# Benefit (From China's Roads) Is in the Eyes of the Beholder

**By:**

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Open any book on foreign investments and search for a contract that looks like the bauxite deal that the Ghanaian government and Sinohydro concluded last year. Chances are that you will search in vain. While this 2 billion dollar deal may easily pass off as a standard investment contract or as yet another sign of China's ongoing infrastructure drive on the African continent, it actually represents a fresh and groundbreaking way of structuring foreign direct investments (FDIs). Nonetheless, those deals have often been engulfed in thick clouds of controversy, if only because of the vast amounts of natural resources that they cost to the states hosting those FDIs. At the same time, they have caught people's attention because of their unprecedented ability to attract funds to finance large-scale infrastructure projects. To be sure, some countries that entered into those deals, for example Angola and the Democratic Republic of the Congo, succeeded in attracting – in one big single undertaking – the largest FDI that they have ever received since their independence. Scholars have referred to those deals as resource-backed loans, barter agreements, resource-financed infrastructure, or resources-for-infrastructure (R4I) contracts.

The parties to these arrangements agree to exchange natural resources (typically minerals or hydrocarbons) for major infrastructure works. Under the Ghana-Sinohydro deal, the Chinese firm promised to build roads, bridges, hospitals and housing while Ghana promised to pay for those infrastructure works with U$ 2 billion worth of refined bauxite. The few FDI experts who know about R4I contracts still have a loose grasp of those complex dealings but, presumably, ordinary people care a lot less about every last detail of those bargains than about the question whether host countries benefit from them. This proves a particularly difficult question, and it finds its most far-sighted answers in prior and deeper understandings of what a 'benefit' and ultimately 'development' truly are. Thus, benefit like beauty crucially depends on the eyes of the beholder.

## Liberal strategies failed to finance Africa's infrastructure needs

Looking at the history that led host states to sign R4I agreements shows that this contract model emerged around the turn of the 21st century after African states failed to secure funds from Western countries to finance the construction of badly needed infrastructure, despite heeding liberal policy advice. The Bui Dam in Ghana exemplifies this. Planning for the Bui hydroelectric dam started in 1960. However, Ghana could not find a project financier. It was not until John Kufuor's government signed a R4I contract with Sinohydro in 2007 that Ghana managed to have the 400-megawatt power plant funded and built. For liberal and neoliberal critics, R4I contracts do not benefit African host states because they lack market mechanisms, which implies that host states waste a lot of scarce and limited resources when they enforce those contracts. Andoni Larrarte & Gloria Claudio-Quiroga argue that, instead of directly negotiating R4I contracts with a consortium of Chinese state-owned firms, host states must award infrastructure projects to the most competitive bidder. A fixture of neoliberalism, the procurement system that these two economists recommend assumes that a market for large-scale infrastructure works in Africa exists. Yet, like the Bui Dam project indicates, such markets are nonexistent, if not too small. It almost took Ghana half a century to find a firm to build the Bui hydroelectric complex; and, were it not for the R4I deal that it struck with Sinohydro, Ghana might as well have waited a few more decades because existing free-market policies have not worked in Africa's infrastructure sector.

### A statist model

By contrast, the R4I approach enlists state-owned firms such as Sinohydro. These firms do not see Africa nearly as risky as private investors do because they enjoy strong financial and political backing from their home state. Maybe the theory that best suits R4I contracts is the developmental state. So far, only China and – to a much lesser extent – South Korea have sealed R4I deals in Africa. These two countries have also become leading exemplars of developmental statism. This school of thought encourages developing states to actively participate in the economy if they wish to develop fast and robustly like South Korea or Singapore. However, developmental statism differs from the R4I model insofar as the economic activities of foreign state firms, as opposed to local state firms, drive R4I dealings. This should concern policy makers because of what an externally driven agenda implies for the long-term development of host states.

### R4I contracts as a neo-colonial enterprise?

For critics such as Samir Amin, international economic exchanges in Africa – and that would include R4I deals – are externally driven and keep developing countries in positions of dependence and "underdevelopment" because of the way in which the global capitalist system operates. These critics view R4I contracts as part of an imperial, neo-colonial project. Howard French, who also discussed the Bui Dam project in his book *China's Second Continent*, argues that Chinese migration to Africa exhibits imperial patterns of the past and that it will likely repeat those patterns in the future. Contrary to popular narratives that portray China as dominating its African counterparts, Giles Mohan and other researchers presented empirical evidence that African actors lead their engagement with Chinese parties and they debunked stereotypes that resource-hungry China ruthlessly exploits host governments in places like Nigeria and Angola. The neocolonial narrative is belied by the reality that the R4I model mainly targets infrastructure; and it is the host country – not China – that determines which infrastructure projects Chinese firms must build and prioritize.

### The Keynesian aspects of R4I contracting

The R4I model’s emphasis on infrastructure suggests that John Maynard Keynes’s ideas could have somewhat inspired it. Indeed, Keynesian economics regards investments in backbone infrastructure such as dams, bridges, and roads as “real investments” (capital accumulation). It maintains that this sort of investments have a ‘multiplier effect’: 1 billion dollars of real investments will produce more than 2 billion dollars in the wider national economy, not to mention that they create far more jobs than capital-intensive sectors like mining. Nonetheless, R4I contracting does not entirely fit Keynesianism because – unlike Keynesianism and neoliberalism – it seemingly does not pin much faith in capitalism.

**On balance…** Perhaps, no grand justification can definitely say whether African nations benefit from R4I contracts, except for pragmatism. And even if non-philosophical pragmatism did not motivate R4I dealers, I will still advise host states in Africa to demonstrate utter pragmatism in matters of economic development. One thing on which virtually all scholars (and beholders) would ever see eye to eye is that states cannot dispense with infrastructure, especially backbone infrastructure, because the very notion of ‘infrastructure’ shows that they cannot achieve economic development (and not merely GDP[1] growth) without it. R4I deals’ unique ability to expand a country’s infrastructure base probably explain why leaders on the continent continue to resort to them, even in the face of heavy criticisms.

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[1] Gross domestic product.

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