PROS AND CONS OF CHINESE INVESTMENTS IN AFRICA

Based on

Mark Klaver and Michael Trebilcock: “Chinese Investment in Africa: Strengthening the Balance Sheet”
This chapter explains the causes of Chinese foreign direct investment in Africa, analyzing the pros and cons for African development. The reason why China is investing in Africa is mainly the access to natural resources, in particular oil and minerals. China is also the world’s largest consumer of steel, copper, coal and platinum. A second reason why China is investing is that it wants to access African markets.

If, on the one hand, it seems to be clear that Chinese investment is advantageous and self-interested and the government has good reasons to promote it, on the other hand it is also expediting African economic growth. China is the second-largest economy and it is also Africa’s largest trading partner. Chinese influences many aspects of African economy: on finance, the Chinese state provides major resource-backed loans to African states; on corporate control, the Chinese state controls Chinese state-owned enterprises and many small- and medium-sized enterprises that invest in Africa. The Chinese state is also involved in many of Africa’s largest deals in key sectors such as oil, mining, infrastructure, and telecommunications. The aim of the authors is the identification of policies African states can choose to capitalize on Chinese foreign direct investment. The conclusions of the paper include the necessity of a tax code to let Chinese investment developing African manufacturing sector. Tax and fiscal policies should focus on infrastructure, education, and special economic zones. Chinese investment presents African states with a major opportunity for sustainable economic growth. According to The Economist, Africa’s growth is primarily attributable to China’s demand for African resources. Analyzing the phenomenon in detail, the impact of Chinese investments is based on seven factors: commodity prices, capacity to extract, infrastructure, manufacturing, employment, market access and consumers. Each of these categories is described in detail by the authors. On the other hand, it has to be noted that the costs of China’s contribution to African infrastructure may exceed the benefits, Chinese investment transfers limited technology, skills, and employment to Africa; Chinese investment may deindustrialize Africa; African manufacturing productivity is low and African goods are more expensive than similar Chinese ones. This chapter proposes a three-step tax policy to harness Chinese investment for African development. First, African states should substantially increase taxes on resource deals with Chinese investors. Some African governments apply exceptionally low tax rates on resource profits. Instead, this chapter proposes a tax rate of 30 per cent on “ordinary profits” from resource investments, in line with many Western marginal corporate tax rates. In conclusion, the article clearly showed that Chinese investors eagerly seek African resources and market access. What can be done is that Africa can keep the benefits of Chinese investment while redressing its drawbacks. African tax policies should develop the manufacturing sector by supporting infrastructure and education.
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To collaborate with Government, Civil society and business community to balance the excess of globalization with Non Trade Concerns.

**OUR GOALS**

To influence policymakers, to raise awareness over Non Trade Concerns, to encourage stakeholder participation, and to disseminate gLAWcal’s publication results.

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