

## Middle East &amp; Africa

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Chasing the dragon

# How Chinese firms have dominated African infrastructure

Western firms grumble more but compete less



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**W**HEN IT COMES to building big things in Africa, China is unrivalled. Beijing-backed firms have redrawn the continent's transport map. Thanks to China's engineers and bankers you can hop on a train in Lagos to beat the traffic to Ibadan, drive across parts of eastern Congo in hours rather than days or fly into any one of dozens of recently spruced-up airports from Zanzibar to Zambia. Throw in everything else from skyscrapers and bridges to dams and three dozen-odd ports and it all adds up to rather a lot of mortar.

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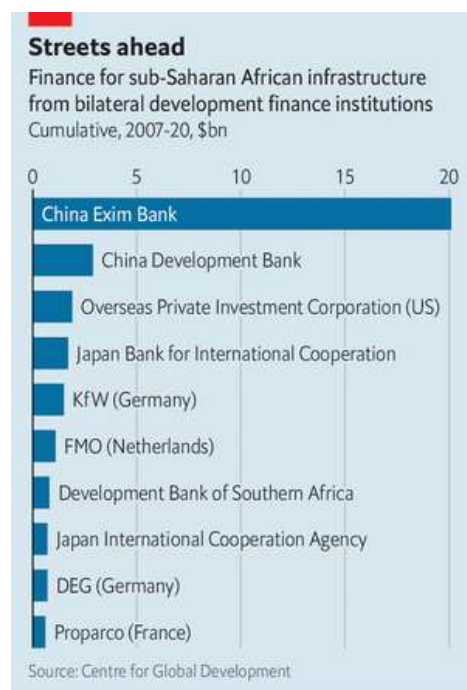
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It was not always so. In 1990 American and European companies scooped up more than 85% of construction contracts on the continent. Chinese firms did not even get a mention. Now Western firms are struggling to win business in a fast-growing market. (The World Bank predicts that demand for infrastructure spending alone will be more than \$300bn a year by 2040.) Africa's population is growing faster than that of any other continent, and Africans are moving to cities faster than people elsewhere. Both these trends will drive demand. The dragon's share will be built by Chinese firms, which in 2020 were responsible for 31% of all infrastructure projects in Africa with a value of \$50m or more, according to Deloitte, a consultancy. That was up from 12% in 2013. Western firms were directly responsible for just 12% or so (compared with 37% in 2013).

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This remarkable turn of fortune for Western firms worries not only their shareholders but also their governments, which see China's growing economic might in Africa as strengthening its strategic and diplomatic clout. Its Belt and Road Initiative (BRI) finances ports, roads and other infrastructure, which makes Western generals anxious that China may open another naval base in Africa (it has one in Djibouti). Western governments also worry that Chinese investments in African mines will give it a stranglehold over strategic minerals, such as the cobalt used in electric cars. Of late America has put competing with China at the core of its foreign policy. It and Europe have been trying to offer African countries financing alternatives to the BRI. At an EU-Africa summit on February 17th, European leaders were expected to outline plans to pour €150bn (\$170bn) into African infrastructure.



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Western governments are also trying to herd their companies into investing more and building more in Africa. This is easier said than done. Some Western construction firms grumble that the odds are skewed against them from the outset, not least because China is such a big spender. Between 2007 and 2020 Chinese development banks provided \$23bn for African infrastructure, compared with \$9.1bn from all other development banks, according to the Centre for Global Development, a think-tank in Washington (see chart).

Chinese lenders are pluckier than their Western rivals. Sometimes this borders on recklessness. When Uhuru Kenyatta, Kenya's president, wanted \$4.7bn to build a new railway which the World Bank warned would never turn a profit, Chinese lenders backed it. The railway has since lost more than \$200m. Often, Chinese firms are tough negotiators. Several have struck resources-for-roads deals, such as those worth more than \$1.1bn in Ghana and Guinea, where the loans are backed by bauxite. A study by AidData, part of William & Mary university, found that Chinese lenders routinely impose unusually tough conditions to ensure they are repaid.

Western firms also complain that their own governments offer fewer sweeteners. Last year China said it would stump up its own cash to build smart new foreign ministries in Congo and Kenya. It has also picked up the tab for numerous other official buildings, from parliament complexes in Sierra Leone and Zimbabwe to presidential palaces in Burundi, Guinea-Bissau and Togo. Given such generosity, it is hardly surprising that some African governments are predisposed to favour Chinese firms. Western governments, by contrast, often spend aid on unglamorous and sometimes unpopular things like educating girls.

Most significantly, perhaps, Chinese firms have a reputation for building swiftly.

Finance from Chinese development banks is quickly forthcoming, and some

FINANCE FROM CHINESE DEVELOPMENT BANKS IS QUICKLY TUMBUING, AND SOME projects in Africa seem to be replicas of ones built in China, which presumably saves time on drawing up plans. (Stations along the new Chinese-built railway between Ethiopia and Djibouti, for example, look as if they were plucked from the Asian plain). Some of this speed may also come from cutting corners on things like environmental-impact assessments.

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As a result, Chinese firms can usually deliver a big project within a single election cycle, thereby handing incumbent leaders a ribbon-cutting photo opportunity shortly before their people vote. Western firms are rarely as nimble. “It is hard for us to get up to the starting line,” says an executive at a European engineering firm.

Chinese firms often win contracts for the simple reason that they are more competitive, according to a study by Brookings, an American think-tank, of international projects financed by the World Bank. Western firms grouse that some of the Chinese projects are shoddily built, and stories abound of roads that crumble after a few years. But another study of infrastructure projects funded by the World Bank, this time by the China-Africa Research Initiative at Johns Hopkins University, found no difference in the quality of work done by Chinese contractors and Western ones. The World Bank is, however, a stickler for clean bidding and high construction standards, so firms bidding on projects it funds may be on their best behaviour.

And in many cases Chinese firms are scooping up work because they have no competition—many Western firms stay away because they think Africa is too risky. It can, indeed, be hazardous. Property rights are frequently threadbare; fraud abounds. One Western manager describes trying to buy land only to discover, belatedly, that the people his consortium were negotiating with did not actually own it.

Such difficulties help explain why many infrastructure projects flop before the first brick is laid. McKinsey, another consultancy, calculates that 80% of infrastructure projects in Africa never make it beyond the planning stages and only one in ten achieves financial closure.

Another huge deterrent is corruption. In the past Western firms often greased palms to win work in Africa—and elsewhere. A survey of more than 4,000 firms in 1999-2000 found that construction firms spent 1-2% of revenue on bribes, according to a World Bank paper by Charles Kenny. He also noted that in 2005 fully 40% of international construction firms said they had lost a contract in the previous year because a competitor had paid a bribe.

Nowadays anti-corruption laws in America and Britain are tougher, and are applied regardless of where the bribery occurs. Western firms are therefore more reluctant to pay bribes, though some still land in hot water. For example, Halliburton, an American firm, was fined in 2017 for violations in Angola and the World Bank has imposed sanctions on a subsidiary of Bouygues, a French construction firm, over irregularities on contracts.

Yet, grumbles a Western project manager, some officials in Africa are unmoved by these anti-corruption laws and still ask: “But where are the brown envelopes for the ministers? Where are the brown envelopes for the permanent secretaries?” The head of a Western mining company complains that his hands are tied in comparison with Chinese firms, which are able to operate without licences or even, in rebel-infested places such as the Central African Republic, the permission of the government, if they have paid off local warlords instead.

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Some Western firms still try to compete for business. Not all have happy experiences. In 2017 Bechtel, a big American construction firm, won a \$2.7bn contract to build what would have been Kenya’s biggest-ever road project. Having agreed to pay up front for the road, the Kenyan government changed its mind and asked for a loan instead. When the American government declined, Kenya cooled on the idea.

A British company, GBM Engineering, secured by default a \$2bn contract to build Kenya’s largest dam after five Chinese rivals, apparently unfamiliar with the idea of a competitive tender, failed to submit their bids on time. Six months later GBM’s contract was cancelled amid allegations of Chinese pressure on the government board that awarded the tender. GBM won five appeals. All were blithely ignored. The

boards that awarded the tender. Some of the appeals have been largely ignored. The case continues to meander through the courts and the dam, like Bechtel's highway, remains unbuilt.

Not every Western executive is crying into a cold beer at the local Sheraton, however. An increasing number of French firms are collaborating with Chinese entities, notes Thierry Pairault of the School for Advanced Studies in the Social Sciences, in Paris. At first relationships were informal, with French and Chinese firms working separately on the same project, often with the former doing the more complex parts.

More recently Franco-Chinese co-operation has become more formal. CMA CGM, a French logistics giant, has gone into partnerships with firms such as the China Harbour Engineering Company. In some cases French firms want Chinese partners because they can bring state-backed finance that is not on offer in Paris. But in other cases a formal collaboration emerges after years of working together informally. Deloitte found that in 2020 no less than 15% of all big infrastructure projects were being built by consortia, including those composed of Western and Chinese firms.

China's involvement in African infrastructure has not been an unalloyed good. In some cases it has left countries drowning in debt, fuelled domestic corruption or produced infrastructure that, like Kenya's railway, will never turn a profit. But long after the scandals have faded—and debts have been defaulted on—China's legacy will be the roads and ports that Africa so badly needs for economic growth.

Perhaps as important is that China is unwittingly crowding in Western money by stoking the geopolitical anxieties of Western leaders. Britain's government recently said its development arm would invest \$1bn in Kenyan infrastructure and that a British firm would build a new rail hub in central Nairobi. The G7 group of countries last year launched the Build Back Better World initiative, a shameless copy of China's BRI. All this should mean more opportunities for construction firms of all nationalities, whether Western, Chinese or, with a bit of luck, African, too. ■

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