

“CHINA VS USA: A BATTLE FOR AFRICA’S FUTURE”

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1. AFRICA IN THE WORLD:

In the recently published article *“Africa is the Last Frontier for Global Growth”* I argued that Africa, *“given, today it accounts for 17% of the world’s population, but only 3% of global GDP.. will be a source of global instability and extremism (should it continue to lag economically)...but if it rises could be one of the major sources of growth for the world”*. In fact, *“If Africa sustains and accelerates structural reforms over the next half-century, some believe that the continent can emulate China’s rapid rise of the last 50 years. But success is far from guaranteed, even as the consequences of failure would be grave - and global.”*

The International Monetary Fund (IMF) estimates current world GDP to be \$87 trillion, of which the United States of America (USA) represents \$21.4 trillion and China \$14.1 trillion. All of Africa’s GDP combined totals only around \$2.6 trillion, of which of the three largest countries Nigeria represents \$447 billion, South Africa \$359 billion and Egypt \$302 billion. Kenya, Angola and Ethiopia follow, each with a GDP of just under \$100 billion, demonstrating just how tiny Africa’s larger economies are by world standards.

Yet, by 2030, given the rapid rise in Africa’s population, one in five human beings, around a projected 1.7 billion people, will be African. A 2019 United Nations report *“World Population Prospects 2019”* suggests that, due to high fertility, gains in life expectancy and declines in child mortality, by 2060 this will rise to 2.9 billion Africans out of the then 10.1 billion people in the world, and by 2100 to 4.3 billion out of the then 10.9 billion world population.

Thus, by 2100 Africa will be home to 39% of the world’s population.

This population explosion, side by side with economies at relatively undeveloped stages of development as reflected in Africa’s significantly underweight current share of world GDP, portends an impending and grave humanitarian crisis. The “wrong way” relationship, a disequilibrium, between an underweight share of global GDP and outsized share of the global population, foretells an inevitably damned future of poverty, urban decay, hunger, chaos and extremism for around for two fifth’s of the world by 2100.

It is fair and necessary indeed, in order to understand what solutions are required, to ask the question: “Why, despite some progress, is Africa still falling behind its’ potential?”

- The brutal legacy of colonialism, and post-colonial conflicts, aggravated by the effects of the Cold War, ravaged the continent and plague its’ revival;
- Notwithstanding 20 years of 5% average GDP growth post 2000, insufficient industrialization and diversification of African economies perpetuated vulnerabilities of Africa to commodity cycles with oil producers susceptible to falling exports and lower hard currency receipts. This caused fiscal stresses, leading often to fiscal and monetary policy mistakes, depreciation of local currencies and other factors that has made doing business for foreign businesses complicated;
- With some notable exceptions such as Rwanda, overall administrative weaknesses, aggravated by widespread corruption, or incidents of state capture by special, normally governing party, interests, such as in South Africa under President Zuma, which drive patronage at all levels of government;
- Service delivery failures brought about often by administrative officials lacking the technical expertise normally found in the private sector to drive operational factors, side by side with ideological resistance to modernizing the state, and introducing private sector management;
- Institutional lethargy in many state departments and state run companies, which act as a consumptive drain on the national fiscus by securing jobs for public sector employees without performance management tools to discipline behavior;
- Extensive infrastructure backlogs that bedevils movement of people, goods and services, restricts access to markets, and makes basic telecommunications, transport and energy provision costly and unreliable;

- Lack of dynamism in opening trade within Africa, and between Africa and the rest of the world. In particular, whilst the African Continental Free Trade Area agreement has been endorsed by all African nations, it is in its' infancy with significant hurdles ahead. In the meantime trade within and between African nations remains cumbersome and expensive, and the global rise in protectionism and imposition of trade tariffs hurts African competitiveness;
- With the exception of South Africa, the lack of functioning capital markets, particularly equity capital markets to drive access to financing and secondary sales of assets. Bond and currency markets are limited and credits often expensive, and spreads wide, punished by the lack of liquidity;
- Incidences of imbalance in the economic returns as between multinational investing corporations and home governments in the form of tax, dividends, investment, share of equity, employment and division of economic returns;
- Education and health backlogs that often damn generations to low levels of numeracy and literacy, and perpetuates, at great human and fiscal cost, treatable diseases;
- Widespread societal trauma, and crime, with extreme violence against women and children which feed migration; and
- Still low, if rising, levels of internet penetration and technology use in society.

Africa needs urgently to accelerate structural economic reforms and achieve higher rates of growth. For Africa to double its' share of global economic growth in the next 20 years to 6%, and double it again in the following 20 years to 12% of World GDP, requires Africa to grow at a compounded average GDP growth rate 2020-2060 of 6% per annum, 1% above its' achieved rate of growth in the last 20 years.

These calculations (using GDP 2060 data sourced from *OECD "Real GDP long-term forecasts"*) imply that Africa's GDP would go from \$2.6 trillion today to \$26.5 trillion in 40 years, representing almost \$24 trillion of growth in 40 years, a huge economic leap forward.

Even if realized, it will still not come close to closing the gap between population share of the world (by 2060, according to the *UN* report, then 28.5% of the world's then forecast population) and share of world GDP (12%).

Four conclusions can be drawn from this analysis:

1. This up to \$24 trillion economic expansion opportunity, or \$600 billion per year, is a massive opportunity for investors and markets, and represents one of the world's most significant economic prizes driven by a huge emerging middle class - the last great frontier for global growth ;
2. Currently, Africa's largest economies are struggling to achieve anywhere near this growth rate. Economists forecasts 1% or lower GDP growth in South Africa, and 2% in Nigeria this year. Sub-Saharan Africa GDP slumped from 5.1% in 2014 to just 1.3% in 2016. And due to the coronavirus, most market commentators are busy revising downwards their forecasts for China GDP growth, for commodity prices and for African GDP growth. According to a just published *Standard Bank* report, Feb 2020, ("*Inside China*") "*the less favorable external environment could end up shaving-off at least 1.2% from Sub-Saharan Africa growth*".
3. There can be no doubt, therefore, that risks to growth forecasts for the region are skewed to the downside. If African economies indeed falters, on a GDP per capita basis Africa will get even poorer, and be both the largest regional concentration of, and a growing contributor to, poverty in the world. Therefore far greater domestic and regional economic policy discipline, and seamless execution of structural economic reforms, is required, together with comprehensive global support for Africa's growth.
4. Africa may therefore be at, or past, the tipping point thus losing the battle to close the gap between population expansion, and economic development, with untold, but somewhat predictable negative consequences for Africans, and the world into the future;

The African challenge is therefore a global challenge, and in my estimation one of the least understood, and one of the greatest challenges of the 21st Century!

2. CHINA - USA COOPERATION, OR COMPETITION, IN AFRICA: TOWARDS A LONG TERM AFRICAN STRATEGY

The September 3, 2018 speech by Chinese President Xi Jinping at Beijing's Great Hall of the People, on the occasion of the opening ceremony of the Forum on China-Africa Cooperation (FOCAC), and the December 2018 announcement by President Trump's administration of the "*Prosper Africa Initiative*", and its' formal launch in June, 2019, represent the latest mission statements by the Chinese and USA administrations on Africa respectively, and are instructive.

1. China's strategy:

President Xi Jinping, early in his speech, laid out a "*five -no approach... no interference in African countries pursuit of development paths...no interference in internal affairs... no imposition of our will on African countries...no attachment of political strings to assistance...and no seeking of selfish political gains in investment and financing cooperation with Africa.*"

President Xi Jinping then announced eight initiatives to be implemented, supported by \$60 billion of financing over the next three years:

1. Industrial promotion: including a China-Africa trade expo, building trade zones in Africa, 50 agricultural assistance programs, humanitarian food assistance, sending 500 agriculture experts to Africa,
2. Infrastructure cooperation plan: energy, water, transport, communications projects, more direct flights to China, facilitating bond issuance,
3. Trade Facilitation: increase imports from Africa, e-commerce support and support for Africa Free Trade Agreement
4. Green development initiative: focused on climate change, ocean, desertification control, and wildlife protection,
5. Capacity Building initiative: workshops for vocational training, training 1,000 Africans, 50,000 scholarships and 50,000 training opportunities and 2,000 exchange students,
6. Health Care Initiative: 50 health care projects, training medical specialists,
7. People-to-people exchange: establish Institute for African Studies, fifty cultural & sports events, media cooperation network, participation in art and cultural festivals, and
8. Peace and security initiative: fund to boost cooperation on peace and security, military aid to the AU, fifty security assistance programs to support peacekeeping and anti-terrorism activities.

This strategy is now not new, but the tone and depth of the commitments are comprehensive in scope and backed by the full might of the Chinese state, including the state owned enterprises whose top executives were all present at FOCAC, as I was, and who spent long hours in the business sessions that followed discussing how they each would be getting behind their President's commitments and vision.

It is apparent that China is driven both by its' own economic and diplomatic objectives to secure political influence (eg support at the UN for the China Taiwan policy), resources (food, mineral resources, crude oil etc) and markets. But it has also taken a position that a growing Africa is in the interests of global peace and prosperity. It understands the vast opportunity a great economic leap forward would represent, and is extremely well positioned to capitalize on Africa's outsized growth opportunity.

2. USA's strategy:

In December 2018 The Trump administration announced Prosper Africa, an initiative that according to the U.S. Department of Commerce website "*seeks to unlock opportunities to do business in Africa - benefiting companies, investors and workers both in Africa and the United States*". It states the goal is to "*substantially increase two-way trade and investment between the United States and Africa*". The response "*provides a one-stop shop that makes the full range of those services available*".

Participating agencies include various departments of the U.S. government, Export-Import Bank, the Millennium Challenge Corp, and various others.

Unveiling the Prosper Africa policy at a November 13, 2018 speech to the *Heritage Foundation*, Ambassador John Bolton said this “*strategy addressed three core U.S. interests on the continent: first, advancing U.S. trade and commercial ties with nations across the region..., second, countering the threat from Radical Islamic Terrorism and violent conflict..., third, to ensure that U.S. taxpayer dollars for aid are used efficiently and effectively*”.

He then attacked China for using “*bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing’s wishes and demands. It’s investment ventures are riddled with corruption...in short, the predatory practices pursued by China...stunt economic growth in Africa; threaten the financial independence of African nations; inhibit opportunities for U.S. investment; interfere with U.S. military operations; and pose a significant threat to U.S. national interests.*”

In their article, April 2019, “*U.S. Economic Engagement in Africa*” Runde & Bundera in assessing Prosper Africa, argue that “*...this initiative risks being a statement of good intentions with no teeth or additive resources.*”

In June 2019, their call for additional financial backing was partly answered with the launch of a \$60 billion U.S. investment agency “*US International Development Finance Corporation*”(“*DFC*”) to replace OPIC, that would seek to more than double the (OPIC) capital available for U.S. investment in low-and-middle-income countries. DFC, over and beyond OPIC’s traditional role will also, significantly, provide limited equity investments, technical assistance and oversight on private sector-led development projects.

3. CHINA VS USA IN AFRICA TODAY:

As we examine the track record of China and USA on the African continent, it may surprise many, who may have preconceived ideas that the USA is not present at all in Africa, and is no match for the Chinese, that the battle between the USA and China is not as one-sided as may first appear:

Trade:

- China surpassed the USA as Africa’s largest trading partner in 2009. Chinese two-way trade with Africa is approximately three times that of the USA, at \$148 billion vs \$55 billion (2017 data, according to the *Centre for Strategic and International Studies*- “*CSIS*”).
- At its peak in 2008 the U.S. imported \$99.5 billion of oil & gas from Africa, but now as USA energy domestic production has increased, only \$17.6 billion of oil & gas is imported from Africa. This accounts for much of the decline in trade by the USA with Africa.
- China, on the other hand, imports 1.4 million barrels of oil per day from Africa, or 22% of its needs, making Africa China’s second largest source of crude imports after the Middle East. Angola, Republic of Congo and Sudan top the list of African countries supplying crude to China.
- China is a destination for 15 to 16% of Sub-Saharan Africa’s exports, and the source of 14 to 21% of the region’s imports, according to estimates from *Thompson* and *World Bank*. While the majority of Africa’s exports to China are mineral fuels, it also exports iron ore, metals and other commodities, as well as food and agricultural products. China exports a range of machinery, transportation, communications equipment, as well as manufactured goods to African countries.
- The top 5 US export markets in Sub-Saharan Africa for 2018 were South Africa, Nigeria, Ethiopia, Ghana and Togo. The top export categories were machinery, vehicles, aircraft, mineral fuels and electrical machinery. The top 5 U.S. imports suppliers were South Africa, Nigeria, Angola, Côte d’Ivoire and Madagascar. The top import categories were mineral fuels, precious metals and stones, cocoa, coffee, tea & spice and iron & steel.

- The US Treasury's Office of African Affairs develops and coordinates U.S. trade and investment policy for Africa. The Africa Office oversees implementation of the African Growth and Opportunity Act (AGOA), a trade preference program enacted in 2000. By providing duty-free entry into the United States for most African products, AGOA has helped expand and diversify African exports to the United States. In 2015, the U.S. Congress extended AGOA through 2025. As a result of AGOA, total two-way goods traded between USA and Sub-Saharan Africa increased to \$39 billion in 2017.
- The eligibility and qualifying criteria, and tests to qualify for participation in AGOA and US Generalized System of Preferences ("GSP") has been the subject of tension, most recently with South Africa, and has been a source of irritation to the long term relationship between the USA and some African countries, being described to me as giving the USA relationship with such countries a "*transactional*" character. The hope is rather for a long term strategic relationship with the U.S.
- The *Standard Bank* report "*Inside China*" notes that "*Chinese goods have penetrated markets deeply, increasing from 3% of Africa's total imports in 2001 to 19% in 2019. Around two-thirds African countries list China as their largest source of goods.*"
- In summary, the Chinese have a strong lead over USA in respect of African trade; however AGOA is a strong weapon in the hands of the most powerful economy on earth.

Development and infrastructure financing:

- According to *AidData Project*, China has financed more than 3,000 large infrastructure projects, extending more than \$86 billion in low interest rate commercial loans to African Governments between 2000 and 2014, an average in that period of over \$6 billion per annum. This compares against \$9 billion of annual average foreign aid (Official Development Aid) by the USA Government in Africa over the last decade. The top recipients of USA aid are Ethiopia, Kenya, South Sudan, Syria, Nigeria, Uganda, and Tanzania;
- In 2015 China pledged a further \$60 billion in loans to Africa, which in September 2018 President Xi Jinping said in his opening address to the *Forum on China-Africa cooperation (FOCAC)* "*has been either delivered or arranged*". This represents a ramping up of funding to \$20 billion per annum, 2015-2018. And at the FOCAC Summit, September 2018, President Xi Jinping committed a further \$60 billion over the next three years, including "*\$15 billion of grants, interest free loans and concessional loans, \$20 billion of credit lines, a \$10 billion special fund for development financing and a \$5 billion special fund for financing imports from Africa*".
- According to *Brookings* of the \$143 billion distributed in loans to Africa by China, 2000-2017, 30% went to Angola, 10% to Ethiopia, 7% to Kenya and 5% to each of DRC, Sudan and Zambia. By sector, the loans were 31% to transport, 24% to power, 15% to mining and 6% to communication sector.
- Whilst it is difficult to compare USA aid at an average of \$9 billion per annum to Chinese development funding of \$6 billion 2000-2014, China appears to have ramped up its' development funding since 2015 to \$20 billion per annum, therefore apparently now outstripping USA funding sources in size and impact.

Foreign Direct Investment (FDI):

- According to a report by *Ernst & Young*, 2017, the USA is shown to be the largest investor in Africa, leading China with 130 projects vs 54 FDI projects. Data supplied by the *John Hopkins School of Advanced International Studies China - Africa Research Institute* shows in the period 2003-2015 USA FDI annual average flow of over \$3.5 billion, and China only at \$2.2 billion.
- At FOCAC, September 2018, President Xi Jinping, perhaps aware that China is lagging on FDI, implored "*Chinese companies to make at least \$10 billion of investment in Africa in the next three years*".
- Some tensions have seen some countries pushing back against China's activities. Grievances, according to the *Council on Foreign Relations*, "*range from poor compliance with safety and environmental standards to unfair business practices and violation of local laws.*" Michael Sata, for instance, won Zambia's Presidency in 2011 in part by tapping into anti-Chinese sentiment after a violent confrontation at a Chinese owned coal mine in Southern Zambia.

- *Dealogic* data shows that, in the last 20 years, there have been thirteen corporate FDI transactions by a Chinese or USA investor greater than \$ 1billion in transaction value, of which five with a combined value of \$11 billion (by Exxon Mobil, Coca-Cola, Walmart, Pepsi, Paulson) are from USA, and eight are from China with a combined value of \$23.7 billion (by China Moly, Sinopec, China National Petroleum, Jinchuan, CNOOC, Alum Corp of China, ICBC). Three quarters by value of these Chinese transactions are in the oil & gas, or mining sector. By contrast, two thirds of the USA transactions by value are in the consumer & retail sector.
- The *U.S. Bureau of Economic Analysis* data records that 838 U.S. multinational companies are active in Africa employing 238,000 people. A similar number of Chinese companies, estimated at 800, are reported to be active in Africa.
- The FDI stock (defined by *OECD* as “the value of investors’ equity in and net loans to enterprises”) of US enterprises in Africa in 2017 was \$50 billion (of which mining is the biggest single category, followed by manufacturing and finance), down from a peak of \$69 billion in 2014. The FDI stock of the Chinese entities in 2017 was \$43 billion, up from \$16 billion in 2011.
- Therefore whilst USA has led the FDI drive into Africa, China is fast closing in on USA FDI.

Military activity and support for peace missions in Africa:

- According to a *CSIS* report authored by D. Runde and R. Bandura, April 2019, (“*U.S. Economic Engagement in Africa*”) whilst the US has only one official permanent military base in Africa, the U.S. military has approximately 6,000 troops in Africa, with around 100 missions in 20 African nations. The Department of Defense however announced a ten percent cut in U.S. troops in Africa over the next few years.
- Whilst there is little data available on Chinese military involvement, China has one confirmed military base in Djibouti. According to a *Council on Foreign Relations* article “*China in Africa*”, July, 2017, “*By March, 2017, more than 2,500 Chinese troops, police and military experts had been dispatched to six UN peacekeeping missions in Africa...in Darfur, DRC, Mali and South Sudan... (with)... smaller contingents in the Ivory Coast and Western Sahara...(China) pledged \$100 million in military aid to the African Union in 2015.*”
- Both USA and China appear to have low intensity military presence in Africa, tiny in their overall respective arsenals. Yet, according to the *Global Terrorism Database, 2018*, of the 26,445 deaths due to terrorism globally in 2017, 10,819 were in the Middle East North Africa region and 6,712 in Sub-Saharan Africa accounting for two thirds of all deaths in the world due to terrorism. Chinese workers have also been the targets of killings and kidnappings in Ethiopia and Nigeria. Princeton Lyman, then Adjunct Senior Fellow, *Council on Foreign Relations*, said in 2014 (“*China and US in Africa*”) that developments in Africa “*open the door to greater cooperation between the U.S. and China on matters of African security, and hopefully on rules of the road for commercial and aid activities.*”

In summary, China has a significant lead over USA in respect of African trade, is taking the lead on development financing from a more equivalent starting base with the U.S., the USA maintains a lead over FDI in Africa even if the Chinese are closing the gap, and both countries are underweight military investment in the continent given growing terrorism, and calls for peace missions.

3. A Global response and call to Action:

The facts presented here, of a continent facing a population explosion, amidst enormous challenges to grow the economies of Africa should, I argue, paint a chilling enough picture to be a clarion call to the world to act now, and to act fast in support of Africa!

In today’s globally connected world, no fortress can be built around Africa. Europe and the USA, as can be seen with 2.1m African migrants currently in the USA and 10.6m African migrants currently in Europe, are likely to witness growing incidents of migration, terrorism and conflict on its own soil,

which phenomenon is likely to spiral as Africans desperately seek safe harbor, employment opportunities and peace from a continent hopelessly under resourced to feed, employ and house its' exploding population, by the end of this century almost 40% of the world's.

Everything that can be done to cooperate to lift the economic development of Africa and its' people should be urgently and sustainably attended to: with programs in Africa systematically planned and implemented in all areas: education and health, state administration training and capacity building, investment, aid and market access, infrastructure development, job creation, trade support, agricultural and industrial development, technology and innovation, development financing, institutional support, intelligence and policing, and military and security. No stone should be left unturned by the world, its' great powers and its' global organs to help Africa, and the world, to avert a crisis wrought on a continent plagued by a troubled history, insufficient economic growth, too many people, with too little resources.

Africa needs to lead these efforts, but global support should be aimed at buttressing its' success.

At the same time, the up-to \$600 billion per annum growth a opportunity on the continent represents a compelling, and outsized opportunity for investors wishing to capitalize on this growth. Great powers that lead support for Africa, place their domestic corporate and other interests in an optimal position to benefit. This is both a global threat, challenge and opportunity!

It is in this light that the discussion of how the world's two largest economies, USA and China, are and should be engaging with Africa is so very important. Each needs to lead with a long term strategic response, and tactical interventions should compliment, not detract, from these long term goals of an African economy that must grow at a faster rate than its' exploding population. And, it is vital to the success of these goals that China and the USA cooperate, as much as compete, in Africa's long term interests. In this historic mission to help lift Africa, China and the US should work alongside African leaders to build a global alliance, including the G20, to drive a global plan for Africa's development.

As Africa's most developed nation, and its' representative on the BRICS alliance and at the G20, South Africa and its' President Cyril Ramaphosa, now African Union Chairman, has a special role to play in driving China, USA and indeed all of the G20 nations to step up action on Africa. Where BRICS and G20 have plans they need to be strengthened, resourced and implemented with new resolve.

What is clear is that Prosper Africa, as a **strategy** is incomplete at best. When compared against the eight-point China plan it is relatively under-resourced, limited in scope and narrowly targeted. Prosper Africa, on its' own, offers one little confidence that the USA will arrest its' decline relative to China's rise in importance to Africa. Thus, the flow of momentum in Africa, in my opinion, appears to favor the Chinese. This, notwithstanding that the economic, military and political might of the USA gives it continued enormous influence and power to change the mix of outcomes.

The USA Government would be well advised to look at ways to revise and expand Prosper Africa, to take a longer term view of the strategic imperatives, relationships and commercial opportunity, and to mobilize all the institutional, technical, human, financial and corporate resources at its' disposal to optimize its' position for the long term.

It is clearly in Africa's interests to have a plurality of options to seek alliances and engagements, and having multiple great powers (USA, China and EU inclusive) each with its' own strategy, plans and resources with which to engage politically, economically, culturally and militarily is far preferable for Africa, than facing one dominant power.

President Xi Jinping in his 2018 FOCAC address admitted as much by saying "*China is fully aware that long-term stability, security, development and invigoration for Africa is...the responsibility of the*

international community. ..China stands ready to work with other international partners to support Africa in pursuing peace and development”.

The world needs to be led by Africa in seeking solutions, but humanity cannot fail to rise to the challenge that by the turn of this century will directly affect two out of every five humans on the planet, and indirectly affect everyone.

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