DANCE OF THE LIONS & DRAGONS: HOW ARE AFRICA AND CHINA ENGAGING, AND HOW WILL THE PARTNERSHIP EVOLVE?

Panel Moderator: ***Sunil Sanghvi***
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Introduction

Ambassador Kenneth M. Quinn
President - World Food Prize Foundation

Now we're about to have something never done before at the World Food Prize Symposium. On the stage you're going to see somebody undress in front of you. I knew I'd get your attention. And it's going to be me, so now I don't have your attention anymore. In fact, people are now starting to leave. And what's going to happen is, I was just given a tie, an orange tie, by Jan Low, our 2016 laureate. And on it you can't see, but I'll describe it. On there is a lot of ostriches with their heads buried in the sand, except there's a couple of them, they're up looking around. They are the ones that are open to new ideas, new innovation, so I'm going to take my tie off here. I'm putting on Jan's tie. I'll tie it when I get off. I'll put it on when I get off the stage, because it takes me extra time. So now I have everybody's attention. And, Agnes, when you go back to Africa, say, "What did Ambassador Quinn do?" Well, he started taking his clothes off at the symposium.

This opening session is a real treat. I'm going to introduction it, and after that Margaret Catley-Carlson is going to take over as the emcee for the morning. But Sunil Sanghvi is a long-time friend who is the senior partner at McKinsey & Company. And I got to know him about eight or nine years ago when he was working closely with Rajiv Shah, first at the Gates Foundation and then when Raj came, Feed the Future. And he's such a brilliant analyst, innovator, and a person who cultivates ideas the way other cultivate corn and maize and soybeans, and produces an equally abundant crop. He was the advisor at McKinsey, the lead advisor on the creation of the New Vision for Agriculture Roadmap—you know, roadmap out of poverty—New Vision for Agriculture Roadmap, prepared for the World Economic Forum. So you know Lisa Dryer and now Sean McQueen here, and we had a from Des Moines to Dabos connection. But this was a time when Sunil was here.

He's brought with him Dr. Irene Sun, the Engagement Manager. She's the author of the book, *The Next Factory of the World,* about the role of Chinese investment and industrialization in Africa. It is available, shipment by amazon today, so I would go looking for it, just based on what you're going to see in their report. Dr. Sun is the co-author of the *Dance of the Lions and Dragons*, the major McKinsey report about the Africa-China connection, an economic relationship based on interviews of more than 1,000 Chinese firms in Africa. I read it. The symposium was full. I said, they've got to be here. I'm going to fit it in. They were so wonderful to come. Please welcome to the stage, Dr. Sunil Sanghvi, and Dr. Irene Sun.

Over to you.

Sunil Sanghvi
Senior Partner, McKinsey & Company

Ken, thanks for that introduction, and thanks for the dinner last night—as always, spectacular. Thanks for setting this thing in motion. It's year after year, the highlight of the year. We have a lot of friends in the audience. It's great to be here.

This topic of China and Africa is especially close to my heart. Twenty-five years ago I was at the World Bank, and I got a chance to see the early innings of the Chinese ag transformation. And then more recently I've been working on agriculture in Africa and have had the chance to see the early innings of that transformation. And from those two experiences, I have a belief. China matters, Africa matters, and agriculture matters. And there's a great interconnection between those three themes.

As Ken mentioned, McKinsey [inaudible] to those areas, and under Irene's leadership, we just did some research on the impact of China and Africa. And the findings were a little bit interesting. We found that we are underestimating the impact of China and Africa. It's more than is commonly reported. It's more than the statistics show. But we're overestimating the impact of China on African agriculture—that's lagging.

And so the main thesis of our comments here today are that, if Africa, if the 55 countries in Africa can get the full punching power of China into the mix, in addition to the OECD countries—India, Brazil and everybody else—that can only be good for African farmers and for Africa. To make these points, I'll set a few minutes of context in the beginning. Irene will come and give the main part of the talk about the summary findings of my research, and then I'll come back and do a short close.

For context, it's sometimes interest, certainly fun, to take the long view on history. If we do that, you see the importance of China over time. What this first chart shows is that share of GDP, global GDP from Christ to 2016. And the light blue is China, and the dark blue is mostly India. And you see for the first 1800 years, the world's GDP was mostly comprised of India and China. The world's GDP is population times per capital productivity. And around 1800 the per capita productive in the West started increasingly dramatically, and you see the great, great increase in the share of the world's GDP of Europe and the U.S.

At the same time, along the top of the chart, you see how large the economy started to become. It was in constant dollars, about a trillion dollars in 1800; $37 trillion in 2000; and $67 trillion in 2016. So this lift that the West did in 12 years is really remarkable. And then at the end you see the resurgence of China—that's the light blue edge growing again—and you see in a huge, huge world economy how it has come back. Right now you have the five-year party congress going on. A lot of us are following that and the ambitions that are coming out of that. The Belt and Road is going to be a much bigger investment on an apples to apples comparison than the Marshall Plan was. It's an amazing amount of lift the Chinese can do. And that's why we say China matters.

Now, Africa. With a full awareness of how risky it is to try to say anything about the future, we did it anyway. We did a little modeling to say—what could the future look like? We know that Africa is going to have a lot more people, and it's going to benefit from that. And we said, if Africa could maintain a 5% productivity growth—it's more than it has in recent years, but it's less than India and China have—what could the future look like? And this chart shows what the future could look like in 2050. You would wind up with an Africa at $9,000 per capita GDP—that's about what Eastern Europe is today. You would have Africans in our lifetime living like Eastern Europeans live today. And the slice of the GDP that's African would be about the same as Western Europe at that time. Wouldn't that be great? Wouldn't that be great? That's why we say Africa matters.

And agriculture is going to be a critical part of any African transformation because of how large it is in the economy. It's also their labor will be released to other sectors. And it's so important for social stability. So at the beginning I said China matters, Africa matters, agriculture matters.

Now, to get 5% productivity growth is going to take a lot. It's going to take technology transfer. It's going to take a lot of investment. It's going to take good policy and governance on the part of African governments. The amount of investment, as we all know, to get the African Green Revolution happening is enormous. And there is plenty of room at the table for the Chinese development model, for the Western development model, for the Indians', the Brazilians'. To be sure, there are some questions about the Chinese development model, about the inclusiveness, about the support for autocratic regimes, about the environmental footprint. These are real and good questions. But in the longer term, you need a lot of investment to make this picture happen, and you have got seats at the table for everybody. In fact, we think, and we see, increasing opportunities for collaboration across these different development models, each which has strengths and weaknesses and each which is changing. Irene will talk a little bit about the changes in the last few years in the Chinese development model, in response to some of the criticisms.

So I've kind of made the case for the value of agriculture in the African ag transformation and the importance of China playing a bigger role in that. The question is—why is it that China's impact in agriculture is less than it is in manufacturing or mining or infrastructure or other sectors, and what can we do about it? In order to get some ideas into that question, Irene is going to come on and talk about our research, and I will come back and do a short close.

Irene Sun
Engagement Manager, McKinsey & Company

Thank you, Sunil, and thanks to Ambassador Quinn and all of you for being here today. It's a pleasure to be able to present to you the findings from our recent report, "The Dance of the Lions and Dragons."

Now, before I get into the findings, let me tell you a little bit about why we went out and did this research. The Africa-China space is interesting, in part because it's characterized by two things that you normally don't find together. On the one hand, there has enormous hype, so numbers like a trillion dollars of government lending. When you think about it, that number is so large that it couldn't possibly exist. On the other hand, there has been sharp anxiety, so words like "exploitation" and "neocolonialism" being thrown around to describe this.

Between the two, there have been precious few facts. To help us understand what are the real opportunities, what should be we get getting excited about, and what should we be worried about? So we at McKinsey wanted to bring a fact base to this question of what China is doing with Africa to help us understand what are the opportunities for mutually beneficial growth.

So in the space where there are so few facts, we had to go out and create the fact base. Let me tell you how we did that. We took eight African countries that together represent about two third of Sub-Saharan Africa GDP and about half of Chinese foreign investments into Africa. We hired a small army of Chinese researchers, and together we went out and interviewed more than a thousand Chinese firms. These were detailed, in-person conversations conducted in Mandarin or sometimes in Cantonese or local Chinese dialects.

In addition to that, we wanted to understand the African perspective, so we spoke to more than a hundred African government and business leaders in these eight countries, and we consulted all the existing data sources, more than 70 sources in total. When you take this all together, this is the largest fact base that has ever been assembled about the China-Africa economic relationship. So what did we find?

Let's start with the big picture and the macro view. China already is Africa's largest economic partner. We took the notion of economic engagement and broke it into five dimensions—trade, investment that's both in terms of stock and growth, infrastructure and aid. On every dimension, China is amongst Africa's five leading partners. No other country can claim this. And in some cases, it's not even close. So on trade, China is three times larger than Africa's next largest trade partner. In infrastructure, it's even more pronounced. China is bigger in infrastructure financing than the World Bank and seven times larger than the next largest bilateral financier. So when we talk about the Africa-China relationship, it's no longer just an interesting possibility for the future. It is the reality for Africa and China today.

However, as Sunil laid out, when we look at agriculture, there's been too little activity. So here we show African agricultural exports to China. The growth rates look good, but when you put it in context, China represents only 3% of Africa's total agricultural exports. The potential for growth here is enormous when you consider that China is a fifth of the global economy.

Now, that's the macro view. Let's look at the micro view, the firm level view. Let's start with the basic question—How many Chinese firms are actually operating in Africa today? This is a harder question than we expected, so let me tell you a little bit about how we got the answer. In every country we started with the Chinese government data, the Ministry of Commerce registry of the Chinese firms it knew was operating in each of these countries. We're just showing three examples here. Then we took the local government data. So in the case of Kenya, [inaudible]; in the case of Nigeria, the Nigerian Investment Promotion Commission. Then we added in, depending on the country, between five and ten additional data sources—business association membership lists, [inaudible] registries. We matched every name on every list on every other list on every other list for a combined total. And what we found was 2X, 3X, sometimes 7X the number of firms that either government on either side expected.

When you extrapolate this to the rest of the continent, we think there are already more than 10,000 Chinese firms operating in Africa today. To put this in perspective, that's almost four times the number in the previous largest dataset.

So what are these firms doing? The answer is, lots of things. About a third of them are in manufacturing, but there are significant numbers in other sectors, like services, trade and infrastructure. In some of these sectors, they are making a dent in taking leadership positions in the market. So manufacturing, we estimate that 1 in 10 manufactured goods being produced in Africa today is already being produced by a Chinese firm. In infrastructure, their market leadership is even more pronounced. They're winning half of all EPC contracts in Africa today.

But again, agriculture—underexplored in terms of investment. So when you look at commercial farming, only about 4% of announced Chinese projects ever come into reality.

Now, who owns these firms? You might think that they're mainly owned by the Chinese government in the form of [inaudible] enterprises. The reality is quite the opposite. In country after country we're finding 80 to 90% of Chinese firms are actually private corporations, privately held or owned by individual entrepreneurs who see the markets opportunity in Africa. They're there not for political reasons or because of state backing but because they see an attractive market opportunity in Africa, and they're willing to be their own capital to see the returns.

Now, let me tell you about some of these firms and what they're actually doing, particularly in the area of agriculture. Let's take Sunshine. They're a family-owned firm who came to Tanzania in East Africa about a generation ago as a small import/export trading business. But they use trading to actually understand the market and understand what would make business sense to produce locally. So today they have multiple ventures in East Africa in agro-processing, for example a cotton mill and a sunflower seed oil factory.

[inaudible] group—this is one of the leading chicken feed manufacturers in China, and a few years ago they made their first investment in Africa, in South Africa, and they've already expanded to Nigeria and Egypt as well. So one thing you can say about these firms is that they're nimble, they're agile, they're excited about Africa and always looking to evolve and pursue the next opportunity. In some of them we're seeing the glimmers of interest in agriculture, particularly in areas like agro-processing mechanization and agricultural input.

Now, what's the impact of Chinese investment in Africa? This has been a huge area of debate, and we wanted to bring a fact base to be objective about this question. So in our sample of firms, more than a thousand firms that collectively employ more than 300,000 people in Africa, we find that 89% of the employees of Chinese firms in Africa today are local African workers. The reason is very simple—it's cost. In some sectors in some countries it now costs five times as much to bring a worker from China as to hire one locally. And so this is just simple business sense.

Another area that you might not associate with Chinese firms—innovation and technology. Here let me tell you the story of a firm called Techno. Now, this crowd, I imagine, is a little more familiar with iPhone or Samsung, but to the man or woman on the street in Lagos or Nairobi, they are just as like to have heard of or be familiar with Techno. They're a Chinese firm that makes a very affordable smartphone that retails for about $50. And what's more, they've adapted their technology to their customers. They don't sell any smartphones in China. They only sell in Africa. And they noticed pretty early on that at least the previous generation of iPhones and Samsung phones did not take very good selfies of people with darker skin. So they quickly adjusted their selfie technology, and you can see the comparison of the iPhone selfie and their selfie. Yeah, it's quite striking. And overall we're finding that this is actually pretty common. But half of Chinese firms have introduced a new product or service into the African market, and about a third of them have introduced a new technology.

Now, those are positive aspects, but again we want to be objective. There are places where the impact of Chinese firms in Africa could be improved. Managerial employment is one. So while overall local employment is very high, it's about half the rate when you just take the manager level. Sourcing is another area. Only about half of procurement of Chinese firms by value is being done by local suppliers, African suppliers, and this number should go up in the future. Labor violations—there have been well-documented cases in some countries, particularly in the [inaudible] sectors, and this is a quite serious concern. And finally, corruption. Chinese firms were quite honest with us. In five of the eight countries we did fieldwork in, we found 60 to almost 90% of Chinese firms telling us that they paid a [inaudible] or a bribe to get a license. To put this in context, this is the number one concern out of a long list that we asked about, of Chinese firms operating in Africa today.

Now, Africa is a large place with many countries, and we want to recognize the varied ways that they've set up their relationships with China. And so we broke this question into two axes. On the vertical axis, there's what we're calling the death of the government-to-government relationship. So do the two sides care at high levels across all levels of government, and is it a strategically engaged relationship? On the X axis we're plotting the health of the economic engagement. And we use the word "health" to connote not just the size of the investment involved, but does it involve a diversity of firms in different sectors and of different sizes?

When we took our eight countries, they are all over the map, and so we suggest looking at this in terms of four grouping. First, an orange towards the top right, there is what we are calling the robust partners, like Ethiopia in South Africa, countries that have established truly strategic and sustained engagement with China in multiple areas, working together to mutually advance their interests in a sustained way. Then in blue there's what we're calling the solid partners where the relationship has grown healthily, is of a good size but not because either side or both sides rather are necessarily being completely strategic about it.

Then in red there's the unbalanced partners, Angola and Zambia, places where the relationship is tilted towards the government side or the private sector (quote/unquote) "running amuck." In these places, growth has often not been the issue, but we would say is there is an exogenous shock that affects some of these countries, the investment amount or the trade amount may see a sharp downtown.

And finally, there's amazing partners, like Cote d'Ivoire, places where the relationship is so new and so trade-based that the partnership model has not yet become clear.

Now, what of the future? So [inaudible], today if you add up the revenues of all Chinese firms operating in Africa, it adds up to about $180 billion today. If everything continues status quo, business as usual, we're looking at pretty good growth to about $250 billion in the next decade. But much more is possible, more like $440 billion or nearly half a trillion dollars of opportunity.

So where is this going to come from? It's really going to come from two buckets of industries. There's what we're calling "the big three" today, manufacturing, resources and infrastructure, that have been huge areas of Chinese investment to date that will continue to have outsize opportunity over the next decade. But there are also five new growth industries that add up to more than a hundred billion dollars of opportunity, and agriculture is one of these.

What are going to be the big China-Africa agricultural investment opportunities? Well, there's five buckets. Infrastructure—this is a natural [inaudible] to the Chinese construction industries dominant in Africa today. So it's natural to think that they could expand into agricultural infrastructure, things like irrigation across the continent.

The next three—inputs, machinery and agro-processing. China is the current factory of the world. It produces more than a quarter of global manufacturing output. There are a plethora of Chinese entrepreneurs with the technical know-how and the expertise in manufacturing, and they've already shown interest on the continent. It's just a matter of time before they get into in a big way agriculture-related manufacturing of inputs like fertilizer, pesticides and feed, agricultural machinery, and also agricultural [inaudible] processing.

And finally, financing. So China over the last decade has developed some of the leading cutting edge technology in digital consumer finance. So names like Ali Baba and [inaudible]. Ali Baba recently just made Africa a strategic priority for their company. It is just a matter of time that some of these models that have worked so well with the base of the pyramid in China, actually come and are explored in Africa.

So finally, some recommendations. We started this by saying that we believe there are is such a huge opportunity for mutually beneficial and sustainable growth. And there are ten recommendations that we have to make that a reality. They break into different audiences, so for African government, our main message is—make this a strategic priority. China is already the continent's largest economic partner. Let's make sure the bureaucracies and the national strategies are updated and there is sustained engagement to treat China like the big partner and big opportunity it is already.

To the Chinese side, our big message is—let's make sure to understand the role of the Chinese private sector. Today all of the massive funding that has been available from Chinese policy banks and by the Chinese government has gone largely to state-owned enterprises, whereas the reality on the ground is that it's private Chinese firms doing so much of the heavy lifting. So let's make sure that those firms are supported by the Chinese government, recognized by them but also guided in terms of good business practices.

To the private sector, there are massive partnership opportunities. A JV opportunity where the Chinese side can bring capital and technology and the African side brings market access and market knowledge.

And finally there's interesting public/private partnership opportunities, including in agriculture. So imagine if that 3% of African agriculture exports to China could grow to what China is in line with the global economy, something more like 20%. One thing that could really help that is if the Chinese government and Africa government agreed to a pre-purchasing arrangement where African producers can make it, then China agrees upfront to buy African agricultural commodities at a market price ban. This would give African producers the confidence to actually invest in improving yields and productivity, and macro-level, it would improve Africa-China's trade [inaudible] and diversify African agricultural exports.

So we think the future is bright and that there is so much opportunity within the overall Africa-China relationship to expand further in to the agriculture realm.

Sunil Sanghvi

In closing, I want to hit on the number two recommendation that Irene had there, which was around having a bureaucracy which is conducive to…, can be a counterpart of the Chinese… I think it's even a broader opportunity that if African governments could improve their execution to a very realistic way, like Ethiopia and Rwanda and Morocco have done, they could greatly enhance the ability for China to come in, also for the West, also for donors, for everybody. And we think this is a hugely underleveraged lever.

What do we mean by "better execution"? We sometimes call this a soft side of getting a large change done. What we mean is four things. One is getting all the stakeholders engaged to create a common plan and to be aligned around it. This is when President Adesina was working on NIRSOL, the Nigerian Incentive Lending Program. He spent an enormous amount of time with 24 banks, CEOs, creating a plan. If you do that on the back end, the plan is much more likely to be executed. In Morocco when they wanted to get Spanish banks to give the back office and off-shore it, they worked for a long period of time with the Spanish banks in co-developing what a BPO [inaudible] would look like. Again, after you do that, the execution becomes much easier. So that's one. It's just invest the time, the process and the energy to do the upfront stakehold alignment.

Number two, if you're going to drive a big transformation or drive a big effort to get Chinese and other investment in, get a great team. The ATA is an example of a great team. They've got world class people that I asked for a community [inaudible] we were talking about yesterday, international experts, local business people. They've created a great team. What's it cost? Some millions of dollars. It's not a huge amount. You probably need to pay them more than civil service employees— that's some going to be some flexibility. You need to give them the ability to hire and fire. But those are things that are manageable. You need a great team. It should be a non-negotiable if you're a big change.

Number three, you should support the leaders. Every big change that's happened you can trace back to just a handful of leaders that did something extraordinary. And in Africa the ministers and others who are trying to drive change are doing things which they haven't done before. They're driving a large-scale change program. We believe there should be an African ag leaders' academy to help arm business and government leaders with the training and the peer support networks that would make them great—again, not expensive. It should be done.

And number four, there is a whole toolkit of, we call it delivery, which are processes that are helpful in driving a large program. There's project management, there's software, there's hardware, there is measurement technology. All of this stuff is available. It's used in private sector transformations as a matter of course. It's used in successful government transformations—Malaysia, Morocco, the Middle East—as a matter of course. And it's used very spotily in most of the African ag transformations that we're aware of.

So that would be our kind of rallying cry—is this is the least expensive and the most impactful thing that could be done. If you do it, you will attract Chinese investment to agriculture. You will also make it easier for everybody else to participate. It'll be easier for donors, and it could have a huge impact.

So just to close, Africa is in the early innings of its ag transformation, just like India and China and Brazil before it. It's going to require a lot of technology, a lot of investment, good policy and governance. China, as Irene was describing, has huge punching ability, a huge ability to come in. It hasn't come in as much into agriculture as it has elsewhere, and the great opportunity is for us to get it in. If you add that to what the West and Indian and Brazil are doing, you could have that picture I showed earlier of Africa emerging and its people living like Eastern Europeans, its economy being a significant part of the global economy.

Thank you for listening. Let's look for a great day.

Ambassador Ken Quinn

Wow! That was incredible. Wasn't that amazing? I learned so much in that half hour. I told you.

So now Sunil, you've got to promise me that you'll come back every year and do something equally interesting. It can't be more interesting than this. Wow! But you have a standing invitation to be at the Borlaug Dialogue every year, bringing that kind of analysis. I told you they were an incredibly brilliant organization with brilliant people and what they've been doing. So we'll love to have you back.