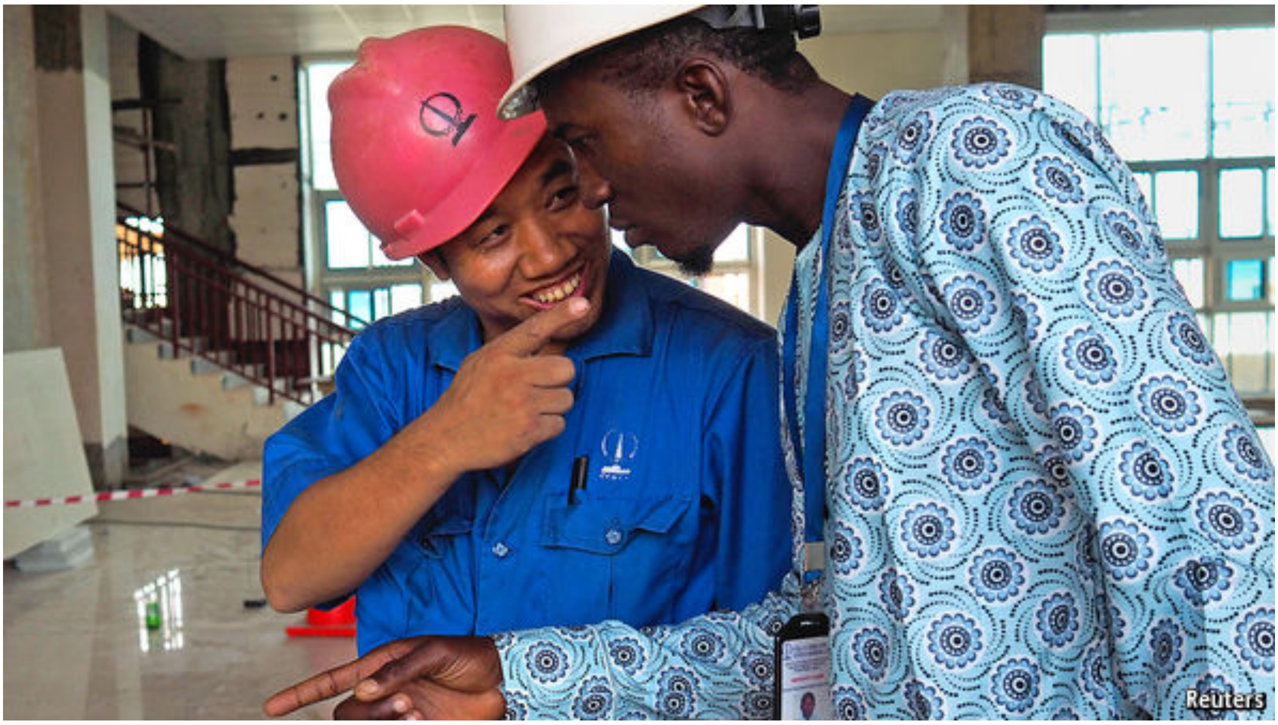
Not as easy as it looks



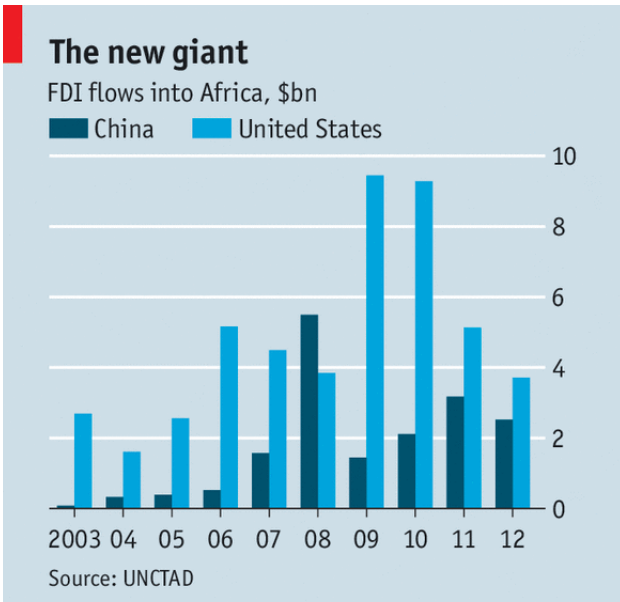
ON THE western edge of Lake Victoria in Uganda, a hundred miles south of Kampala and an hour or so's drive up a progressively narrower dirt track, is the site of what was meant to be one of the biggest Chinese commercial investments in Africa. A rust-flecked sign marks the entrance to "Sseesamirembe City", part of the "Lake Victoria Free Trade Zone". It does not mark much. Teenage boys wheel bicycles laden with water containers past mud huts and scrubby matoke (banana) fields. A few smarter houses and half-built breezeblock structures are the only evidence that there has been any development at all.

In 2008 the Lake Victoria Free Trade Zone was announced to the world as a transformative investment. Footage from CCTV, the Chinese state broadcaster, shows a meeting between Ugandan officials and Chinese ones in Beijing to confirm the deal. The investment, a partnership between a large Chinese firm and Ugandan investors, was to cover 500 square kilometres (200 square miles) of land. They proposed building a "solar-powered" airport, manufacturing facilities and a distribution hub, as well as homes and agribusiness, all adding up to a new "eco-city". Some $1.5 billion would be invested in one of the least developed parts of Uganda. It was suggested that thousands of Chinese farmers might settle the land and grow crops for export to China.

Of all these bold promises, none came to fruition. As China's involvement in Africa deepens, and Western policymakers worry about whether they can compete with a flood of Chinese cash, the failed project is evidence of the mixed success of China's scramble for Africa. It is true that new railways and roads funded by China's Export-Import Bank, and its investment in copper mines and oil rigs in places such as Zambia and Angola, are changing the face of the continent. Airports in Kinshasa, Luanda and Addis Ababa buzz with Mandarin. But there is growing evidence that some Chinese firms that leap into Africa are struggling with the same problems Africa has long given Western investors.

Reliable figures on the levels of Chinese investment in Africa are hard to come by. But those published by the Chinese Ministry of Commerce suggest the net annual flow of Chinese direct investment into Africa increased eight-fold between 2005 and 2014, to $3.2 billion. The total stock of Chinese investments grew twenty-fold, to $32 billion. Direct comparisons to Western figures are harder still, but that makes China one of Africa's biggest investors. In addition, Chinese aid has increased, as have development loans made through the Export-Import Bank, which finances infrastructure projects built by Chinese firms.

However, according to Deborah Brautigam, a professor at the School of Advanced International Studies in Washington, DC, much of the hype about Chinese firms buying up vast amounts of industry in Africa is overblown. Chinese FDI to Africa constitutes less than 3% of all Chinese foreign investment: vastly more goes to other regions, especially Asia. Growth has slowed in recent years. And, as Ms Brautigam shows in a new book investigating agricultural projects, "Will Africa Feed China?", many heavily-reported Chinese projects do not amount to much.



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There was, for example, a widely touted Chinese investment of over $1 billion in a 3m hectare palm-oil plantation (an area roughly the size of Hawaii) in the Democratic Republic of Congo. But when work started the Chinese found that there were no roads, the river was barely navigable and villagers were hostile. When a small amount of land was planted the crop was immediately stolen. The project soon disappeared.

The same applies to many mineral extraction projects. In Congo, a deal struck in 2007 to swap $6 billion of Chinese infrastructure funding for profits from copper mining has produced less than $1 billion of investment so far. Production of the copper has been perpetually delayed by bureaucracy and a lack of electricity; observers in Kinshasa say that they are not expecting more Chinese money soon. Private Chinese miners have not had much more luck.

A common problem is that Chinese firms “sort of assume that it works the way it does in China”, says Ms Brautigam. “In China, a company comes in, makes an arrangement with local government, and the government delivers.” In Africa, they then discover that government promises to build infrastructure, provide power or supply land are not as credible as they thought. Public land turns out to be occupied by squatters, who may have farmed it for generations; private land may not be owned by the people selling it. Local politicians do not accept deals struck by national ones.

Increasingly, Chinese firms are adapting to these conditions. Huang Hongxiang, who runs China House, an organisation in Nairobi that helps Chinese firms understand how to do business in Kenya, says that there was a gold-rush mentality for a while: “If you told banks you’re going to Africa, it was easy to get a loan.” But now investors are aware that projects in Africa can take a long time and cost a lot more money than they expected. Mr Huang says they are now doing the sorts of things Western firms have long done: investing in corporate social responsibility programmes, hiring African managers and doing scrupulous due diligence.

Western politicians have long worried that China is conducting a new form of imperialism in Africa: getting a jump by dealing with unscrupulous governments and breaking the rules. This is based on a grain of truth: the Chinese are far more willing to work with the Angolan government, for example, one of the world’s most oppressive. But the evidence is increasingly that the Chinese are following a well-trodden path. They do not have a unique ability to make their projects in Africa work where Western firms cannot. For Western policymakers that may come as a relief. For African leaders, desperate for development but unwilling or unable to fix problems that deter all but the hardiest of investors, it may come as a disappointment.