaged in Africa, the United States should request the international community to develop with African countries a common approach to trade negotiations. Without a more coherent approach, individual African country commitments to third countries or blocs of third countries such as the European Union will make it more difficult for regionalization to develop in Africa. US companies will be disadvantaged by a duty system which gives competitive advantage to European Union imports over those from the US (or China for that matter). For US diplomatic relations as well as business interests, agreements such as the EPAs create impediments to regional integration which is needed by US companies to operate world class supply chains and distribution networks on the continent. In this case, perhaps here is one example where China and the US could cooperate for the sake of Africa as well as their own enlightened self-interests.

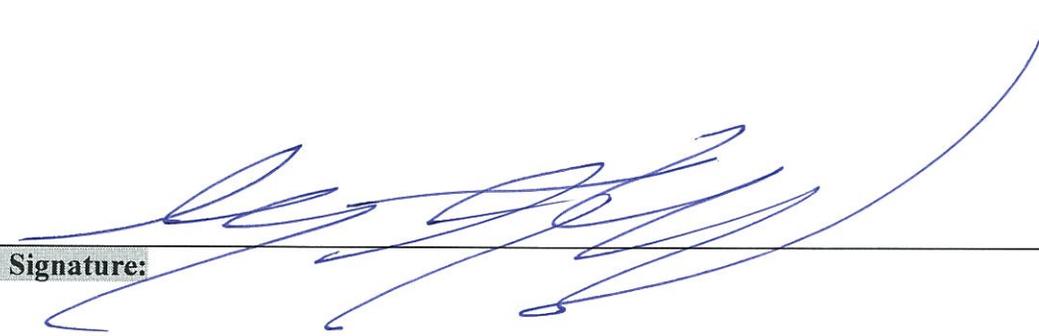
The world is rapidly changing and this nation needs to adapt to that. We absolutely need to move from divisiveness and political gridlock if the United States is to compete around the world and remain a preeminent economy open to all. Our competitors are China, Europe and many other nations. Africa represents the future for many nations. We need to realize the importance of Africa to American interests, understand its importance to other nations as well, and begin to work far more actively with Africa and all potential partners.

Our competitors need not be our enemies. Our biggest obstacle now is ourselves and a failure to develop stronger public-private cooperation and to weave a more coherent and active policy towards Africa that all can work on together. I firmly believe that America can compete with anyone, particularly when we all work together with common goals and principles.

**United States House of Representatives
Committee on Foreign Affairs**

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

1. Name: Stephen Hayes	2. Organization or organizations you are representing: The Corporate Council on Africa
3. Date of Committee hearing: March 29th, 2012	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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