Western and Chinese Investments in Africa: Challenges and Opportunities
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Executive Summary

African countries have historically maintained more political and economic relations with the West than the defunct Eastern bloc countries. However, Africa has recorded a shift in investment dynamics in recent years, especially with the increase in Chinese interest and investment in Africa. Although Western and Chinese investments in Africa have yielded some positive impacts and led to unique challenges for African countries, there seems to be an increasing appetite among African countries for Chinese investments.

China has sought to distinguish itself from the Western approach by characterising its loans as mutually beneficial and promising non-interference in the domestic politics of African countries. This appears to be divergent from the approach of Western countries, who have often been accused of meddling in the politics of debtor nations to advance democratic norms. Despite this seeming positive, Chinese investments in Africa have been met with criticism. These include arguments of debt-trapping, economic dependence, corruption and prioritisation of Chinese interests over local needs—essentially, corrosiveness.

This brief examines the opportunities and challenges of Western and Chinese investments in Africa. It recommends promoting constructive capital investments and mitigating the negative effects of corrosive capital investments in Africa. These recommendations include strengthening local institutions for effective investment regulation, promoting public-private partnerships, regional cooperation and integration, and diversifying development partnerships.
Countries around the world survive through economic and diplomatic interactions with one another. Nations and their citizens invest within and outside their territories, and these international investment relations, to a large extent, have contributed to the relative stability within and across most economies across the globe. African countries have, over the years, maintained economic and diplomatic ties with the rest of the world, and they have equally been members of a number of multilateral organisations the world over. These multilateral interfaces have economic and diplomatic effects on the economy and other aspects of life of African countries and their people. However, some questions of interest to citizens and analysts – across spaces and jurisdictions – have always bordered on how beneficial these economic and diplomatic ties are to African economies and their people, the extent to which these ties will be productive for African nations over certain time horizons (in the short, medium and long terms), and the possible scale and scope of their envisaged benefits.

African countries have had a longer history of economic relations with the Western countries than they have interacted with the Eastern bloc. The reasons would conform to economic historical epochs such as slave trade, trade exploration, scramble for and partition of Africa, colonisation, political independence, and post-independence and neo-colonization eras, which connected African economies with mostly the Western economies in trade and aid. Considering the post-independence, economic relations have deepened African dependency on the western countries for trading partners, with Africa exporting primary products needed as raw materials in the Western industrial plants while importing manufactures. Africa’s trade relations have resulted in balance of payments deficits, culminating in the high demand for foreign aids, which becomes graver due to the developmental needs of these emerging economies. The pattern of western investment in Africa mostly reflects infrastructural aids to the trading sectors/communities and palliatives to soothe Africa’s endemic trade imbalance.

Africa's international relations with China date back to the 1950s when diplomatic offices were mutually opened in China and a number of African countries (in 1956 in Egypt and 1971 in Nigeria). These relations were both economic and non-economic between the 1950s and 1960s. For instance, China was invited by the Nigerian government to its independence celebration, which it attended with an official delegation and presented its government’s congratulatory message to Nigeria. Although this interface began diplomatic ties between the two countries, it had very insignificant economic undertones at the time. Egypt has the oldest economic and diplomatic relations with China in Africa, having contracted an official debt of $2 million from China in 1956.

China’s international economic relations with the rest of the world have been scrutinised and
interrogated for its general lack of transparency. With respect to its economic relations with Africa, there has been the problem of ascertaining how proactive African nations and China are in terms of loans and loan-tied project disclosure. This is fundamental to understanding the conditions and impacts of these loans – whether they are constructive and development-enhancing or corrosive and debilitating to the growth and overall stability of the economy of African countries. *Studies have shown that only one in 23 loans or loan-tied projects from China had full disclosure or transparency, meaning that, except for one out of every 23 transactions, information about the lifecycle of loans/projects – including the identification of the projects, preparation of the projects, procurement with regards to the projects, the implementation and completion of the projects – was not in the public domain.* This shrouded secrecy is predicated on the non-disclosure (or confidentiality) condition often attached to Chinese loans (Preuss, 2021; Subaechi, 2021; Mlambo, 2022).

On the other hand, most African countries, as sovereign debtors, unfortunately, have also failed the disclosure and transparency tests based on some indicators. A typical example is the $800 million loan obtained by the Nigerian government from the World Bank to provide palliatives to the people to mitigate the effects of the petrol subsidy removal. One of the prominent factors that stalled the loan process was the problem of the nondisclosure of details about the loan contraction and how the loan was to be actually expended. In fact, the entire details surrounding the loan were shrouded in mystery due to the lack of budgetary transparency. As such, the assessment of such loan applications, budgetary outcomes and effects on the economy are usually tainted by judgmental biases, with the conclusions based on the conjectures and opinions of the assessors.

There are, therefore, questions on how transparent and accountable Africa and its creditors ought to be and what mechanisms are in place to ascertain the effective utilisation of loans, as evidence abounds of the failures of loan-financed projects around Africa. For instance, China has financed and constructed various infrastructure projects in Africa as part of its Belt and Road Initiative (BRI). While many projects in this regard have been successful, there have been instances of abandoned capital projects where construction works have been halted or delayed indefinitely. Examples of such projects include, but are not limited to:

- **Kenya:** The Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor project, which includes a new port, railway, and pipeline. This has faced delays and uncertainties due to financial challenges and environmental concerns. The railway section of the project, in particular, has witnessed significant delays and is currently on hold (Financial Times, March 2019).
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- **Nigeria:** The $8.3 billion Lagos-Calabar coastal railway project, originally planned to connect Lagos in the West to Calabar in the East, has experienced delays and funding challenges, leading to its abandonment. The project was expected to boost regional trade and development (BBC, February 2021).

- **Tanzania:** The Bagamoyo Port project, a $10 billion port and special economic zone, was planned to be one of Africa's largest ports. However, the project was suspended in 2019 due to financial disagreements between the Tanzanian government and the Chinese investors (Financial Times, January 2019).

Given these issues, this policy document evaluates Western investments in Africa, with a special focus on the lapses and opportunities they present.

### The Nature of Western Investments in African Nations: Opportunities and Lapses

To expedite economic growth, African nations frequently rely on foreign sources to fill the limitations of local investable capital caused by low domestic savings. The quest to fill this gap has opened African economies to a floodgate of diverse Western influences. In commenting on the Financial Gap Theory (Two Gap Theory), Chenery and Strout (1966) highlighted the notion that foreign aid could be used to fill either a savings or foreign exchange gap needed for the economic development of less developed countries. The nature of these aids and the conditions attached to them determine both the short- and long-term effects of these flows.

In Africa. Some scholars have argued for Western loans' effectiveness and positive impact on Africa's economy (Calderon and Serven, 2003; Olukayode, 2009; Sahoo and Kumar, 2012; Kodongo and Ojah, 2016). On the contrary, others like Levy-Livermore and Chowdhury (1998), Owusu-Manu et al. (2019); and Rehman (2019), have argued on the negative effects of such loans. These arguments notwithstanding, Western investments in Africa always have attendant opportunities and lapses.

Opportunities associated with Western investments in Africa include,

**Infrastructure Development:** Western investments have contributed to developing critical African infrastructure, such as transportation networks, power plants, and telecommunications systems. These investments enhance connectivity, facilitate trade, and support economic growth. For example, in Rwanda, Western investments in the information technology and services sectors have contributed to economic development in that country.

**Technology Transfer and Knowledge Sharing:** Western investors often bring advanced
technologies, the best management practices, and expertise to African countries. This transfer of knowledge helps improve local capacities, promote innovation, and stimulate economic diversification. In South Africa, for example, Western investments in the automotive industry have impacted significantly on job creation and export growth.

**Job Creation and Skills Development:** Western investments have generated employment opportunities across various sectors, including manufacturing, services, and infrastructure development. These jobs contribute to poverty reduction and skills enhancement among the local workforce in African economies which have benefited from the loans.

**Access to Global Markets:** Western investments often provide African nations with improved access to global markets. This can help to expand export opportunities, boost foreign exchange earnings, and diversify economies away from overreliance on primary commodities.

**Enhanced Governance and Regulatory Standards:** Western investors often require adherence to higher environmental, social, and governance (ESG) standards. This can lead to improved governance practices, environmental sustainability, and social responsibility in African countries. The World Bank and the IMF have provided technical assistance to less developed countries (LDCs) on debt management performance assessment, which entails capacity building on debt recording, monitoring and reporting.

Notwithstanding these gains, challenges associated with Western investment in Africa include, among others, the following:

**Exploitation of Natural Resources:** Some Western investments in Africa have been associated with the exploitation of natural resources without adequate environmental safeguards. This can result in ecological damage, displacement of local communities, and unequal distribution of benefits. For instance, in Ghana, Western investments in the cocoa industry still leave much to be desired in terms of value addition that would expand the country’s export basket. Equally, Western investments in the oil and gas sector have elicited concerns over environmental degradation and retardation of community development over the years. In some cases, as observed in Ogoni and Ijaw communities in Nigeria, these problems have resulted in communal conflicts and armed resistance.

**Economic Dependence:** Western investments have sometimes perpetuated economic dependence on foreign entities. African countries may become overly reliant on foreign capital, technology, and markets, limiting their economic autonomy and hindering long-term development.

**Unequal Distribution of Benefits:** In certain cases, Western investments have not adequately addressed issues of income inequality and wealth distribution within African
countries. The benefits of these investments may disproportionately favour foreign investors or the local elite, thereby exacerbating social and economic disparities within indebted African economies. Heavy debt burdens have resulted in wage freezes, import reductions, and diversion of the spending of governments from social services, all in the efforts to make provisions for debt servicing. These policy measures adversely affect income distribution and deepen inequality in the debtor African countries.

**Lack of Local Capacity Building:** While technology transfer is an opportunity, some Western investments may not sufficiently focus on building local capacities and skills. This can limit projects’ long-term sustainability and hinder indigenous technology development. This was the experience in Zambia in which President Kenneth Kaunda in 1984 noted that economic assistance has the tendency to distort their (Zambia’s) choice of technology since such aids often come with the conditionality of buying machines and equipment from donor countries (Kyambalesa, 2004: 73). This situation applies to other African countries.

**Neocolonial Tendencies:** Critics argue that Western investments can ultimately perpetuate neocolonial power dynamics, whereby Western investors have disproportionate influence and control over African economies. This can undermine local decision-making processes and hinder true economic sovereignty. This is most commonly noticeable among Francophone African countries.

An important fact worthy of note is that the nature of Western investments in Africa varies across projects, countries, and sectors. There are instances where the investments have successfully contributed to sustainable development, while these have enabled challenges and instigated criticism in others.

Nevertheless, the joint efforts of the IMF and World Bank (2018) at probing the debt management capacities of the least developed countries (LDCs) have exposed a number of debt management problems in some African countries. The Republic of Congo, pre-financing of oil contracts was contracted out by the state-owned oil company without disclosure to the country’s Debt Management Office (DMO) for more than two years because this was considered as being outside the mandate of the DMO. In the case of Togo, pre-financed government debt amounting to 7% of the GDP in 2015, was not captured in official debt statistics at the end of 2016.

Two cases of undisclosed state-guaranteed debts to state-owned enterprises, which amounted to $1.15 billion (or 9% of the GDP as at the end of 2015), were identified in Mozambique in 2013 and 2014. There have also been cases of lags in debt reporting in Zambia, with serious implications for the spikes observed in 2018 debt figures.
These challenges are clear indications of weak institutional debt management capacities – weak debt recording, reporting, auditing and statistics – within African economies. The IMF and World Bank’s technical assistance programmes have enhanced debt governance frameworks among African economies.

**Alternatives to Africa’s Relations with its Development Partners Within the Framework of Economic Sovereignty**

Africa’s relations with its international partners are ordinarily expected to be beneficial to it, notwithstanding some diplomatic intricacies and even despite multiple domestic and external shocks. While China is reputable for respecting the political and diplomatic sovereignty of its partners in Africa, there are fears that the economic sovereignty of these partners might be under threat over time, partly due to the growing debt stock and liability to China, amidst the secrecy and information asymmetry that characterise these loans. There are also fears that the acclaimed abstinence from political meddlesomeness in Africa is nothing but a smokescreen in relation to the nondisclosure clauses that define Chinese loan portfolios, as well as the conditionalities attached to the Chinese supply of labour and equipment that are associated with the infrastructure loans to Sub-Saharan Africa (Nigeria as an example). Besides, the loan-tied projects associated with China have failed in many African countries, while others were cancelled or face delays due to actual or perceived non-viability or funding issues. Examples of such are the Kenyan Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor project, and the Nigerian $8.3 billion Lagos-Calabar coastal railway project. Consequently, the West has argued that Chinese infrastructure loans to Africa are “predatory loans” for future control, as China hopes to prey on the unsuspecting African countries when they are eventually trapped in the debt obligations to them (Bautigam, 2018; Wade, 2019; Kwasi, 2019; Kazeem, 2020; Mlambo, 2022).

Furthermore, it is argued that Chinese infrastructure loans generate little linkages to growth in Sub-Saharan Africa, since the loans mostly target the construction of government facilities, cultural centres, and sports facilities, which offer minimal growth incentives and linkages with the rest of the economy or which only generate temporary economic benefits (Mlambo, 2022). Analysts believe that Chinese loans not only have weak linkages to growth but they also bear high possibility of infrastructural failure, deliberately aimed at the forfeiture of collaterals by the debtor nations, who will ultimately lose far more than the loan facilities (Will, 2012; Strange, et al., 2013; Rosen, 2018).
Figure 1: charts the utilisation of drawing rights from the People's Bank of China (PBOC) by African countries, with Nigeria and three other countries utilising the facilities of the Bank between 2015 and 2021.

Source: AidData survey

The dataset from Figure 1 invariably shows that African countries are not the most vulnerable to Chinese loans, since they account for less value in the magnitude of the loans, while the number of African countries contracting China loans is fewer than those in Asia, America or Europe. However, it is important to be on guard against the possible effects of the increasing inroad of the Chinese financing into the African economy, because as Mlambo (2022) argued, unless Chinese loans create considerable economic benefits in the creditor’s economy and thus improves its debt servicing capability, the loans will have substantial negative consequences for development and debt sustainability. This corroborates the fact that China’s development finance may not contribute significantly to local economic growth if it continues to fund vanity projects in the benefiting African countries, such as Nigeria and Kenya.

For instance, while Nigeria’s debt to China grew from $1.39 billion in 2015 to $1.465 billion in 2016 and then to $4.09 billion in 2022 (a more than 145.27 per cent increase), Nigeria’s economic growth fell from 6.32 per cent in 2014 to 2.65 per cent in 2015, and -1.62 per cent in 2016. While this growth rate has kept fluctuating (sometimes into the negative region), for first time since 2015, it rose to 3.65 per cent in 2021. China still tops the list of Nigeria’s sovereign creditors. Out of a debt stock of US$40.60 billion (16.61 trillion) as at Q2 2022, Nigeria’s indebtedness to China alone is US$4.09 billion, accounting for about 80 per cent of its bilateral loans (The PUNCH, 19 January, 2023).
However, there is also the crucial argument that the West (the US, UK and the rest of Europe), the international financial institutions (IFIs), international financial markets (IFMs) – through the Eurobond, and private lenders in Europe and America, have contributed the largest part to Africa's increasing and overwhelming debt burden (as in the case of Nigeria), with its stringent conditionalities, high interest rates (in most cases), alongside barefaced political, economic and diplomatic meddlesomeness, thereby making Chinese loans more attractive, despite the perceived danger of unsustainable debt burdens in the medium and long terms (McKenzie, 2018; Kwasi, 2019). Scholars have argued that China's contribution to the total external debt burden in African pales to insignificance besides the West's, while maintaining that most of the debts in Africa are still owed to institutions like the IMF and World Bank, and are adjudged more expensive to service than China loans (Bavier and Shepherd, 2018; Eysse and Welle, 2018; Donnelly, 2018; Dahir, 2019).

There is clear evidence that some Chinese loans to some poor African nations, with weak institutional capacities, are inimical to fiscal administration and corrosive to economic development. From the 2022 AidData Survey Report, six Chinese “rescue loans” to five African nations, namely, Angola (one loan of $6.9 billion in 2016); Egypt (one loan of $2 billion in 2016); Kenya (one loan of $600 million in 2016); South Sudan (two loans of $1 billion and $400 million in 2014); and Sudan (one loan of $1.5 billion in 2012), have been spotted with significant indicators of financial impropriety, which qualify those transactions as corrosive loans. Three of the loans – those to Angola, South Sudan and Sudan – were collateralised with oil backing; and all of them have the issues of lacking in the appropriate disclosures, some have capitalisation of unserviced amount due; and other difficult terms in those credit operational relations.
In the Figures 2-5, the data of 13 African States are taken from the Global Debt Database published by the IMF. **These figures actually show that the Western institutions and countries, whose credit flows are the most documented therein, incontrovertibly remain the controlling creditors to African States, even in the midst of fears of the rising dominance of the Chinese government’s stringent and corrosive loans.** Thus, the problems faced by African economies are actually more deeply associated with their entanglement with Western investments.

Figure 2: **National Debt to GDP in Nigeria, Niger, Senegal and Ghana**

Source: *Global Debt Database by IMF*
Figure 3: National Government Debt to GDP in Kenya, Uganda and Republic of Congo

Source: Global Debt Database by IMF

Figure 4: National Government Debt to GDP in Egypt, Morocco and Mauritania

Source: Global Debt Database by IMF
For instance, in 2015, Nigeria's creditor profile (being one of the African countries involved) indicated its obligation of $1.39 billion to China; $140.25 million to France; $43.10 million to Japan; $11.73 million to Germany; and then enlisted $14.79 million owed to India in 2018. However, by September 2022, Nigeria's external debt profile had risen significantly, as she then owed China $4.09 billion; France, $526.48 million; Japan, $57.11 million; Germany, $153.06 million; and India, $27.17 million (DMO, 2023). The foregoing shows that China is indisputably Nigeria's largest bilateral creditor, with the highest credit volume. Nigeria's Debt Management Office (DMO) disclosed that as at 30 September, 2021, 15 projects were funded with Chinese loans and four of these were rail-related. But The PUNCH (2023) reported that the Nigerian government spent $548.67 million in servicing rail-related debts between 2016 and 2022. Most of these rail projects are yet to be completed, while the one that has been completed is being underutilised due to terrorist activities. The others appeared to have failed outright, with little or none of their economic impacts being felt.

Source: *Global Debt Data base by IMF*
A viable alternative that is available to Africa – if it must maintain economic sovereignty across the countries making up the continent – would be to deliberately forge and strengthen regional integration. An example is through the full implementation of the African Continental Free Trade Area (AfCTA), by which African countries can prioritise holistic regional integration. This agreement aims to boost intra-African trade, create a single market, and enhance economic cooperation among African countries. By leveraging regional resources and markets, African countries can reduce dependence on external development partners. Another effort is by means of Regional Development Initiatives (RDI), through which African countries can explore the regional development of infrastructure projects, energy integration, and industrial clusters. These initiatives would promote collaboration among neighbouring countries, foster regional value chains, and enhance economic self-sufficiency. The likes of such initiatives include the West African Power Pool (WAPP) and the Tripartite Free Trade Area (TFTA), covering the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), and Southern African Development Community (SADC) (UNEC for Africa, 2021).

Another approach is to diversify development partnerships. For instance, African nations can engage in South-South cooperation and strengthen partnerships with countries that are emerging economies in the Global South, such as India, Brazil, and Turkey. These countries offer alternative sources of investment, technology transfer, and development assistance (Chatham
House, 2019). Also, collaboration with NGOs and civil society organisations can bring about alternative development models and funding mechanisms. These partnerships can focus on specific sectors, such as education, healthcare, and sustainable agriculture, to address social and environmental challenges. Examples include partnerships between NGOs like Oxfam and local African organisations (IMF, 2019).

The next viable alternative would be to boost domestic resource mobilisation. This can be achieved through local revenue generation, whereby African countries will prioritise efforts to enhance resource mobilisation through taxation, improving governance, and reducing corruption. By increasing domestic revenue streams, countries can reduce reliance on external development assistance and have greater control over their economic policies.

Another way would be to leverage natural resources, in which case African countries can explore the sustainable management of their natural resources, thereby ensuring that extraction and exploitation activities benefit local economies and communities. Strategies like processing for value addition, local content policies, and responsible resource governance can enhance economic sovereignty and reduce dependence on foreign companies (World Bank, 2019).

Besides, African nations can prioritise the development of domestic capacities and industries through investments in education, research and development, alongside technological innovation. By building local expertise and capabilities, countries can reduce reliance on external actors and enhance their economic sovereignty. Again, encouraging partnerships between the public and private sectors can drive sustainable development in Africa. This approach allows for shared investment risks, knowledge exchange, and technology transfer, while ensuring that national interests and economic sovereignty are protected. Africans need to equally support the growth and development of African-owned enterprises to stimulate local economies and reduce dependence on external development assistance.

Governments can provide investment incentives, access to finance, and targeted support to foster entrepreneurship and indigenous industries. Exploring alternative financing mechanisms, such as green bonds, impact investing, and blended finance, can attract investments aligned with sustainable development goals. These approaches can leverage private sector capital, while promoting social and environmental sustainability. Finally, improving governance practices, transparency, and accountability within African countries will attract sound investments and promote trust among development partners. Good governance creates an enabling environment for economic sovereignty and sustainable development.

It is worth noting that each country’s context and priorities may differ, and the choice of alternative approaches should align with country-specific peculiarities and circumstances. In addition, a combination of strategies may be necessary to achieve economic sovereignty and reduce dependence on external actors effectively.
Many scholars and policy analysts have argued that faulty or dysfunctional institutions play a fundamental role in the functioning of African economies, and the nature of their capital investments (Devarajan, Dollar and Holmgren, 2001). African countries are major producers of primary products, which supply raw materials to the major industrial plants of the Western countries. African economies have less real trade among themselves; they are net importers of the world's goods and services; they render very low levels of trade services, and are mainly net end-users of services, with all these culminating in their engagement in the international financial markets as borrowers (debtors) rather than lenders (creditors). African production and trade relations make global events have serious implications for investment flows to their economies.

Nigeria, with the largest population in Africa, presents itself as an attractive consumer market for investors and traders, coupled with its generous endowment of abundant natural resources and a low-cost labour pool, as such one would wonder why there are low inflows of strategic capital investments into such a hub. The answer to this question is multidimensional; however, scholars like Esu and Udonwa (2015), Esu (2017), and policy trackers like the US Department of State (2022), have identified corruption as a serious obstacle to Nigeria's economic growth and a substantive barrier to FDI flows. Domestic and foreign investors often cite this menace as a significant barrier to doing business in the country. In a study carried out by Isaksson and Koadam (2018), widespread corruption in the sampled African countries, was unambiguously linked to China's development-finance/aids-funding projects.

However, the foregoing cannot suffice as the holistic factors that influence the extent to which capital investment in Africa is shaped. Other factors like global political dynamics, such as the Russia-Ukraine war, and regulatory issues, shape capital investment in diverse ways. Geopolitical tensions, including conflicts like the ongoing Russia-Ukraine war, have the tendency to create uncertainties and intensify risks in global markets. Investors may therefore become cautious and reevaluate their risk appetite, leading to a decline in capital flow to emerging markets like Africa. Negative sentiment can impact investment decisions, particularly in sectors and countries perceived as vulnerable to geopolitical risks. For instance, Nigeria's economy, heavily reliant on oil exports, is influenced by global events impacting oil prices. Geopolitical tensions, such as conflicts in oil-producing regions or trade disputes, can significantly affect Nigeria's investment climate.

Equally, global events, such as the earlier mentioned Russia-Ukraine war, influence risk
perceptions among investors. Countries located in regions near the conflict may be considered as more unstable or exposed to potential spillover effects. Hence, investors may redirect their capital to safer destinations, thus influencing the attractiveness of certain African countries for investments. But, on the flipside, during times of geopolitical tensions, global attention and resources could be diverted towards addressing and managing the conflict. This diversion can reduce the focus on other regions, including Africa, affecting the inflow of capital and resources for investment projects in the continent.

On specifics, certain sectors may be more directly impacted by the Russia-Ukraine war and its consequences. For example, energy investments in Africa, particularly those involving oil and gas, can be affected by disruptions in global energy markets caused by the conflict. Fluctuations in oil prices and supply chain disruptions may impact investment decisions in African energy projects. Also, infrastructure investments in Africa may need more time or reduced funding, if global investors prioritise investing in regions directly affected by the conflict. This could impact the development of critical infrastructure projects in African countries.

Finally, global geopolitical events can trigger changes in regulatory environments and policies. Governments may adopt stricter regulations or impose new restrictions on capital flows, affecting foreign investments in Africa. Investors may also become more cautious about compliance and due diligence, leading to increased scrutiny of investment opportunities and potential changes in investment strategies. It is important to note that the extent to which global political and regulatory factors impact capital investments in Africa's economy can vary, depending on the specific circumstances, investor perceptions, and the resilience of African economies to external shocks. So, countries would need to naturally define their trajectories on the basis of their peculiar and global experiences.

Policy Measures to Promote Constructive Capital Investments and Mitigate the Negative Effects of Corrosive Capital Investments in Africa

For constructive capital investment flows from any of the continental blocks into Africa, with high prospects for benefits to the African economy, deliberate policies and effective institutions must be put in place. The characteristics of China's capital investments in Africa have generally imprinted the inference of suspicious intentions of the investments by many policy trackers. Many believe that they basically promote corruption, and fund underdevelopment, poverty and inequality, rather than enhance economic growth, development and the general well being of African economies (Lola et al., 2017; Isaksson and Kotsadam, 2018). Constructive capital investments refer to investments that contribute positively to a country's long-term economic growth and development. These investments usually align with the country's strategic
development goals, respect local laws and regulations, and aim to generate sustainable benefits for local communities. On the other hand, corrosive capital investments refer to investments that may, in the short run, appear to contribute to a country’s economic growth but which, in the long run, undermine its sustainable development, rule of law, and governance structures.

In view of the foregoing definitions, the new order of policy strategies should be deliberate and targeted at promoting constructive capital investment initiatives that are predicated on negotiated terms, agreements, and concessions that are properly streamlined, deliberately, to generate benefits to African economies. This can be attainable through strategic and deliberate investments in critical infrastructure in the power, manufacturing and agriculture sectors, in addition to the planned urbanisation of rural areas through the provision of life-enhancing amenities to control migration and expand formal economic activities into the hinterlands, towards robust growth and development.

Although Mlambo (2022) asserted, with empirical evidence, that Western and Asian infrastructural loans in Africa are translating into economic growth, yet the magnitude of this growth in Africa did not receive much attention, even though his study did not bother about the country-by-country experience. However, evidence from countries like Nigeria, Kenya, amongst others, may not conform with Mlambo’s conclusion in the light of the preponderance of failing and abandoned infrastructure projects on the continent, coupled with the underutilisation of the finished ones (UNCTAD, 2019).

To halt and reverse these debt-financing crises, policy measures that can promote constructive capital investments, necessarily require proper pre-engagement cost-benefit and project relevance analyses, based on sector-specific and economy-wide simulations that would offer decision-indicative information. However, unless it is checked, it is possible for capital flows to contribute to excessive credit expansions and the buildup of systemic financial risks. These risks include high macroeconomic volatility and vulnerability to other crises, and they are well known from the experiences of the emerging markets (EMs) and other open economies (Adrian, 2018). Therefore, domestic policies clearly determine the resilience of economies against shocks and volatile capital flows. Although countries like Nigeria, South Africa, etc., have shock absorbers to contain large and potentially volatile capital flows, every economy must design its case-specific policies to deal with capital-flows-related shocks. Shock-absorbing “baseline” countries are characterised by:

- A fully flexible foreign exchange rate;
- An open capital account;
- A credible and effective monetary policy framework, such as inflation targeting; and
- A resilient financial sector. In these countries, macroeconomic, exchange rates, and asset price adjustments absorb shocks.
However, there are key preconditions required for shock absorbers to function effectively and efficiently, and these include the establishment of well-developed and transparent financial markets with deep hedging markets; strong micro- and macro-prudential supervisory and legal frameworks; adequate information for the calibration of effective macro-prudential instruments, data and policy transparency and foreign exchange interventions. Brandao-Marques, Gelos and Melgar (2018) found that more transparent government policies and better corporate disclosure significantly reduce the sensitivity of emerging market assets to global shocks.

On the whole, therefore, there are some policy measures that can be implemented to promote constructive capital investments and mitigate the negative effects of corrosive capital investments. These measures include strengthening local institutions. Governance structures and institutions play a crucial role in determining the quality of foreign investments. Strong local institutions can promote constructive capital by enforcing regulations and standards that ensure investments contribute to sustainable development. For example, in Botswana, a stable political environment and robust institutions have helped attract quality foreign investments, particularly in the diamond industry (UNCTAD, 2019).

Countries in Africa should have clear and stringent regulatory frameworks that encourage transparency, accountability, and adherence to international best practices. Foreign investments should be scrutinised to ensure that they comply with these regulations. South Africa provides a good example here, with its well-established regulatory bodies and frameworks, which have played a significant role in the country’s ability to attract significant foreign direct investments (World Bank, 2020).

Nigeria needs to promote public-private partnerships (PPPs) since they can be useful tools for promoting constructive capital. They can help leverage private sector resources and expertise for public sector projects. For instance, Kenya has successfully used PPPs to attract private investment in infrastructure projects, such as roads and energy (Center for International Private Enterprise, 2018). Moreover, policies can be designed to incentivise investments in sectors that are crucial for sustainable development. For example, Ethiopia has implemented tax incentives and infrastructure subsidies to attract investments in its manufacturing sector, which is seen as key to the country’s industrialisation and job creation goals (World Bank, 2020).

Also, efforts in the area of capacity building and education will also be a great tool for mitigating the negative effects of corrosive capital investments. Training and education can help build the capacity needed to effectively manage and benefit from foreign investments. This can involve training government officials to negotiate better investment deals, or educating local communities about their rights in relation to foreign investments (OECD, 2018).

Again, regional cooperation and integration may actually drive investment management
processes. Through regional cooperation and integration, countries in Africa can share best practices and establish common standards and regulations for foreign investments. For example, the African Continental Free Trade Area (AfCFTA) could play a role in promoting constructive capital across the continent. On the other hand, investment promotion agencies such as Nigerian Investment Promotion Commission (NIPC), Ghana Investment Promotion Centre (GIPC), Kenya Investment Authority (KenInvest) and Zambia Development Agency (ZDA) etc, can equally play significant roles to help attract, facilitate, and retain quality investments. The Rwanda Development Board, for instance, has been instrumental in promoting Rwanda as a destination of choice for foreign investments (AfDB, 2019).

It would be critical to increase the domestic economic production chain through improvement and widening of the scope and scale of manufacturing activities in African countries. This will lead to expansion in domestic economic production within African countries, increase the fiscal revenue space and reduce the burden of dependence on external financing. The country also needs to intensify Pan-African trade relations, so as to enhance mutual gains from trade and minimise the commercial debt burden, which is entangled through balance of payments problems. Ultimately, this process will attract constructive investors into the development space of African economies.

References


Western and Chinese Investments in Africa: Challenges and Opportunities


