

## **Australia's trade and investment relationships with the countries of Africa**

My name is Edson Ziso. I am a 35 year old post-doctoral visiting Research Fellow, in the Department of Politics & International Studies, University of Adelaide. I have experience in research, university teaching and community development with an international development organisation, Plan International. I hold a MA Development Studies (Zimbabwe), MA Public Policy (Germany) and recently completed a PhD in Politics at the University of Adelaide (South Australia). My PhD thesis titled: "*Internationalisation of Chinese capital and its impact on state-society relations in Ethiopia*" was highly recommended and will be published as a book before the end of the year. It is from this 4 year-intensive research on investment relations between China and Ethiopia that I believe I can make a contribution to the conversation on Australia's trade and investment relationships with the countries of Africa.

China has established a massive presence in Africa in its contemporary global push as a rising power. In its wake, it has captured huge markets that were originally the preserve of established economic giants such as the United States, Europe and Australia. Australia's trade and investment relationships with the countries of Africa has been fairly suppressed. According to the Australian Department of Foreign Affairs and Trade, Australia's two-way goods and merchandise trade with Africa was valued at \$7.3 billion in 2015-16.<sup>1</sup> By comparison, China's trade and investment relations with Africa has been growing exponentially and evolving in the past 20 years. China's involvement in Africa is multifaceted to include a wide array of activities including aid, trade, debt cancellation, development financing, investment among others. China's investment in Africa has exceeded \$40 billion in FDI, through various kinds of investment.<sup>2</sup> Beijing, meanwhile, has overtaken the World Bank in lending to Africa. In 2005, for instance, China committed \$8 billion loans to Nigeria, Angola and Mozambique while the World Bank distributed just \$2.3

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<sup>1</sup> <http://dfat.gov.au/geo/africa-middle-east/pages/africa-region-brief.aspx>

<sup>2</sup> Thompson Ayodele and Olusegun Sotola, "China in Africa: An Evaluation of Chinese Investment", IPPA Working Paper Series, 2014

billion throughout the continent.<sup>3</sup> In this submission, I argue that Australia has so much potential to increase and expand its trade and investment relations with Africa. However, in order to exploit this potential, Australia needs to understand the importance of informal institutions in Africa. Broadly, these are institutional, economic and political.

Formal institutions in Africa are weak and in some cases even non-existent. The reasons for this state of affairs are numerous and there is no need to restate them here. However, despite this, Africa is still open for business. This explains why China has been able to establish a giant foothold in Africa. China is very much comfortable working through informal institutions not only in Africa but across the globe in its quest to capture markets, exert influence and boost its economic status. To facilitate this, African countries such as Ethiopia have come up with new modalities of state intervention including by way of institutional drivers. Australia is a neo-liberal economic power. This leads to a predominantly economic system that is predicated on the primacy of the private sector. To that end, in its dealings with Africa, private capital is at the forefront of Australia's trade and investment relations. This puts Australia in an unfavourable position because African political systems are mainly based on state/government massive involvement in the economy. It is highly recommended that the government play a leading role in engaging Africa because of the strength and interests of the African state.

The private sector is generally weak in Africa but most importantly, it is crucial to note that most of the private companies that Australian investors may want to do business with are actually linked to the state. This makes it very critical that through diplomatic endeavours, the Australian government play a more active role using state-state relations with individual African countries. If the government assumes that Australian private players can go it alone in Africa, Australia will continue to lag behind emerging economies and rising powers like China, India and Russia that have a more flexible approach with the state

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<sup>3</sup> Karen Foerstel, 'China in Africa: Is China Gaining control of Africa's resources', CQ Global Researcher, Vol. 2 No. 1, January 2008, pp 1-26

normally at the centre. In my extensive research on China's investment relations with Ethiopia, this came out quite prominently.

The Ethiopian government thus links its SOEs as well as party-linked businesses for joint venture deals with Chinese state capital. This is happening in ways that demonstrate how the internationalisation of state capital reinforces the economic and political position of Ethiopian state capital. SOEs have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedier customs clearance.<sup>4</sup> This in turn is crucial to the political foundation of the regime. These deals are made possible by subcontracting since major investments in the country are those owned by some of China's biggest SOEs, such as Zhong Xing Telecom Corporation (ZTE) (responsible for the development and expansion of the mobile network in Ethiopia)<sup>5</sup>; the Jiangsu Changfa Group (which signed an agreement with the government of Ethiopia to invest in assembling agricultural machinery equipment in the Eastern Industrial Zone<sup>6</sup>); Zhongyuan Petroleum Exploration Bureau, a subsidiary company of China Petroleum and Chemical Corporation (Sinopec) (exploration for oil deposits); and Sino-Saudi Joint Investment Cements PLC and C. H. Clinker Manufacturer PLC (the two cement factories which are the two largest Chinese investments in Ethiopia in terms of capital).<sup>7</sup> Another example is the China-Africa Development Fund office in Addis Ababa which has looked into the possibility of doing a joint venture with a Chinese company to invest in one of the ten sugar plantation and factory complexes planned by the Ethiopian government.<sup>8</sup> The role of the Australian government in identifying opportunities and assisting Australian companies to access existing and new markets in Africa can therefore not be over-emphasized.

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<sup>4</sup> Department of State: 2014 Investment Climate Statement June 2014, p10

<sup>5</sup> Lishan Adam, 'Understanding what is happening in ICT in Ethiopia: A supply - and demand side analysis of the ICT sector', Evidence for ICT Policy Action Policy Paper 3, 2012, [http://www.researchictafrica.net/publications/Evidence\\_for\\_ICT\\_Policy\\_Action/Policy\\_Paper\\_3\\_-\\_Understanding\\_what\\_is\\_happening\\_in\\_ICT\\_in\\_Ethiopia.pdf](http://www.researchictafrica.net/publications/Evidence_for_ICT_Policy_Action/Policy_Paper_3_-_Understanding_what_is_happening_in_ICT_in_Ethiopia.pdf), accessed on 2 February 2015

<sup>6</sup> Seifudein Adem, 'Diplomacy and Economics of Sino-optimism in Ethiopia', in Ph. D Adem, Ali A. Mazrui Afrasia: A Tale of Two Continents, University Press of America, 2013, p134

<sup>7</sup> Global cement, 'Ethiopian cement focus', 24 January 2013, <http://www.globalcement.com/magazine/articles/747-ethiopian-cement-focus>, accessed on 18 March 2016

<sup>8</sup> Deborah Brautigam and Xiaoyang Tang, 'An Overview of Chinese Agricultural and Rural Engagement in Ethiopia', IFPRI Discussion Paper 01185, May 2012, p16

Chinese capital links with local fractions of capital that are linked to the state such as party-owned businesses and this economic relationship solidifies the regime's political strength. In the Ethiopian economy, the formal sector is dominated by state enterprises (with dominant presence in finance, domestic air route, and telecom), party-owned companies, and a handful of multinationals (Saudi, Indian, Chinese, and Turkish).<sup>9</sup> More funding or more investment from China through its various investment or funding vehicles, either multilateral or bilateral, is easily a boost to the regime given its domination of the various key economic sectors. The governing EPRDF coalition of political parties runs a coterie of businesses in Ethiopia through its company vehicle known as Endowment Fund for the Rehabilitation of Tigray (EFFORT) set up in 1991 from the sales of hardware and ammunition at the end of the civil war. EFFORT, an endowment fund under Tigrayan people's liberation Front (TPLF) owns more than 60 companies.

In much of Africa, the internal configurations of capital – including capital linked to the dominant party – are matched by a set of external diplomatic institutions. The business arrangements are facilitated through various institutions and arenas of diplomacy are then created in direct response to the country's need for FDI in general, and the special relationship the country needs to carve with Australia, for example. A good example in the Ethiopia situation is the newly created Business Diplomacy department in the Ministry of Foreign Affairs. Its mission is to 'facilitate an effective and efficient flow of information between the Ministry, Ethiopian missions abroad and relevant national bodies, to centralize process and disseminate economic and business information in a consistent and sustainable way.'<sup>10</sup>

Australia is ideologically dissimilar to Africa given the cultural chasm that exists between the two continents. In order to improve its trade and investment figures with Africa, Australia may need to consider realigning its

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<sup>9</sup> Berhanu Abegaz, 'Aid, accountability, and institution-building in Ethiopia A comparative analysis of donor practice', The World Institute for Development Economics Research (WIDER), Working Paper No. 2013/083, p18

<sup>10</sup> <http://www.mfa.gov.et/abtMnstrMore.php?pg=43>

ideology to create affinities with African countries. It is also important to note that African countries are different and the tendency to treat Africa as homogenous entity is ill-advised. To that end, Australia does not need an 'Africa Strategy' per se. Rather, what is required is specific strategy and approach tailor made to the realities, complexities and opportunities that each African country presents. This is because African countries generally do not have a fixed economic system. The interdependence of economy and polity is such that the state plays a vitally important role at all levels in removing structural impediments to development and building necessary infrastructures for manufacturing industry, commerce, and trade. What generally prevails are mixed economic systems that are neither socialist nor capitalist. However, the state remains central intervening at almost all levels. The new modalities of state intervention that are now emerging are resulting in the blurring of the distinction between economic (through state enterprises) and political arenas (key regime interests) of the state. Australia will do well to thoroughly analyse the specific neoliberalisms that are emerging in specific African countries in order to position itself to exploit the vast trade and investment opportunities that Africa presents.