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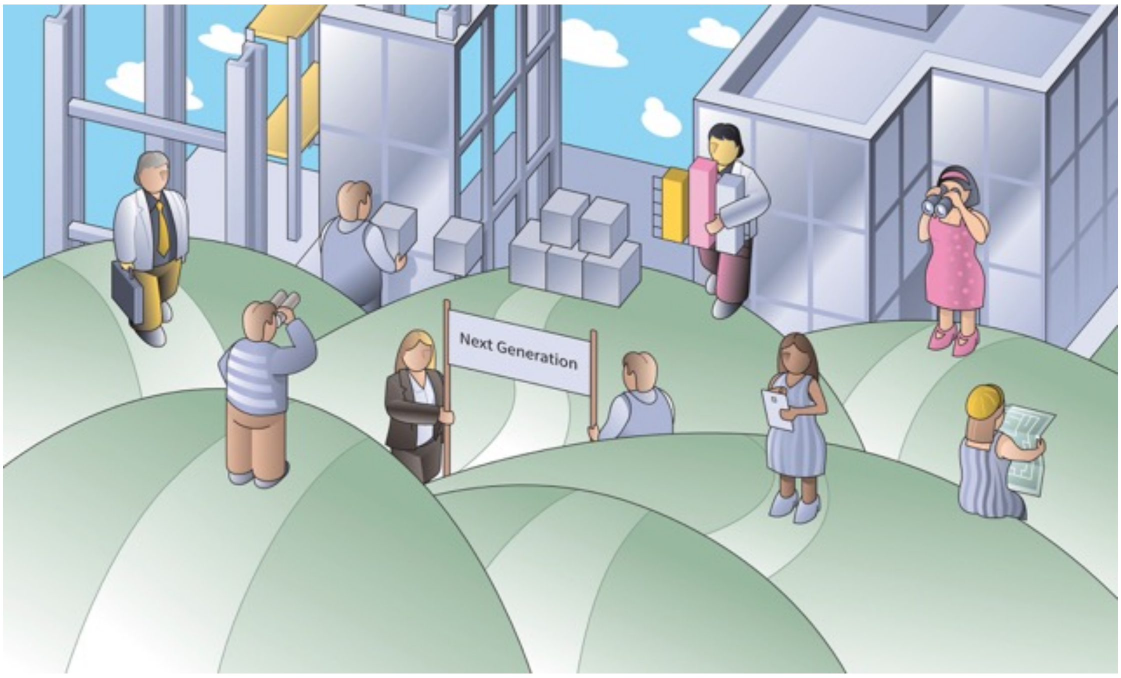

The Fundamental Differences in Development Strategies in Africa: A Comparison of the U.S., Chinese and Swiss Approaches

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Introduction

Out of the two billion people who may be added to our planet between 2019 and 2050, 1.05 billion will be in the countries of Sub-Saharan Africa (SSA). Per the United Nations (UN) projections, the SSA population will more than triple, from 1.06 billion people in 2019 to an astonishing 3.78 billion in 2100 (United Nations, 2019, p. 6). The most important challenges accompanying such a population growth will be providing proper schooling and health care as well as ensuring education and employment opportunities. Taking the reduction in fertility in the SSA region into account, the working-age population is growing faster than other age groups, which is known as "demographic dividend". However, according to the World Bank (2018), 90% of human beings that suffer from extreme poverty will be living in SSA by the year 2030.

The African market offers some of the greatest opportunities in the developing world. The very high rates of economic growth and an expanding middle class offer significant business opportunities (CSIS, 2019, p.1). However, there are some very serious challenges that hinder its successful development, which can be identified from the PESTEL analysis; poor infrastructure, difficult regulatory environments, bad legal environments, political instability and a lack of security are only a few of those challenges.

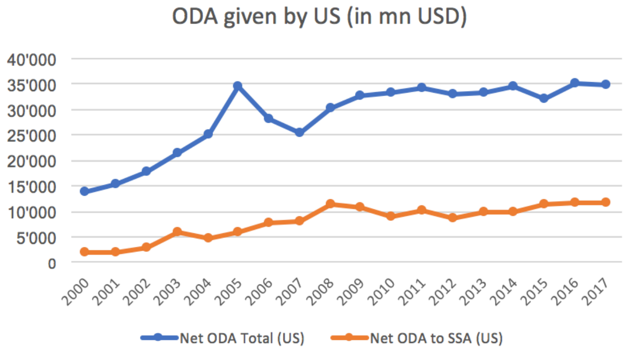
This brief overview gives an insight into the different development strategies in Africa that are pursued by the United States, China and Switzerland.

The birth of development aid and the U.S. development strategy in SSA

The inaugural speech of the re-elected U.S. President Harry S. Truman in 1949 is considered the birth of official development assistance. He called for the USA to support underdeveloped countries with financial and technical aid to fight poverty (Schweizerische Eidgenossenschaft, 2019, p. 5).

After the Cold War period, when the competition for the future allegiance of SSA countries ended, the United States withdrew from SSA and distanced itself from the region. However, the beginning of the 21st century has seen a significant turnaround in U.S. policy. The new U.S. view of SSA was driven by material interests and geopolitical and security considerations (Ryan, 2019, pp. 1–2).

The U.S. is the largest donor of official development assistance (ODA). However, it does not meet the UN goal of giving 0.7% of its gross national income (GNI).



Graph 1: U.S. official development assistance (OECD, 2018)

Since the beginning of the 21st century the U.S. has had a very strong presence in terms of development programs and foreign aid in SSA. Roughly one third (USD 11.5 billion) of the ODA given by the U.S. in 2017 flows into SSA countries. In fact, of the top ten recipients of ODA, six are in Africa (CSIS, 2019, p. 8). Below are listed some of the major U.S. initiatives in SSA since the 2000s (CSIS, 2019, p. 9–11):

- The African Growth and Opportunity Act (AGOA) grants SSA countries with a significant degree of duty-free access to U.S. markets.
- President George W. Bush's Emergency Plan for AIDS Relief (PEPFAR) supports HIV testing services and assists in training healthcare workers to deliver HIV treatment and other health services.
- The Millennium Challenge Corporation (MCC) is an agency that competitively selects partner countries based on 17 different indicators to fund projects that are driven by those partner countries.
- The Power Africa initiative was launched with the goal of adding more than 30,000 megawatts of efficient electricity generation capacity and building new home and business connections.

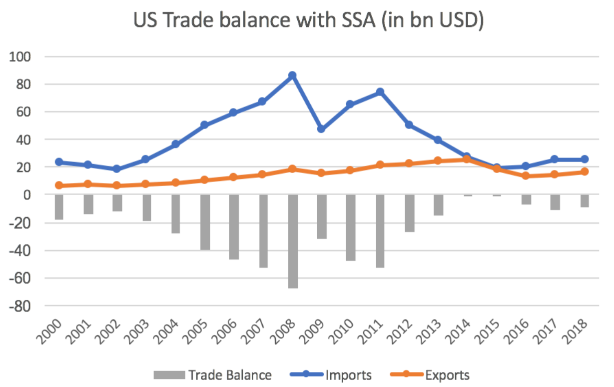
U.S. Africa policy under the Trump administration

The four goals of the Joint Strategy Plan of the United States Agency for International Development (USAID) for 2018–2022 mainly focus on security policy and the economic interests of the U.S. abroad (Konrad Adenauer Stiftung, 2019, p. 3):

- Protect America's security at home and abroad;
- Renew America's competitive advantage for sustained economic growth and job creation;
- Promote American leadership through balanced engagement;
- Ensure effectiveness and accountability to the American taxpayer.

Accordingly, the recently launched "Prosper Africa" initiative will support open markets for American businesses, grow Africa's middle class, promote youth employment opportunities and improve the overall business climate. Furthermore, it will support efforts to counter threats to American and African security. The initiative also focuses on striving for stability, which includes the promotion for democratic ideals, supporting fiscal transparency and undertaking economic reforms (The White House, 2018).

The "Prosper Africa" initiative clearly focuses on boosting trade and investment between the U.S. and Africa. Consequently, the U.S. tries to benefit from Africa's strong economic growth. With six of the ten fastest growing economies in the world and one billion consumers, Africa plays a crucial role in the global economy (Prosper Africa, 2019).



Graph 2: U.S. trade balance with SSA (Census, 2019)

The graph above shows the imports and exports as well as the negative trade balance between the U.S. and SSA. The imports fluctuate over time and have dramatically decreased since the all-time high in 2008. This sharp decline occurred due to the tremendous cut in crude oil imports from Nigeria and Angola (USITC Executive Briefing on Trade, 2015, p. 1). In 2017 the U.S. exports to the SSA only accounted for 1.2% of all U.S. exports. This very low trading volume shows the huge potential of the SSA markets – with its emerging middle class – is still largely untapped.

BUILD Act – Is the new U.S. Africa strategy only about China?

"China uses bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands." (John R. Bolton, 2018)

China has surpassed the U.S. as a trading partner since 2009 and its two-way trade with Africa is approximately three times that of the U.S. Additionally, the Chinese foreign direct investment (FDI) flows were over ten times higher than the U.S. ones in 2017 (CSIS, 2019, p. 6). Through the Prosper Africa initiative the U.S. presents a compelling alternative to rivals like China.

The newly passed Build Act (Better Utilization of Investment Leading to Development Act), which creates a USD 60 billion agency, is a clear response to China's growing influence. The Build Act created the legal foundation for a new U.S. agency, the International Development Finance Corporation (USIDFC). By attracting private investment, the agency will leverage U.S. assistance to support developing countries in moving from non-market to market economies (CSIS, 2018). The agency can make loans and acquire equity stakes in entities as a minority investor (CSIS, 2018). Contrasted with China, the USIDFC offers something clearly different. China does not support any lending to small and medium-sized enterprises and only invests in large infrastructure projects (CSIS, 2018).

The Chinese development strategy

When the Communist Party came into power in the mainland in 1949, the UN did not at first recognize the People's Republic of China as a sovereign state. Instead, China's seat on the UN Security Council was held by Taiwan. In 1971 UN member states voted to return the seat to China. During that time 26 of 76 votes came from African nations and by the 1990s, approximately 90% of African countries recognized the People's Republic of China. Those relations provided the fertile ground for China's "Going Out" policy, which was launched in 1999 to encourage Chinese enterprises to invest abroad. The link between China and Africa were further strengthened in 2000 through the launch of the Forum on China–Africa Cooperation (FOCAC) (McKinsey & Company, 2017, p. 19).

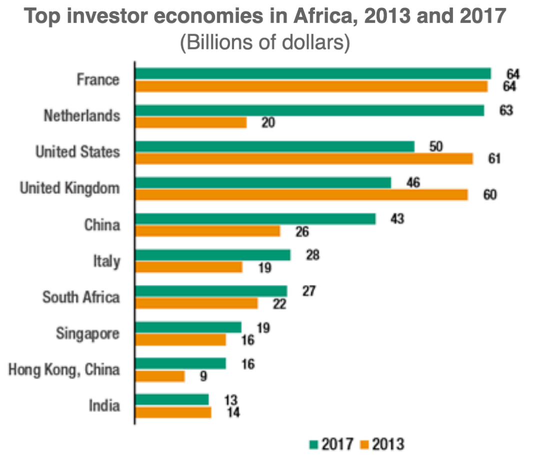
The principle of non-conditionality of all Chinese aid payments is very essential in its development strategy, also known as the "no political strings attached" principle. No conditions are imposed with regard to democratic processes, the fight against corruption or respect for human rights (Habegger, 2015, p. 5).

Generally Chinese development strategy in Africa is split into three different forms of financing:

- Grants (no payback needed);
- Interest-free loans (occur especially for infrastructure projects);
- Concessional loans (preferred loans with special loan conditions).

Since China does not report any aid figures per the definition of OECD, it is difficult to compare those numbers with those of the U.S. or the EU. However, in contrast to the U.S. and EU approach, Chinese aid is centered strongly on concessional loans for infrastructure and export credits (Habegger, 2015, p. 6). The financing of public institutions such as hospitals, schools or railway lines is mostly secured by raw materials, primarily oil. From an African point of view, oil production rights are preferably granted to those states that also invest in the country's infrastructure. This model, also known as the "Angola Model", involves an exchange of infrastructure and natural resources, preferably oil (Habegger, 2015, p. 6).

Estimates by the African Development Bank (AFDB) state that Africa's infrastructure requires an expenditure of USD 130–170 billion a year, leaving it with a financing gap in the range of USD 67.6–107.5 billion (CSIS, 2019). The Chinese President Xi Jinping pointed out that this infrastructure gap is Africa's biggest bottleneck to development. Since 2011, China is the biggest player in Africa's infrastructure boom, with a total share of 40%. China is not only the largest investor in infrastructure projects on the continent but also Africa's biggest trade partner (Shepard, 2019).



Graph 3: FDI stock in Africa (UNCTAD, 2019)

Per McKinsey & Company (2017, p. 11), the Chinese investment and business activity leads to three main economic benefits: job creation and skills development; transfer of new technology and knowledge; and financing and development of infrastructure.

EU and Swiss development strategy

The EU development policy has the objective to eradicate poverty, promote sustainable growth, defend human rights and democracy, promote gender equality, and address environmental and climate challenges. The EU and its member nations are the world's largest donor of development aid, amounting to EUR 74.4 billion in ODA (Europäisches Parlament, 2019, p. 1).

Switzerland became involved in ODA at an early stage. In addition to humanitarian programs, which it implemented from 1944 onwards in particular for war refugees, it soon also provided technical assistance. In 1947, Federal Councillor Max Petitpierre declared neutrality and solidarity to be fundamental principles of Swiss foreign policy. The development strategy of Switzerland (IZA) addresses four objectives for the period 2021–2024 (Schweizerische Eidgenossenschaft, 2019, p. 14):

1. Contributing to sustainable economic growth, market development and job creation (economic development);
2. Combatting climate change and its impacts and managing natural resources sustainably (environment);
3. Saving lives, ensuring high-quality basic services and reducing the causes of forced migration and irregular migration (human development);
4. Promoting peace, the rule of law and gender equality (peace and governance).

In considering the priorities of the bilateral development cooperation, Switzerland distinguishes between stable and fragile countries in SSA. The priorities for the stable countries are economic development, good governance, strengthening the free movement of goods, services and people in the region (to promote local opportunities as alternatives to emigration to Europe), as well as mobility and infrastructure. Regarding the fragile states, the priorities target a fair and basic supply of services like health care, education and access to water, as well as good governance, anti-corruption measures, conflict prevention and respect for human rights (Schweizerische Eidgenossenschaft, 2019, p. 21).

Conclusion

The recently developed “2030 Agenda for Sustainable Development” is anchored around 17 Sustainable Development Goals, which consider economic, social and ecological aspects.

The development strategies of the EU and Switzerland clearly stick to the sustainable development goals and actively include them in their development strategies. Switzerland does not explicitly state its own strong economic interests in SSA in their development strategy for 2021–2024. Unlike the Chinese or U.S. development strategy, it states its goal is to tackle the problem of forced and irregular migration from SSA countries.

On the other hand, the U.S. strategy focuses very much on potential security threats to the U.S. and its economic interests abroad. Projecting American values and promoting democratic ideals are central components. However, the new Africa strategy is clearly targeted to reposition itself and bring it on par with China. Since China has outpaced the U.S. in investment and as Africa’s trading partner, preventing further loss in economic and political influence in African countries seems to be a crucial part of the new U.S. Africa strategy.

China’s motivation, in contrast, is clearly focused on economic cooperation. Since it follows a non-interference policy, China invests regardless of democratic conditions and corruption. Further, human rights violations and nature conservation are not targeted by the Chinese development strategy. Although the Chinese strategy does not engage at all with the UN Sustainable Development Goals, it can however tackle one of the most severe obstacles to Africa’s successful development: its insufficient infrastructure.

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Oliver Kilchenmann is a master's student in Banking and Finance at the University of St. Gallen (HSG) and holds a bachelor's degree in Business Administration from the University of St. Gallen (HSG) with an exchange semester in Singapore. Through various internships, he has gained experience in financial controlling, transaction services, and mergers and acquisitions. The analyses and opinions presented in this article are his own.

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