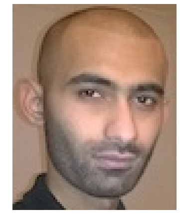
Lessons from Africa: How can Pakistan make the most of Chinese investment?

blogs.lse.ac.uk/southasia/2016/02/05/lessons-from-africa-how-can-pakistan-make-the-most-of-chinese-investment/

2016-2-5

The promise of billons of dollars of Chinese investment has created great excitement in Pakistan. But ***Asad Abbasi*** *warns that investment-driven growth does not necessarily mean development. Drawing on lessons from China's investment in Africa, he argues that Pakistan will only reap the maximum benefits of CPEC if policies are introduced to ensure the benefits are distributed equally.*



The China Pakistan Economic Corridor (CPEC) is set to be the biggest investment of any kind on infrastructure in Pakistan. By 2030, China will invest a total of $46 billion in energy, transport, fibre optics and Gwadar port. It forms part of the 3,000 km corridor that China is building with the aim of reducing the transportation time of oil and goods from the Middle East from 12 days to 36 hours.

CPEC has brought euphoria in Pakistan. A recent survey shows that the 'majority of people (in Pakistan) believe that China-Pakistan Economic corridor (CPEC) will have a good impact'. The Prime Minister of Pakistan has called CPEC the 'future'; the President has called it a 'benefit to the region', while the Chief Ministers of Punjab and Sindh have hailed it as a 'gift' and 'life line'.

Above all, the Chief of Army Staff has vowed to protect CPEC and is making 'all the efforts' to ensure its success. It is likely that no less than ten thousand special security troops will be placed to protect 'CPEC projects'.

Is it the titillation of $46 billion that excites everyone? Is development for all automatically guaranteed with this investment? The first question is perhaps rhetorical, but the second is important. I address it by looking at China's investment in Africa, which shows that if proper institutions are not built and workers are not protected then economic growth will foster severe inequality.

China Pakistan Economic Corridor (CPEC)

In Pakistan, CPEC is advertised as a prelude to growth and development. There are reservations from political parties, who fear that Punjab (the province of ruling party) will get a disproportionate share of the wealth. Parties representing other states insist that a 'rightful' share of CPEC investment should be divided among all provinces However, as all parties are keen to take advantage of CPEC, it is likely that a resolution will be found in the near future.

China-Pakistan Border Credit: Scott Christian CC BY-NC-ND 2.0

For Pakistan, CPEC might represent 'prosperity', 'unity', etc., but for China it is just one small part of *Yi Dai Yai Lu*. This is usually translated into English as "One Belt One Road" (OBOR) but according to Tim Summers, senior consulting fellow at Chatham House, the English translation fails to convey the dynamic meaning that the phrase encapsulates. *Yi Dai Yai Lu* conjures up two different epochs of Chinese history: Silk Road of Tang Dynasty (618-906 AD) and modern silk maritime trade routes from coastal China. The aim of the project is to connect China with 65 countries in Asia and Europe. China estimates that OBOR will add $2.5 trillion to its trade over the next decade.

The recent fall in local demand means that Chinese factories are producing more than they sell at home. This 'overcapacity' of Chinese firms means that China needs to look elsewhere to make efficient use of its capital. One Belt One Road provides opportunities for Chinese firms to invest abroad. PwC estimates that since 2013 'projects worth $250 billion have already been contracted' to Chinese companies. In future, OBOR will bring even 'more investment opportunity for Chinese enterprises'.

There is one problem—trust. There are many reservations about Chinese investment. The Heritage Foundation estimates loss of deals worth $200 billion due to 'nasty surprise of some sort'. Some say it is because stakeholders in many countries do not trust state-funded Chinese investment. China will have no such complication in Pakistan, particularly as the two countries have been developing an increasingly cosy relationship for some time. Investment risk will be minimal since it is closer to home and Pakistani Army has vowed to protect it, so CPEC is a win-win for Chinese corporations. Is it also win-win for Pakistan?

China's investment in Africa

Africa is a continent with more than 50 countries, each with different legal and political institutions, so comparison with Chinese investment in Pakistan— at first sight— does not seem appropriate. Yet, the impact of Chinese investment in Africa holds potentially important lessons for the South Asian nation.

In 2003, Chinese Academy of Geological Sciences warned that China is facing resource shortages. The report recommended that in order to meet current and future demand, China need to import additional three billion tons of iron, half-billion ton of copper and hundred million tons of aluminium in next twenty years.

It was around this time that China's interest in Africa re-emerged. In 2002, trade between China and Africa was £10bn, by 2013, it was more than £170bn. China has become 'Africa's largest trading Partner'.

Though trade represents large proportion of China-Africa relations, it is Foreign Direct Investment (FDI) that acts as a guide for shifts in global investment. It is therefore interesting to study China's investment in Africa. According to Premier Li Keqiang, China will raise its Foreign FDI in Africa to $100 billion by 2020. China has diversified its investment in Africa since 2003, but significant portion has always been channelled into fulfilling the demand for resources. Furthermore, the recent slowdown in Chinese economy has brought a reduction in overall investment from $3.54bn to $568m— declines of 84 percent compared to last year. However, investment in the extractive industry, during the same period, has doubled. After all these years, who in Africa has benefitted from China's investment?

Growth and inequality

China's need for resources, according to Ha Joon Chang, is the biggest factor of high growth rates in Africa since 2000. During this time, there has been a hundred percent increase in number of millionaires living in Africa. However, the number of people living under poverty line (less than $1.25) have also increased from 411.3 million in 2010 to 415.8 million in 2011- a difference of 4.5 million people (equivalent of the entire population of New Zealand).

According to Nick Dearden, director of Global Justice Now, African 'development' has made rich richer, while the poor have remained poor. He points out that African development has raised growth and poverty together, because the benefits of increasing wealth are 'gobbled up by super rich'. A World Bank report has also acknowledged that inequality in 'unacceptably high' and warned that inequality is unlikely to subside anytime soon. One of the main problems is the lack of proper distributive institutions. According to Joseph Stiglitz, countries like Tanzania, Ghana, Uganda, Mozambique, need to build 'institutions, policies and laws needed to ensure that resources benefit all of their citizens'.

Due to the high levels of Chinese FDI, African markets are now pegged to China's internal demand. Any fluctuation therefore causes job losses and uncertainty in many African countries. Take Zambia, for example. Copper accounts for 70% of Zambian exports, so the recent decline in Chinese demand means that price of copper has halved since 2011. As a response, Glencore plc, Swiss mining company, announced to halt the production of copper for 18 months at Mopani mine, resulting in a 26 percent reduction of copper production and around 4000 job losses.

Furthermore, due to the decrease in copper exports, the Zambian Kwacha dropped 4.6 percent against the US dollar. Commodities are priced in US dollars and therefore decrease in Zambian Kwacha against the dollar has increased the prices of commodities across Zambia.

So what does the story of Chinese investment in Africa tell us? Yes, there has been rapid growth and rise in employment. But it is accompanied by rise in high inequality, fluctuations in employment and only a small increase in actual wages. Can this be classified as 'economic revolution'?

Conclusion

China's investment in Africa raises questions around whether the euphoria for CPEC is justified at this point in time. It highlights that for economic stability, government cannot be reliant on one market; it shows that growth does not necessarily mean sustainable development. It also indicates that when economic opportunity arises, particularly in the form of substantial FDI, the government has to take steps to ensure that the benefits are distributed as equally as possible.

There are policies that Pakistani government can implement that would increase the likelihood of equitable distribution. For example, Pakistani government could impose a windfall-profit tax on Chinese corporations extracting minerals in Pakistan and channel the income into developmental projects. Wind-fall profits are 'sudden and massive profits' that can happen due to changes in price. The profits depend on the fluctuation in prices and therefore cannot be 'foreseen' by concerned parties.

If this massive FDI injection is to support Pakistan's development, it is essential to get the policies right, no matter how cumbersome they may seem in the face of the current euphoria.

Note: This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Please read ourcomments policy before posting.

About the Author

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