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ISSUE BRIEF

Deconstructing the Dragon: China's Commercial Expansion in Africa

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EXECUTIVE SUMMARY

When National Security Advisor John Bolton unveiled the Trump administration's new Africa strategy in December 2018,[1] there were only two countries that he mentioned more than ten times. One was the United States, and the other was China. (The most-mentioned African nation, South Sudan, was referenced four times.)

The administration's approach to Africa is inextricably linked to its perception of China as a strategic threat. China's challenge to American hegemony in Africa is primarily in the economic sphere: Chinese investment and trade are rapidly eclipsing those of American firms, as evidenced by a 40 percent annual growth rate in Chinese foreign direct investment (FDI) and tens of billions in government loans and grants over the past decade. But there is a profound lack of understanding among US policy makers about how China actually operates in African markets. As a result, the administration could misdiagnose the true nature of the threat that China poses.

For years, US-Chinese competition in Africa has been conceptualized as a battle between Chinese and American companies over access to lucrative infrastructure projects. This storyline focuses on the unfair competitive advantages conferred on Chinese firms by Beijing's expansive global infrastructure financing programs. These lending programs are part of an ambitious foreign policy program to connect China with other regions through ports, railways, and fiber optic cables. President Xi Jinping rebranded these efforts, which started with the "Going Out" strategy in the late 1990s, as the Belt and Road Initiative in 2013.

The Africa Center promotes dynamic geopolitical partnerships with African states and shapes US and European policy priorities to strengthen security and promote economic growth and prosperity on the continent

1 "Remarks by National Security Advisor Ambassador John R. Bolton on the Trump Administration's New Africa Strategy," White House, last updated December 13, 2018, https://www.whitehouse.gov/briefings-statements/remarks-national-security-advisor-ambassador-john-r-bolton-trump-administrations-new-africa-strategy/.

Chinese lending to African nations for infrastructure can pose a threat to US security interests on the continent. As Ambassador Bolton indicated in his speech, a handful of nations[2] risk becoming ensnared in a cycle of "dependency, domination and debt." But, overall, the infrastructure lending is not all negative and is not the *only* story. American companies are simply not competitive in the infrastructure domain and—apart from a few notable, globally recognized firms like Bechtel and GE—have little interest in launching massive construction ventures in Africa. They tend to concentrate in service sectors, reflecting the structure of the US economy.[3]

The strategic threat to future US competitiveness in African markets is not Chinese government-to-government (G2G) loans to finance infrastructure, but rather the growing Chinese footprint in areas of traditional US investment strengths, such as foreign direct investment, private equity, and venture capital.

For American companies to compete properly in African markets, the administration needs to take a broader look at capital flows into African markets and the diversifying forms of Chinese commercial engagement. This report argues for a broadening of the competitive lens beyond infrastructure and seeks to provide a more comprehensive framework for examining China's commercial interests in Africa. It presents two models through which policy makers can understand recent developments in the region. The first describes the G2G nature of Chinese infrastructure financing, summarizing the mechanisms by which Chinese state-owned enterprises typically secure contracts, and contrasts it with the government-to-business (G2B) structure of US development finance. Secondly, the brief analyzes US investment in African markets across capital flows, and notes the rising competition from Chinese firms in each category.

Countering China's growing incursions into FDI, private equity, and venture capital will require the administration to take a broader view of the investment landscape and build out its Africa policy by using new tools. This could mean, for example, directing the Overseas Private Investment Corporation to increase US investment in areas of competitive American advantage that match growing market demand in African countries for city infrastructure, innovative financial products, education, and entertainment.

There is much for the United States to leverage in Africa. With China's slowing growth domestically[4] and rising fear over African debt with China, a door is opening for increased US investment. To focus only on infrastructure is a strategic mistake.

BACKGROUND

Understanding the ways that capital flows to African markets from the United States and China is critical to formulating a successful US economic policy in the region. Types of financial flows include:

- government-to-government (G2G) loans;
- corporate investment from a company's balance sheet to build out operations in the African market, referred to in this report as foreign direct investment (FDI);[5]
- private equity (PE) and venture capital (VC) fund investments into foreign companies;
- institutional asset owners or managers (including pension funds) that invest in foreign private equity funds and infrastructure projects, and finance debt; and
- official development assistance (ODA) given by governments as grants.

Though both American and Chinese entities (government agencies, businesses, and funds) invest directly

2 These include the strategically important nations of Djibouti, Angola, and Kenya.

3 Aubrey Hruby, *Escaping China's Shadow: Finding America's Competitive Edge in Africa*, Atlantic Council, September 7, 2017, https://www.atlanticcouncil.org/images/Escaping_Chinas_Shadow_web_0907.pdf.

4 Richard Partington, "Fears Grow in Africa that the Flood of Funds from China Will Start to Ebb," *The Guardian*, January 5, 2019, https://www.theguardian.com/business/2019/jan/05/africa-fears-grow-flood-funds-china-start-to-ebb.

5 In some United Nations statistics, FDI includes all financial flows from one country to another (including G2G).

in African government-backed projects and local businesses, the level and mechanisms by which those investments are made vary significantly.[6] China largely relies on a G2G model, in which the Chinese government directly extends a loan or grant to the host African government to finance projects performed by Chinese firms. The United States, though it provides grants to a handful of African governments via the Millennium Challenge Corporation (MCC), does not engage in direct G2G lending. Instead, it uses a G2B model whereby money flows from the US government to third parties—either companies through development finance or nonprofit organizations as part of ODA.[7]

The United States provided close to $10 billion in ODA to African nations in 2016.[8] Because China is not an Organisation for Economic Co-operation and Development (OECD) country, there are no accurate data on its ODA to African nations; however, the United States would far surpass China if its official ODA were reported. At a fundamental level, the United States regards ODA as a form of charity and development support.[9]

Though US ODA outside of military assistance[10] and food donations[11] has been "untied" from the use of American companies or content over the past twenty years, there are onerous governance and political conditionalities involved.[12] The largest sectors receiving US ODA in Africa are health-related and, for example, require countries to adopt an anti-abortion stance.[13] China rarely gives cash aid at all, and its in-kind grants often require the use of Chinese goods and services.[14]

While ODA may earn the United States considerable goodwill and soft power influence in African countries, the aid flows through nonprofits and development contractors, and little ever supports American corporations in African markets. The many conditionalities imposed by the United States can pose an unflattering contrast to China's long-standing political "non-interference" model.[15] China's capital flows and aid to African countries involve few direct political conditionalities—particularly in the areas of democracy and governance—and also ensure that a large percentage of the capital involved directly benefits Chinese firms.

G2B investing (equity) and lending (debt) involve capital being directly invested into African businesses facilitated by a government entity. Development finance institutions (DFIs) such as the Overseas Private In-

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6 Since China is not an OECD country, there is no official data on Chinese loans, often complicating the picture of how China invests in Africa and other developing regions.

7 Jon Greenberg, "Most US Foreign Aid Flows through US Organizations," *PolitiFact*, March 8, 2017, https://www.politifact.com/global-news/statements/2017/mar/08/raj-shah/yes-most-us-foreign-aid-flows-through-us-organizat/.

8 OECD, "Development Aid at a Glance," 2018, https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2018.pdf.

9 "The United States Agency for International Development," United States Embassy in Botswana, accessed June 17, 2019, https://bw.usembassy.gov/embassy/government-agencies/usaid/.

10 Max Bearak and Lazaro Gamio, "The U.S. Foreign Aid Budget, Visualized," *Washington Post*, October 18, 2016, https://www.washingtonpost.com/graphics/world/which-countries-get-the-most-foreign-aid/.

11 US Congressional Research Service, *U.S. International Food Assistance: An Overview*, updated December 6, 2018, https://www.everycrsreport.com/files/20181206_R45422_7d5adab5a9dfcdeba08f7f3c3ddcad09a9750d69.pdf.

12 For example, the Millennium Challenge Corporation has eighteen development indicators that define country eligibility for its compacts. The Helms Amendment and the Mexico City Policy limit how foreign aid can be used for women's health and family planning issues.

13 OECD, "Development Aid at a Glance."

14 Becky Carter, *A Literature Review on China's Aid*, Institute of Development Studies, September 7, 2017, https://gsdrc.org/wp-content/uploads/2017/10/177_China_aid.pdf, and Luisa Blanchfield, *Abortion and Family Planning-Related Provisions in U.S. Foreign Assistance Law and Policy*, Congressional Research Service, updated September 12, 2018, https://fas.org/sgp/crs/row/R41360.pdf.

15 Ankit Panda, "Reflecting on China's Five Principles, 60 Years Later," *The Diplomat*, June 26, 2014, https://thediplomat.com/2014/06/reflecting-on-chinas-five-principles-60-years-later/, and Yuan Zhengqing and Song Xiaoqin, "The Dissemination of the Five Principles of Peaceful Coexistence," The Journal of International Studies, No. 05 (2015): 66–81, http://en.iwep.org.cn/papers/papers_papers/201707/W020170727533731773111.pdf.

Capital Flows to Africa: Comparing the United States and China

CAPITAL FLOW		UNITED STATES	ESTIMATED MAGNITUDE	CHINA	ESTIMATED MAGNITUDE
Government to Government		The US government has historically not provided non-military government-to-government loans in Africa and that is unlikely to change. The Millennium Challenge Corporation (MCC) is the closest equivalent; however, it issues grants rather than loans. Between 2005 and 2017, MCC's grants to countries in Africa totaled $6.5 billion.	$	Since 2000, China has extended more than $140 billion in debt financing to Africa. The overall trend of Chinese government support is unlikely to change, but the country's economic slowdown is likely to reduce the scale of financing in Africa, especially for non-priority projects.	¥¥¥¥¥
Institutional Investors		US pension funds, sovereign wealth funds, and other institutional investors have historically not had the risk appetite for African markets, but that is beginning to change. Asset owners such as the $9.8 billion Chicago Teachers' Pension Fund and the $25.1 billion San Francisco Employees' Retirement System are starting to make infrastructure and private equity investments, seeking attractive risk-adjusted returns from the continent.	$$$	Unfortunately, relatively little is known about Chinese institutional investors' priorities; however, there is a general trend toward diversifying risks worldwide. Given China's ageing population, its 2 trillion yuan ($290 billion) national pension fund is under increased pressure to deliver higher returns.	¥¥
Foreign Direct Investment	Large Companies	US Fortune 500 companies such as GE and ExxonMobil have been investing in Africa for decades, cementing market share. Tech giants such as Google and Facebook are already working to capitalize on Africa's growing internet-connected population, and more large US companies are beginning to look to the continent for business opportunities.	$$$$	Chinese companies such as Huawei and Transsion are rapidly expanding their presence in Africa, playing a key role in the continent's telecommunications infrastructure development. While Tencent and Alibaba have proven to be competitive with US rivals in emerging markets across the globe, they have yet to make big moves in Africa.	¥¥¥¥
	Small and Medium-Size Enterprises	US small and medium-size enterprises (SMEs) have historically focused on the US domestic market. Outreach programs by the Department of Commerce and the Small Business Administration and increased support through the new US International Development Finance Corporation should help increase US SME investment in Africa.	$	Over ten thousand Chinese-owned SMEs currently operate in Africa, especially in the manufacturing, services, construction, and real estate sectors. Given their success to date, Chinese SMEs will continue to invest in African markets over time.	¥¥

CAPITAL FLOW		UNITED STATES	ESTIMATED MAGNITUDE	CHINA	ESTIMATED MAGNITUDE
Private Investment	Private Equity	US private equity investment in Africa has grown considerably since the 1990s, and improved understanding of African markets and exit opportunities should further expand US PE investment over time. All of the top Africa-focused PE firms managing more than $1 billion are American, European, or African.	$$	None of the twelve big Africa-focused private equity firms managing over $1 billion are Chinese. While China's PE industry has grown in recent years, investments have largely focused on domestic opportunities.	¥
	Venture Capital	US venture capital funding of African start-ups has been increasing over time; 2018 saw an almost fourfold increase in total funding for African start-ups—$725.6 million across 458 deals. This year is on track to be another successful year for African VC. Most African VC funds have US investors and/or Silicon Valley partnerships.	$$$	Chinese venture capital funding available to African companies is growing. Early moves have been made by the web browsing company Opera, which in 2017 pledged to invest $100 million in Africa's digital economy and most recently launched a bike hailing platform in Nigeria called Oride.	¥
Official Development Assistance		The United States provided close to $10 billion in official development assistance to Africa in 2018, making the United States the top donor in the region. US ODA is directed at economic development, with the majority going to the health sector. Despite attempts by the current administration to make cuts, the US international affairs budget remains stable.	$$$$	Accurate data do not exist on Chinese official development assistance. China's foreign aid targets technical assistance and health as well as educational training, including over $50 million annually to support the deployment of Chinese medical teams and a pledge to provide scholarships for fifty thousand African students to study in China.	¥

Note: These columns display the author's estimate of the current magnitude of capital flows from the United States and China to African markets, denoted by $ and ¥ for US and Chinese flows respectively. These estimates do not represent specific monetary values. Instead, they represent the comparable magnitude of US and Chinese engagement within a specific type of capital flow.

A Chinese engineer and a local construction worker work on a section of the Mombasa-Nairobi standard gauge railway (SGR) in Emali, Kenya October 10, 2015. Source: Reuters/Noor Khamis

vestment Corporation (OPIC) in the United States and the China Development Bank, engage in G2B lending and investing in African businesses or private equity and venture capital funds in the region. Export credit agencies also engage in G2B lending, often in the form of export credits and supplier credits. The vast majority of direct[16] US government commercial activity falls in this category. Even US official development assistance, administered through the US Agency for International Development (USAID) and aimed at economic development, is managed almost exclusively by third-party players such as businesses and nongovernmental organizations (NGOs). Because of this (and the fact that MCC gives grants), US taxpayer money does not directly contribute to African government debt.

Business-to-business (B2B) capital flows include the activities of companies in foreign markets. FDI qualifies as B2B when a firm or individual in one country establishes business operations in another country or acquires foreign business assets. Private equity and venture capital firms also engage in B2B by directly investing in African companies focused on the region. PE or VC funds may have DFIs as investors but operate on mandates that are business-driven. The United States is historically strong in this area.

16 The paucity of data has made it difficult to understand the full Africa-China economic relationship or easily compare it to the United States' economic relationship with Africa.

THE G2G NATURE OF CHINESE INFRASTRUCTURE FINANCING IN AFRICAN MARKETS

Chinese financing of infrastructure in Africa is predominantly a G2G strategic endeavor.[17] Between 2006 and 2015, China pledged $95 billion through the Forum on China-Africa Cooperation (FOCAC), and China again confirmed its commitment to Africa by pledging another $60 billion in 2018.[18] While the rate of Chinese financing in Africa may slow in the face of waning Chinese growth, government support for infrastructure financing and construction will remain a central pillar of Chinese foreign and commercial policy toward Africa for three reasons:

First, China was driven to secure access to African natural resources to feed a robust domestic construction boom that started in the late 1990s and coincided with the introduction of the "Going Out" policy in 1999. China's construction bonanza has fueled as much as 40 percent of its gross domestic product (GDP) growth.[19] This creates huge demand for raw materials such as petroleum, iron, and copper. The uptick in global demand pushed metal prices up by 150 percent between 2005 and 2011. During this period, Beijing struck deals with governments of many resource-rich countries, such as Angola, Zambia, Sudan, and the Democratic Republic of the Congo, to secure access to valuable resources. Many of these relationships remain strong, allowing for future preferential access to resources should price and availability become issues.

A second motivation was to help Chinese state-owned construction and engineering firms secure contracts abroad as the domestic construction boom cooled. In the early 2010s, Chinese officials increasingly appreciated the potential negative impacts of excess industrial capacity on the local economy. Facing a cooling domestic market and decreasing marginal returns, state-owned construction firms increasingly sought contracts abroad through a more active Africa foreign policy.

Third, Beijing has aimed to use its foreign lending to engender more political support in international affairs. As Chinese financing has grown, so has Beijing's influence with numerous African capitals. Beijing has used this clout to secure votes at venues such as the United Nations (UN) Security Council and to curry favor on sensitive foreign policy issues such as the international recognition of Taiwan as part of mainland China. Since African nations make up the majority of votes in global bodies such as the UN and World Trade Organization, China continues to focus on building favorable relationships with African governments as a means of advancing its global interests in those bodies.

DEMYSTIFYING THE G2G CONTRACTING PROCESS IN INFRASTRUCTURE[20]

To understand the Chinese commercial footprint in African markets, it is useful to deconstruct the process by which Chinese state-owned or state-associated enterprises (SOEs) secure infrastructure contracts.

Chinese sole-sourced infrastructure deals typically manifest in the following five phases:

Project Scouting and Memorandum of Understanding Negotiation

State-affiliated Chinese engineering, procurement, and construction (EPC) firms lobby for major projects in African capitals. The companies compete for access to what they view as priority infrastructure projects through a series of meetings with relevant ministries and state houses. Many EPCs have consultants on the ground (often former employees or high-profile Chinese expatriates) who scout projects and purport to provide high-level access to government ministers. For Chinese firms, the ideal end goal of this phase is a project-specific memorandum of understanding (MOU) signed between the EPC and relevant ministry (usually a ministry of transport or finance).

17 Although Beijing has been increasing lending to Africa since the early 2000s as part of its "Going Out" global strategy, the Belt and Road Initiative subsumed most government-led financing when it officially started in 2013.

18 Yun Sun, "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration," Brookings Institution, September 5, 2018, https://www.brookings.edu/blog/africa-in-focus/2018/09/05/chinas-2018-financial-commitments-to-africa-adjustment-and-recalibration/.

19 Michael Roat, "China's One-Off Construction Boom," *Seeking Alpha*, October 9, 2017, https://seekingalpha.com/article/4112417-chinas-one-construction-boom.

20 Research that contributed to parts of this report was conducted under US government sponsorship. This report does not necessarily reflect the opinions or policies of the research sponsor.

As it is not coordinated or managed by officials in Beijing, this phase is highly competitive between Chinese firms. While there is a certain degree of specialization among the major state-owned firms (in ports, railways, and roads, for example), many Chinese SOEs in the African market compete for the same large-scale infrastructure projects. Parent companies compete with subsidiaries for privileged access to African ministers, sister companies promote the same projects, and local consultants may work for multiple companies. Often, particular line ministries become aligned with specific companies. This tends to create a great deal of corruption in this phase, and often results in ineffective project delivery.

Feasibility Study

Once an African ministry has selected an EPC for a project and has signed an MOU, the EPC will begin a "feasibility study." This is not a feasibility study as commonly understood in Western business culture. Rather, it is more of a costing study intended to provide an estimate of the ultimate price to execute the project. That the EPC itself is authorized to determine the cost of the project—and the amount of money that it will be paid—creates a deep principal-agent problem. The EPC has every incentive to inflate project costs to increase its own fees. This practice creates an additional structural bias toward corruption and bribery.

Contract Negotiation

After pricing and basic project specifications have been determined by the feasibility study, the EPC moves toward a project-based contract with the African government. During this phase, it is common for African government officials to travel to Beijing and begin rounds of meetings with entities such as the China Export-Import Bank (Ex-Im Bank), Sino Africa Fund, and/or Ministry of Finance. This phase also includes negotiations over the use of local labor, use of local content, environmental conditions, and quality control, among others. Chinese SOEs typically do not face the rigorous social media or public relations pressure that the international NGO community applies to Western firms, allowing Chinese SOEs to operate with more unconstrained self-interest.

However, over the fifteen years of increased Chinese activity in the region, African governments have grown increasingly attuned to Chinese interests and have refined their negotiating tactics to better advance development objectives. Despite widespread criticism that Chinese firms heavily depend on Chinese labor, in reality, most infrastructure projects are completed primarily by African workers, with Chinese nationals serving primarily in management or technical positions.[21] A comprehensive 2017 McKinsey & Company report on Sino-African economic relations reported that Africans comprised 89 percent of labor on the projects surveyed.[22] Local content and job training are also regularly included as part of contract negotiations between African countries and the China Export-Import Bank.

Loan Agreement

After a contract has been signed, the African government has additional meetings to determine the terms of the G2G financing. The loans extended by China's government are not "free" money and the resultant debt concerns many international finance institutions, such as the International Monetary Fund (IMF) and World Bank, as well as many US government officials. Djibouti in particular is in severe debt distress from excessive borrowing, mainly from China, with public external debt as a percent of GDP increasing from 50 percent to 80 percent in two years[23]; Beijing also owns approximately half of Angola's external debt and over 70 percent of Kenya's

21 Deborah Brautigam, "5 Myths about Chinese Investment in Africa," *Foreign Policy*, December 4, 2015, https://foreignpolicy.com/2015/12/04/5-myths-about-chinese-investment-in-africa/.

22 Irene Yuan Sun, Kartik Jayaram, and Omid Kassiri, *Dance of the Lions and Dragons*, McKinsey & Company, June 2017, https://www.mckinsey.com/featured-insights/middle-east-and-africa/the-closest-look-yet-at-chinese-economic-engagement-in-africa.

23 John Hurley, Scott Morris, and Gailyn Portelance, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, Center for Global Development, March 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

bilateral debt.[24] The specific terms on maturity, loan size, and interest rates are often kept private, adding to growing international and local concern.

Fund Disbursement and Construction

Once the loan agreement has been finalized, money begins to flow. Depending on the terms of the project, the Chinese EPC may be paid directly by the China Export-Import Bank, or by the African government using funds loaned to it by the China Export-Import Bank. The Chinese EPC will quickly mobilize to begin work and may even start before fund disbursement. The quick pace at which workers are on-site and shovels are in the ground is another major competitive advantage of Chinese EPCs. Based on McKinsey field research between 2016 and 2017, over half of investment decisions for Chinese construction and real estate companies were made in under a month.

There is no standard time that it takes for Chinese project development to run through all five phases. While it would be atypical for all the contracting to be done on a multi-hundred-million or billion-dollar project in less than a year, many projects languish for multiple years, usually getting stuck in the MOU and contracting phases. Increasingly, IMF concerns over debt levels are slowing down African government decision-making in the G2G term negotiation phase as governments must consult with the IMF before taking on more debt taking on more debt to avoid jeopardizing their existent financial relationships with the IMF and the World Bank.

IMPLICATIONS OF THE G2G CONTRACTING PROCESS FOR US FIRMS

The G2G and sole-source bidding nature of most Chinese infrastructure financing creates structural incentives for corruption that exacerbate detrimental business practices, including bribery.[25] While US and UK firms must comply with rigorous domestic anti-corruption laws laid out in the Foreign Corrupt Practices Act (US) and the Bribery Act (UK), Chinese firms regularly violate the UN Convention against Corruption, to which China is a signatory. Chinese firms historically have been those most likely to pay bribes, and Chinese infrastructure financing does not correlate to stronger rule of law, as does that of Western companies.[26] The last five years have seen high-profile accusations of corruption by Chinese firms in Kenya,[27] the Democratic Republic of the Congo,[28] Angola,[29] Algeria,[30] and others.[31]

Western procurement procedures, which involve various layers of transparency, well-articulated timelines, third-party feasibility studies, environmental impact reviews, and labor condition requirements, stand in stark contrast to how most Chinese infrastructure projects are

24 "IMF China Belt and Road Initiative Letter," Office of US Senator David Perdue, August 3, 2018, https://www.perdue.senate.gov/imo/media/doc/IMF%20China%20Belt%20and%20Road%20Initiative%20Letter.pdf.

25 There is a high concentration of bribery in energy and infrastructure sectors globally due to the winner-take-all nature of the projects and concentration of sole-source bidding. See "Where the Bribes Are," Mintz Group, accessed June 17, 2019, http://www.fcpamap.com/. Also the structural incentives are at play for companies of all nationalities as seen in the maritime infrastructure projects involved in the Credit Suisse scandal in Mozambique. See Lynsey Chutel, "A Search for Mozambique's Secret $2 Billion Debt Shows How the Global Banking System Aids Corruption," *Quartz*, January 10, 2019, https://qz.com/africa/1519653/mozambique-finance-minister-arrested-credit-suisse-fbi-caught-up/.

26 Deborah Hardoon and Finn Heinrich, 2011 Bribe Payers Index, Transparency International, November 2, 2011, https://www.transparency.org/whatwedo/publication/bpi_2011, and Wenjie Chen, David Dollar, and Heiwai Tang, *Why Is China Investing in Africa? Evidence from the Firm Level*, Brookings Institution, August 2015, https://www.brookings.edu/wp-content/uploads/2016/06/Why-is-China-investing-in-Africa.pdf.

27 Humphrey Malalo and John Ndiso, "Kenya Charges Top Officials with Fraud over New $3 Bln Railway," Reuters, August 13, 2018, https://af.reuters.com/article/topNews/idAFKBN1KY10J-OZATP.

28 The Carter Center, *A State Affair: Privatizing Congo's Copper Sector*, November 3, 2017, https://www.cartercenter.org/resources/pdfs/news/peace_publications/democracy/congo-report-carter-center-nov-2017.pdf.

29 Toh Han Shih, "Opinion: Corruption Charges in Angola May Spell Trouble for Sinopec," *Caixin*, April 18, 2018, https://www.caixinglobal.com/2018-04-18/opinion-corruption-charges-in-angola-may-spell-trouble-for-sinopec-101235946.html.

30 Raymond Zhong, "Huawei's 'Wolf Culture' Helped It Grow, and Got It into Trouble," *New York Times*, December 18, 2018, https://www.nytimes.com/2018/12/18/technology/huawei-workers-iran-sanctions.html.

31 Joshua Meservey, *Chinese Corruption in Africa Undermines Beijing's Rhetoric about Friendship with the Continent*, The Heritage Foundation, August 8, 2018, https://www.heritage.org/global-politics/report/chinese-corruption-africa-undermines-beijings-rhetoric-about-friendship-the.

secured and constructed in African markets. American companies will continue to struggle to compete with the Chinese for large infrastructure projects for the foreseeable future given the structure and scale of the Chinese G2G financing footprint.

The G2G mechanisms by which Chinese companies win projects in Africa are often antithetical to American business practices in the region. The US government has no structure through which to lend resources directly to an African government to fund large-scale infrastructure projects tied to the use of US companies in the construction process. Instead, the MCC—the main agency to facilitate US G2G development support—gave grants of $6.5 billion to twenty-two African countries between 2005 and 2017.[32] These grants are administered by a third-party entity created in the recipient country for the special purpose of conducting open, transparent, and competitive bidding processes that—in the interest of promoting good governance—specifically do not advantage US firms. All other US government resources directly transferred to African governments to build infrastructure flow through the World Bank and other multilateral development institutions.

Since Chinese contractors come to African markets with the ability to obtain quick financing capabilities through the China Ex-Im Bank and other state-owned funds, they are often able to negotiate directly with African governments, instead of having to participate in competitive bidding processes or raise funds for construction via private capital markets, as American companies do. Beijing's willingness to bankroll the activities of Chinese firms in Africa amounts to a tremendous advantage in the negotiating and bidding process, and has allowed Chinese contractors to gain nearly half of Africa's international engineering, procurement, and construction market. Unsurprisingly, six of the ten largest international EPC firms are Chinese.[33] Many of these Chinese-funded infrastructure projects, moreover, are negotiated behind closed doors and without any form of public oversight, which creates incentives for corruption and bribery and further reduces the ability of Western firms to compete.

Chinese companies can also do resource-for-infrastructure (RFI) deals, in which Chinese loans for infrastructure development are repaid through natural resources.[34] RFIs are often attractive to poorly governed, less-democratic, or indebted countries that find themselves unable to secure sufficient funding from Western donors. Such countries can secure financing from China for their immediate infrastructure needs by leveraging future natural resources. However, RFI agreements bind host governments to select firms or consortiums, and do not require competitive bidding. Often multiple financial and commercial agreements are woven together, making them difficult to understand and therefore less transparent. These deals also tend to be extremely large. (For example, in 2007, the Democratic Republic of the Congo signed an RFI agreement originally valued at $9 billion with China Railway Engineering Corporation in exchange for future mining revenue.[35])

The opaque nature of RFIs and other G2G infrastructure deals creates a data gap, making it difficult to assess the scale of the competitive disadvantage faced by US companies in African markets. However, it is undeniably clear that US companies often do not even have a chance to compete head-to-head with Chinese companies, as the Chinese firms use their access to financing to employ sole bidding. Many US firms also choose not to participate in the competitive bidding processes that are available due to the perception that they are likely to lose out on price: China's rapid pace of infrastructure construction has led to Chinese contractors having some of the most efficient cost structures in the world. Even on open-tender projects sponsored by the World Bank, Chinese firms win 42 percent of contracts by value. Their bids are routinely 40 percent cheaper than those of competitor firms of similar quality.[36]

32 Whitney Schneidman and Joel Wiegert, "Competing in Africa: China, the European Union, and the United States," Brookings Institution, April 16, 2018, https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/; "Where We Work," Millennium Challenge Corporation, accessed May 17, 2019, https://www.mcc.gov/where-we-work?fwp_cp_region=6042.

33 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragons*.

34 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragons*.

35 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragon*s.

36 Yun Sun, "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration," Brookings Institution, September 5, 2018, https://www.brookings.edu/blog/africa-in-focus/2018/09/05/chinas-2018-financial-commitments-to-africa-adjustment-and-recalibration/.

THE INVESTMENT LANDSCAPE REVEALS NEW AREAS OF COMPETITION

Despite policy makers' preoccupation with large infrastructure projects and public loan announcements, the expansion of Chinese investment into different types of capital flows over the past five years poses a greater threat to American interests.[37] This growth allows China to not only continue to dominate G2G infrastructure financing but also become the leader within the next decade in FDI, positioning it to compete in areas of traditional US competitive advantage.[38]

China's broadening investment strategy is evident when looking at the evolution of Forum on China-Africa Cooperation commitments. China's $60 billion FOCAC pledge in 2018 ended the pattern of doubling that had characterized the triannual FOCAC commitments since 2005. The composition of the pledges has also gradually shifted from grants and concessional loans to more market-led investment incentives—of a kind offered by traditional DFIs. At the 2018 FOCAC, China also encouraged Chinese companies to invest at least $10 billion in Africa over the next three years.[39] In this way, China has made a structural push to move into capital flows once overwhelmingly dominated by US and European firms.

The broader investment landscape can be grouped into the four capital flows listed below.

Foreign Direct Investment

American companies have long been major investors in African markets.[40] According to the 2018 EY Attractiveness survey, US firms invested more in African markets than any other nation, though China is catching up fast. From 2004 to 2015, Chinese FDI grew by 40 percent a year, far surpassing the growth rate of any other country.[41]

FDI flows can be analyzed in two segments: large-cap (large-capitalization) firms, and small and medium-size enterprises. Among large-cap firms, many American Fortune 500 companies have had a significant presence on the continent for decades. GE has been in Africa for more than a century, and Coca-Cola has invested in 145 bottling plants, owns three thousand distribution centers, and has over seventy thousand employees across the continent.[42] Both Visa and Mastercard are piling resources into gaining the millions of African customers who were previously unbanked.[43]

However, over the past decade, many large-cap Chinese companies—such as telecommunications giants Huawei, Tecno, and ZTE—have also established footholds in African markets. Huawei has partnered with dozens of African governments for smartphone distribution and/or network infrastructure[44] and ZTE is expanding mobile phone infrastructure and introducing 4G and 5G technology.[45] In May, Huawei renewed an agreement with the African Union to be the preferred supplier of telecommunications technology despite allegations in the past of data theft.[46] Encouraged by their government's agenda and the experience of the EPCs, Chinese businesses were able to quickly and efficiently expand on the continent, and have now established meaningful market share in sectors outside of infrastructure construction such as telecommunications and manufacturing.

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37 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragons*.

38 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragons*.

39 Sun, "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration."

40 Media coverage on Sino-African economic relations often cite misleading data, confusing the difference between investing and financing through loans. I do not believe Chinese financing of infrastructure should be considered FDI. Incorrectly terming these financial flows confuses the overall picture of global investment trends vis-à-vis African markets. I like the methodology of the EY reports. See EY, *Turning Tides: EY Attractiveness Program, Africa*, October 2018, https://www.ey.com/za/en/issues/business-environment/ey-attractiveness-program-africa-2018.

41 Sun, "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration."

42 Hruby, *Escaping China's Shadow*.

43 Irene Madongo, "MasterCard and Visa Look to Woo Africa's Unbanked," *Financial Times*, October 4, 2013, https://www.ft.com/content/154ea7bb-01e9-379b-8a2c-b5cb490aaf2c.

44 "Huawei Is Beating Apple in South Africa and Is Gaining on Other Competitors," *My Broadband*, August 3, 2018, https://mybroadband.co.za/news/smartphones/270741-huawei-is-beating-apple-in-south-africa-and-is-gaining-on-other-competitors.html.

45 Justina Crabtree, "'China Is Everywhere' in Africa's Rising Technology Industry," CNBC, July 28, 2017, https://www.cnbc.com/2017/07/28/china-is-everywhere-in-africas-rising-technology-industry.html.

46 Tom Wilson, "Huawei and African Union Boost Relationship with Deal," *Financial Times*, May 31, 2019, https://www.ft.com/content/30ec5c54-83aa-11e9-b592-5fe435b57a3b.

In regard to SMEs, McKinsey estimates there are over ten thousand Chinese-owned firms operating in Africa.[47] While this figure has been subject to some scrutiny (mostly over what constitutes "Chinese-owned"), the number is likely larger than the total number of American SMEs operating on the continent. The estimated twenty-eight million SMEs inside the United States are a key driver of domestic growth and employment but have been much more cautious about investing in the region.

Private Equity

The money raised for African PE is a miniscule fragment of the global market. In 2017, $453 billion was raised for PE globally,[48] with Africa commanding less than 0.5 percent of that total at only $1.9 billion.[49] Opportunities for PE are slowly increasing: Major US-based global firms, such as The Carlyle Group and TPG Growth, have set up dedicated Africa funds over the past fifteen years, and there are over one hundred smaller Africa-centric firms, many started by Africans returning from the American, British, or French diasporas. At the larger end of the spectrum, a dozen PE firms manage over $1 billion for Africa private equity investments, split fairly evenly between the United States, Europe, and Africa. None are Chinese.

While some Chinese funds such as Hony Capital are beginning to invest overseas, those investments are largely focused on the United States and Europe,[50] and China's quasi-governmental PE funds remain domestically focused.[51]

Venture Capital

Dynamics similar to those of the PE market are at play in the venture capital arena. While Silicon Valley is the undisputed global leader in venture capital, minute amounts currently flow to Africa. But data on VC flows to Africa are poor and vary wildly. One report puts VC funding in Africa at $560 million in 2017—which would represent an impressive increase of more than 50 percent from the previous year—while another report puts the number at only $195 million.[52] It is clear from all the data sources, however, that 2018 saw increased levels of American VC funding to Africa, with estimates running as high as $725 million, mostly concentrated in Nigeria, Kenya, and South Africa.[53] Regardless of the exact number, the trend line and momentum are increasingly positive.

American, European, and African funds have been active in investing in African start-ups in the past five years. Silicon Valley giants such as Google and pioneering early-stage venture firms such as TLcom Capital and Lateral Capital have moved to capitalize on Africa's nascent tech start-up scene.[54] The tens of millions of young Africans who will come online over the coming decades represent significant opportunities for leading global tech companies' corporate venture arms.

But Chinese entities have also started to make moves in the space. Alibaba is spending time scouting opportunities; Jack Ma announced a $10 million fund for African entrepreneurs in 2017.[55] Tencent, alongside South African media giant Naspers (one of Tencent's earliest investors),

47 Yuan Sun, Jayaram, and Kassiri, *Dance of the Lions and Dragons*.

48 Joshua Franklin, "Global Private Equity Funds Raise Record $453 Billion in 2017: Preqin," Reuters, January 4, 2018, https://www.reuters.com/article/us-privateequity-fundraising/global-private-equity-funds-raise-record-453-billion-in-2017-preqin-idUSKBN1ET23L.

49 Jeff Schlapinski and Isabelle Diop, *The Road Ahead for African Private Equity*, Emerging Markets Private Equity Association, May 2018, https://www.empea.org/app/uploads/2018/05/EMPEA-Briefs_Africa_FINAL_WEB.pdf.

50 Victoria Robinson, "Why China Funds Are Forced to Look Overseas," Private Equity International, May 1, 2018, https://www.privateequityinternational.com/baker-mckenzie-china-funds-look-overseas-for-deals/.

51 Christopher Elvin, "Private Equity in China: Rise of the Mega Fund," *Brink News*, June 12, 2018, https://www.brinknews.com/asia/private-equity-in-china-rise-of-the-mega-fund/.

52 Jake Bright, "Local Venture Capital Fund Formation Is on the Rise in Africa, Led by Nigeria," *Tech Crunch*, October 22, 2018, https://techcrunch.com/2018/10/22/local-venture-capital-fund-formation-is-on-the-rise-in-africa-led-by-nigeria/.

53 Wee Tracker, *Decoding Venture Investments in Africa – 2018*, January 4, 2019, https://weetracker.com/2019/01/04/what-a-year-the-state-of-venture-capital-in-africa-2018/.

54 Wee Tracker, *Decoding Venture Investments in Africa – 2018*.

55 United Nations Conference on Trade and Development, "UNCTAD Adviser, Alibaba's Jack Ma, Launches African Young Entrepreneurs Fund," press release, July 23, 2017, https://unctad.org/en/Pages/PressRelease.aspx?OriginalVersionID=421.

started investing in African start-ups focused on financial technology e-commerce and media companies in 2015. Having made a 400,000 percent return on its investment in Tencent, Naspers announced in October 2018 a new $100 million fund for tech start-ups called the Naspers Foundry.[56] In 2017, Chinese-owned Internet browser Opera pledged to invest $100 million in Africa's digital economy. $40 million of this investment is being earmarked for the Nigerian market to launch products such as OPay, a mobile payment service, and ORide, a motorcycle hailing service.[57]

Institutional Investors

US institutional investors can help encourage more equity funds to move into African markets. Slowly, American institutional investors have begun to explore opportunities on the continent with more rigor, looking for higher yields and greater diversification. New York State Common Retirement Fund, which has over $200 billion in assets under management and is one of the largest US pension funds, has a 3 percent allocation to Africa (or roughly $6 billion) over five years.[58] The Chicago Teachers' Pension Fund also committed tens of millions to two African private equity funds in late 2018.[59] In partnership with the National Association of Securities Professionals, USAID is supporting an innovative initiative to introduce institutional investors to African opportunities through annual visits to the continent. The initiative, called MiDA (Mobilizing Institutional Investors to Develop Africa's Infrastructure), has engaged a collection of over sixty US-based institutional investors, with a total of almost $3 trillion in assets under management.[60] While information on Chinese-based institutional investors making forays into African markets is scarce, it is apparent that some of the largest are beginning to look at opportunities alongside the Belt and Road Initiative.[61]

Though today the United States holds the clear competitive advantage from institutional investing to venture capital, China's expansion beyond infrastructure investments is beginning to challenge this position. For the United States to maintain its standing, the US government will need to tailor policy to these new economic realities beyond infrastructure.

RECOMMENDATIONS FOR A CALIBRATED US RESPONSE

Considering the stark contrast between the G2G nature of Chinese infrastructure financing and the US model of G2B investments, the United States should anchor its commercial engagement strategies to its own comparative advantage, using the newly enhanced OPIC (which will be named the Development Finance Corporation, or DFC) and other initiatives such as the newly announced Prosper Africa. US policy makers should consider the following five recommendations, each of which reflects the trends that will shape African markets for the next fifty years. Doing so will not only produce new commercial opportunities for US companies, but support the broader US objective of providing more economic opportunity to Africans.

1. Focus on the narrow areas of infrastructure that fall within the US competitive advantage.

Although China's financing of infrastructure projects does give Chinese construction companies an inherent advantage in African markets, that does not mean that

56 Yomi Kazeem, "Naspers Is Spending over $300 Million Seeking Its First Major African Tech Startup Wins," *Quartz Africa*, October 26, 2018, https://qz.com/africa/1439105/naspers-invests-314-million-in-south-africa-tech-startups/.

57 Paul Adepoju, "Opera Set to Expand Its Mobile Payment Service to Nigeria," *TechCity*, May 28, 2018, https://www.techcityng.com/opera-set-to-expand-its-mobile-payment-service-to-nigeria/.

58 Simon Clark, "New York Pension Fund to Invest Billions in Africa," *Wall Street Journal*, April 29, 2015, https://www.wsj.com/articles/new-york-pension-fund-to-invest-billions-in-africa-1430298385.

59 Meaghan Kilroy, "Chicago Public School Teachers to Assign up to $150 Million for Real Estate, Private Equity," Pensions & Investments, July 10, 2018, http://www.pionline.com/article/20180710/ONLINE/180719992/chicago-public-school-teachers-to-assign-up-to-150-million-for-real-estate-private-equity.

60 "About Us," Mobilizing Institutional Investors to Develop Africa's Infrastructure, accessed May 17, 2019, http://www.mida-infra.org/about-us/.

61 Frank Tang, "China's Pension Fund Has US$317 Billion up Its Sleeve...and Now It's Shopping for Overseas Investments," *South China Morning Post*, October 22, 2017, https://www.scmp.com/news/china/economy/article/2116388/chinas-pension-fund-has-us317-billion-its-sleeve-and-now-its.

SECTORS OF EMERGING FOCUS FOR CHINA

Chinese companies are making dramatic gains in the media, telecommunications, and security realms. Becoming the leader in these sectors allows China to have strong influence over future communication channels in Africa, not only by influencing content formation, but by defining standards and technical infrastructure.

Media

China has made a calculated effort to buy media space in Africa to help shape its own image and gain influence in the region.[1] In 2009, China spent $6.6 billion to strengthen its global media presence, which included establishing China Central Television Africa (now CGTN Africa), China's dominant television broadcaster falling under the supervision of the Chinese state.[2]

China is also investing in the region's backend media infrastructure. China's Pan-Africa Network Group (PANG Africa) holds one of two broadcast signal distributor licenses in Kenya awarded in 2015. StarTimes, a privately owned Beijing-based media and telecommunications firm with strong state ties, has subsidiaries in over thirty African countries and offers a full range of services in the digital TV sector.[3] The company's big selling point is its affordability, as it is often able to provide the lowest bids alongside long-term, low-interest rate financing provided by China's Ex-Im Bank. StarTimes satellite dishes and set-top boxes are quickly installed in urban and rural households with dozens of stations devoted to Chinese programming.

Telecommunications

China's dominance in Africa's telecommunications market began over twenty years ago when Huawei Technologies and state-owned ZTE played a critical role in developing Africa's mobile network infrastructure, from third-generation telecommunications to national fiber-optic communication networks and e-government networks.[4] ZTE is expanding mobile phone infrastructure and introducing of 4G and/or

1 Yu-Shan Wu, "The Movie Theater Will Be the Next Target for China to Dig Deeper Roots in Africa," *Quartz Africa*, June 9, 2018, https://qz.com/africa/1301505/china-will-fund-movies-and-tv-shows-to-build-africa-influence-rival-nollywood-others/; Louisa Lim and Julia Bergin, "Inside China's Audacious Global Propaganda Campaign," *The Guardian*, December 7, 2018, https://www.theguardian.com/news/2018/dec/07/china-plan-for-global-media-dominance-propaganda-xi-jinping.

2 Lim and Bergin, "Inside China's Audacious Global Propaganda Campaign."

3 Jonathan Kaiman, "'China Has Conquered Kenya': Inside Beijing's New Strategy to Win African Hearts and Minds," *Los Angeles Times*, August 7, 2017, https://www.latimes.com/world/asia/la-fg-china-africa-kenya-20170807-htmlstory.html.

4 Justina Crabtree, "'China Is Everywhere' in Africa's Rising Technology Industry," CNBC, July 28, 2017, https://www.cnbc.com/2017/07/28/china-is-everywhere-in-africas-rising-technology-industry.html.

the United States should shy away from the sector as a whole. Rather, American firms should seek to find niche areas that make commercial sense—especially in renewables, oil exploration and engineering, energy management services, and smart city technologies.[62]

Africa will be more than 50 percent urbanized and home to at least five megacities by 2030.[63] Ensuring that those cities are modernized to provide adequate goods and services to their citizens will be crucial in coming decades to advancing prosperity and stability on the continent.

IBM has already deployed Smarter Cities Challenge teams to tackle a variety of problems, from traffic con-

62 Agnes Dasewicz, Todd Moss, Dan Runde, and Kate Steel, *America's Global Infrastructure Opportunity: Three Recommendations to the New US Development Finance Corporation*, Center for Strategic and International Studies, April 2019, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190410_Runde%20et%20al_DFC%20and%20Infrastructure_layout_v3.pdf.

63 Megacities are cities with over ten million inhabitants. See "Urbanization in Africa: Trends, Promises, and Challenges," The World Bank, last updated May 29, 2015, http://www.worldbank.org/en/events/2015/06/01/urbanization-in-africa-trends-promises-and-challenges; United Nations Department of Economic and Social Affairs, *The World's Cities in 2018: Data Booklet*, 2018, http://www.un.org/en/events/citiesday/assets/pdf/the_worlds_cities_in_2018_data_booklet.pdf.

5G technology in various countries, setting industry standards for decades to come.

Chinese handset companies entered the African market early relative to their global peers, recognizing upward trends in smartphone adoption. Founded in 2006, Transsion Holdings, which does not operate in the United States or Europe, accounts for 30 percent of African phone sales, ahead of second-place Samsung at 22 percent.[5] The successes of its leading phone brands Tecno, Itel, and Infinix have shown how a company with a strong regional focus,[6] the right product mix, and strategically low pricing can outperform bigger and more dominant firms.[7] Already in 2019, two additional Chinese tech giants, Xiaomi and budget smartphone maker Realme, have announced plans to aggressively expand in Africa.[8]

Security Technology

Established telecommunications relationships have allowed Chinese companies to win government bids to provide surveillance technologies to African countries. ZTE is installing cameras in Lusaka, Zambia, as part of a "safe city" policing project. Similar projects are seeing Huawei cameras in Mauritius. In Zimbabwe, Guangzhou-based CloudWalk Technology won China's first artificial intelligence contract on the continent last year. Data from the contract would be used by CloudWalk to improve its facial recognition technology. After learning CloudWalk would transmit facial data back to China, Zimbabwe stalled the deal and now has a competing deal from Hikvision, the company tied to monitoring the Uighur people, the Chinese Muslim minority.[9]

5 Lulu Yilun Chen, "The Chinese Unknown That's Making Africa's Phones," *Bloomberg Businessweek*, March 28, 2018, https://www.bloomberg.com/news/articles/2018-03-28/this-chinese-phone-maker-has-taken-over-africa-for-better-and-worse.

6 Jenni Marsh, "The Chinese Phone Giant that Beat Apple to Africa," CNN, October 10, 2018, https://www.cnn.com/2018/10/10/tech/tecno-phones-africa/index.html.

7 Abdi Latif Dahir, "A Low-Profile, Chinese Handset Maker Has Taken Over Africa's Mobile Market," *Quartz Africa*, August 30, 2018, https://qz.com/africa/1374404/chinas-transsion-dominates-africas-phone-market-with-tecno-itel/.

8 Eric Olander, "The Rise of Chinese Tech in Africa Is Both Feared and Embraced," *Medium*, January 20, 2019, https://medium.com/@eolander/the-rise-of-chinese-tech-in-africa-is-both-feared-and-embraced-524f3d56c409.

9 Sheridan Prasso, "China's Digital Silk Road Is Looking More Like an Iron Curtain," *Bloomberg Businessweek*, January 10, 2019, https://www.bloomberg.com/news/features/2019-01-10/china-s-digital-silk-road-is-looking-more-like-an-iron-curtain.

gestion to transforming city services like tax collection, in Nairobi, Kenya; Accra, Ghana; and Tshwane, South Africa.[64] The DFC should continue looking for ways to invest alongside US corporate leaders in the smart city technology being pioneered by IBM, Microsoft, Oracle, and Cisco in African markets. Data centers and cybersecurity services could both be areas of focus. The Millennium Challenge Corporation can also encourage this trend by moving away from solely awarding country-level compacts to awarding subnational compacts (at essentially a city level), particularly in large federal countries such as Nigeria.

2. Continue pushing for a level playing field when it comes to anti-corruption compliance.

Given the US commitment to enforcing the Foreign Corrupt Practices Act and other rigorous obligations that US companies face in compliance, the administration should continue to call on China to abide by the terms of

64 IBM News Room, "IBM Report: Technology Holds the Key to Economic and Social Reform in Accra, Ghana," last updated April 11, 2013, http://www-03.ibm.com/press/us/en/pressrelease/40817.wss.

the UN Convention against Corruption.[65] The US Departments of Justice and Treasury should continue to give support to African governments in their investigations and charges of corruption by foreign companies.

A robust and professionalized business media in African markets will also act as a strong check on bad behavior by foreign firms. Bloomberg launched an African media initiative in 2014 that provides training to business journalists in African markets.[66] The administration should look for ways to partner with Bloomberg to amplify this effort.

3. Use new tools such as the DFC and Prosper Africa to increase investment across various financial flows.

American business linkages in African markets have reached an inflection point in which a number of large Fortune 500 companies have demonstrated the potential for American firms to make money in African markets. Other US large-cap firms and SMEs could well follow, but to do so they will require additional education, access to market data, and facilitated business linkages. Prosper Africa, envisioned as an effort to ensure better coordinated interagency commercial diplomacy, could therefore help mobilize new US investment by doing the following:

- Creating a data portal that packages the data assets within the US government and adds real-time data resources of innovative US companies such as Fraym, Native, and Asoko;
- Forging closer working partnerships with state offices of international trade;
- Coordinating investment opportunity roadshows to major US cities in partnership with the US Chamber of Commerce;
- Encouraging city-level competitions for annual business-oriented conferences in Africa; and
- Supporting US investor trips (segmented by sector and investor type) to African markets to connect them to partners, which could be modeled off the USAID-supported MiDA program.[67]

4. Prioritize the creative and education sectors to meet the needs and desires of African youth.

US media and entertainment companies are increasingly looking to Africa for new investment opportunities. In addition to supporting US corporate investments in smart cities in Africa, the DFC should invest in creative industry funds and projects. From Netflix's announcement in December that it will invest in an original series from Africa[68] to the unprecedented commercial success of *Black Panther* on the continent,[69] Hollywood is beginning to see economic promise in Africa and African content.[70]

This potential may not be realized immediately, but it is worthwhile to lay the groundwork in a young market with a growing middle class, if only to position US

65 United Nations Office on Drugs and Crime, *United Nations Convention against Corruption*, September 2004, https://www.unodc.org/documents/brussels/UN_Convention_Against_Corruption.pdf.

66 "Financial Journalism Training Program," Bloomberg Media Initiative Africa, accessed May 23, 2019, https://www.bmia.org/executive-training/.

67 "MIDA," Mobilizing Institutional Investors to Develop Africa's Infrastructure, accessed May 23, 2019, http://www.mida-infra.org/.

68 Yomi Kazeem, "Netflix Is Finally Investing in Original African Content," *Quartz Africa*, December 3, 2018, https://qz.com/africa/1482172/netflix-will-commission-original-african-shows/.

69 Zoah Hedges-Stocks, "African Audiences Are Having a Very Emotional Response to Black Panther: 'We Were Humanised, and That Matters,'" *The Telegraph*, February 21, 2018, https://www.telegraph.co.uk/films/2018/02/21/african-audiences-having-emotional-response-black-panther-humanised/.

70 "'Black Panther' Sells Out African Theaters," NPR, February 22, 2018, https://www.npr.org/2018/02/22/587840019/black-panther-sells-out-african-theaters.

companies for greater success in the future as has happened in India.[71] Entertainment and media spending in Nigeria in 2017 was $3.8 billion and is projected to double by 2020.[72] Today, Netflix costs about R99, or $7, in South Africa monthly (prices are country dependent) with an estimated three hundred to four hundred thousand subscribers.[73] This constitutes less than 1 percent of Netflix's quarterly revenues but the company is testing mobile-only subscription models, investing in video compression technology and dedicated servers in African markets, and developing more African-focused content to support future growth.[74] African creative content also has a market in the global African diaspora of over one hundred million people, adding to the return potential of entertainment investment.

Africa's music scene is also finally attracting US investors, with private equity firm TPG Growth and pan-African investment company Kupanda Capital recently investing in a multimillion dollar deal with Mavin Records, an independent Nigerian music label.[75]

Beyond music and movies, the National Basketball Association (NBA) announced in 2018 the start of the Basketball Africa League (BAL). BAL taps into both the sports and media markets, building off the NBA's multiyear deal with Econet Media in 2016 to broadcast over five hundred games each season.[76] Promoting the US media and entertainment expansion into African markets not only helps US firms, but is a low-cost, high-impact alternative to infrastructure financing to maintain a positive US image on the continent.

Outside of media and entertainment, US leadership in tertiary education can also build considerable goodwill in Africa and be used to cultivate stronger ties with Africa's youth. A new push to increase African enrollment in US educational institutions would counter Chinese influence among African students, sixty thousand of whom now study in China annually.[77]

Additionally, Africa's private education market is growing rapidly as a way to bridge the education gap. It is estimated that one in four—or sixty-six million—African students will be enrolled in private schools by 2021.[78] In addition to higher education opportunities, private equity firms are actively investing in educational opportunities that take advantage of emerging technologies and internet-based learning to reach a broader audience. The African Leadership University, a Mauritius-based institution, recently raised $30 million in a Series B round to open learning centers across the continent to train college graduates on needed technical and leadership skills.[79] As part of Prosper Africa, the DFC should prioritize investments in PE funds with an education focus and directly finance companies working in the space.

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71 "How the pursuit of leisure drives internet use," *The Economist*, June 8, 2019, https://www.economist.com/briefing/2019/06/08/how-the-pursuit-of-leisure-drives-internet-use?frsc=dg%7Ce.

72 Vicki Myburgh, *Entertainment and Media Outlook: 2018–2022: An African Perspective*, PricewaterhouseCoopers, September 2018, https://www.pwc.co.za/en/assets/pdf/entertainment-and-media-outlook-2018-2022.pdf.

73 Lynsey Chutel, "Africa's Biggest TV Player Is Lobbying to Have Netflix Regulated," *Quartz*, July 12, 2018, https://qz.com/africa/1326834/naspers-multichoice-wants-netflix-regulated-as-dstv-loses-subscribers/.

74 Harsh Chauhan, "What Are Netflix's Biggest Challenges Abroad?" *The Motley Fool*, January 23, 2019, https://www.fool.com/investing/2019/01/23/what-are-netflixs-biggest-challenges-abroad.aspx, and Jon Russell, "Netflix Is Testing a Mobile-Only Subscription to Make Its Service More Affordable," TechCrunch, December 2018, https://techcrunch.com/2018/11/14/netflix-is-testing-a-mobile-only-subscription-to-make-its-service-more-affordable/.

75 Joey Akan, "Private Equity Investors Are Making a Bet on Afrobeats' Rapid Rise up the Global Charts," *Quartz*, January 31, 2019, https://qz.com/africa/1539118/don-jazzys-mavin-gets-multimillion-dollar-investment/.

76 "NBA, Econet Media Announce Multiyear Partnership," National Basketball Association, April 21, 2016, https://www.nba.com/2016/news/04/21/nba-econet-media-reach-partnership-for-sub-saharan-africa/.

77 Aubrey Hruby, "China's Educational Offensive in African Markets," *The Hill*, December 12, 2018, https://thehill.com/opinion/international/420891-chinas-educational-offensive-in-african-markets.

78 Scott Featherton and David Ferreira, *The Business of Education in Africa*, Caerus Capital, August 2017, https://edafricareport.caeruscapital.co/thebusinessofeducationinafricasummary.pdf#page=4.

79 Yinka Adegoke, "African Leadership University Has Raised $30 Million to Help Reinvent Graduate Education," *Quartz*, January 4, 2019, https://qz.com/africa/1515015/african-leadership-university-raises-30-million-series-b/.

5. Address working capital constraints.

With Africa's massive youth population, eighteen million jobs will need to be created each year simply to accommodate new labor market entrants.[80] And entrepreneurship is hindered by a lack of working capital. Individuals and businesses in African markets continue to struggle to unlock the market potential of real assets (e.g., land, receivables) due to a lack of liquidity. This constraint is evidenced by miniscule mortgage markets and the number of start-ups that have emerged built on factoring, layaway, and consumer financing. These start-ups are stepping into the role that retail banks and credit card companies play in developed markets. For example, Wakanow allows customers to pay travel costs in installments (in which US-based The Carlyle Group invested $40 million);[81] Schoolable follows a similar model but for school fees; and Carbon provides consumer credit in Nigeria and Ghana.[82] The DFC should use its new equity power to invest directly in these types of firms or to seed funds that invest in innovative financial intermediaries.

The dearth of working capital presents an opportunity for American financial institutions. A financial powerhouse, the United States is home to a large number of the world's leading investment and commercial banks. Their reach and knowledge would be hugely beneficial to local start-ups, regulators, and banks looking to systematically solve asset financing and working capital constraints.

CONCLUSION

The rapid spread of China's commercial ties in emerging markets, especially in Africa, has caused appropriate concern in Washington. The Chinese government's prioritization of infrastructure financing over the past fifteen years has created a foundation for other Chinese state-owned and private firms to capitalize on follow-on opportunities in African markets. US policy makers can best counter this growing commercial challenge by fully grasping the nature of the competition, taking inventory of American strengths, and prioritizing sectors at the intersection of US competitiveness and African demographic and economic trends.

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80 Tilman Altenburg, San Bilal, Giulia Maci, and Dirk Willem te Velde, *A Rapier Not a Blunderbuss: Why the EU Must Do Better in Supporting African Job Creation*, European Think Tanks Group, February 2018, https://knowledge.unccd.int/publications/sub-saharan-africa-will-need-create-18-million-jobs-each-year-until-2035.

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