Testimony by Stephen Hayes, President and CEO
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Before the

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Senator Kerry and other Members of the Foreign Relations Subcommittee on African Affairs,

I am honored to be asked to testify before you on China's role in Africa. I have worked for some years with Chinese emerging leaders before I became President of the Corporate Council on Africa more than twelve years ago. Much of my life has been engaged in China and African affairs.

The Corporate Council on Africa, whom I proudly serve, is a membership organization of more than 180 companies. Collectively the members represent more than 85 percent of all US private sector direct investment in Africa. Probably no organization in America is more engaged in the economic and political landscape of Africa. As such we are a non-profit, non-lobbying organization committed to increasing US-Africa trade and investment. We are engaged in different ways in most issues affecting the economic relationship. Certainly, the Chinese engagement with Africa is one of those key issues.

A great deal has been said about China's perceived domination of the African market. Clearly China has long-term aims, both economic and political, through its heightened involvement in Africa. Given their needs for the development of their own nation coupled with the fact that so much of the world's strategic resources are to be found in Africa this should not be surprising. I think it wise to presume that their interests go beyond just economic, however, and they seek wider political influence than they have had in the past. They are, after all, one of the principal bankers for the world right now, and their planning, unlike most countries today, is cohesive, coherent and long-term, both in economics and politics.

In global business, contracts are completed when three basic dynamics are realized: capacity to deliver, decision-making and execution of the contract itself. In capacity to deliver and in execution of the contract, that is the completion of the product, the US can evenly compete with China or any other nation in the world. However, the decision-making process, which affects the time that a contract can be completed, is far less cumbersome in China than it is in the USA. Nearly every US deal relies on private investors, and on this matter China has a distinct advantage.

The decision-making process in China is far more efficient than it is in the United States. Decisions and recommendations for investment are often directed by the government, or at the very least, and they are able to meet requests from African governments far more quickly than we can in this country. There are far more checks and balances that most business deals must meet in our own system. We also operate our economic models on business-to-business contracts, while many African countries, especially those with weak private sectors, operate on Government-to-business model, more similar to the Chinese model than to the American model. The competitive advantage clearly goes to China under these circumstances.

It is not necessarily China's capacity, or even its ability to execute/complete contracts quickly that defines its competitive advantage in Africa. The West still holds key advantages in both technological and scientific capacity, as well as in management skills and probably quality of workmanship. Rather it is the Chinese ability to forge consensus and mobilize resources quickly that gives them a distinct advantage in the African marketplace.

No one should challenge China's right to be engaged in Africa. Their involvement has helped Africa perhaps more than any nation has helped Africa in any ten-year period directly and indirectly. Certainly, the China engagement with Africa has brought about heightened interest in Africa. Infrastructure has expanded in many countries thanks to Chinese investment and political interests. More productive agriculture has been developed in some countries where China is active, and certainly the increased competition for strategic minerals has driven up the price of commodities and raised national incomes for many African countries.

It is not China alone, however, that is increasing its investment in Africa. While it can be debated whether the increased interest of China in Africa has spurred on other nations to become more engaged economically in Africa, the combined investment of the so-called BRICS (Brazil, Russia, India, China, and South Africa) has surpassed all US investment in Africa. As a result, the economies of these countries have also shown greater strength and stability in these times than most developed nations. There are growing investment flows into Africa from the Middle East, ranging from Turkey to the nations of Arabian Peninsula and to Iran. We also see growing interest in Africa from Japan, particularly since its recent nuclear disaster, but also because of the growing influence of China. China's interest and growing involvement in Africa is perhaps one of the most important political and economic phenomena in the world right now, and in my view, the United States has been very slow to either understand its meaning and ramifications for our own country and its own economic and political future.

It is difficult to know exactly how much China is investing in Africa, and it is just as difficult to pin down exactly how they are winning the competition. Their currency is artificially pegged so exact values are almost impossible to determine. Certainly, their government and their private sector are working closely together, and the Chinese government appears to help its private sector investing in Africa as no other government helps its own private sector. Some of this is due to the history of China, particularly over the last thirty years, and some is simply due to the fact that China can underbid most projects through lower labor costs and through government-subsidized assistance to Chinese companies. While Chinese companies win infrastructure contracts with low bids and subsidized financing, they also have developed a reputation for limited employment for Africans, limited technological transfer, and in some cases, uneven workmanship. If Chinese companies do not correct these practices, it presents an opportunity for American companies to win contracts and train Africans during project implementation, which is in Africa's long-term benefit. One American company, Symbion Power, has done exactly that in winning an MCC-funded contract for power transmission in Tanzania. It also partnered with CCA to develop an HIV/AIDS prevention campaign for its employees in Tanzania.

What is also obvious is that the Chinese population on the African continent is increasing in nearly every nation. Chinese businesses are sprouting up in not only the major cities of Africa but in smaller urban areas as well. Chinese laborers are brought in with Chinese construction projects, and it is difficult to determine if the laborers return to China after the projects are completed. In many areas, the Chinese appear to be permanent immigrants. Again, exact figures are difficult to obtain, but I have traveled to no African country where some citizens of the country did not express concern about the growing Chinese domination of the local markets and their influence in displacing African workers on construction projects and in new businesses. In the recent Presidential elections in Zambia, the growing Chinese influence over the economy was the key political issue. One should not be surprised if similar issues develop in other countries on the continent.

Clearly, the Chinese have no interest in following OECD rules. They are not members of OECD and therefore are not constrained by the rules in their negotiations with the governments and businesses of Africa. They are, in many ways, at a distinct competitive advantage over its Western counterparts, as are other countries not bound by OECD rules and regulations. However, again, exactly how the Chinese compete for contracts is not easily verified. There is no requirement for transparency in negotiations and the terms of the contracts are often held privately by the governments and companies involved in the negotiations. I do not think this likely to change in the near future. What is clear, however, is that such tactics have slowed the pace of reform in Africa and strengthened the intransigence of those resisting democratic reform for the benefit of the people.

For US companies, as well as those of other nations, counterfeit goods have flooded the African markets, not only undercutting those who have created the original products, and driving them out of the market, but also creating health risks with counterfeit medicines and false products, with the Africans once again the victims of this exploitation. International patent rights are ignored.

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The question before this body is whether China will become so dominant in its control of the African market that this dominance will significantly impair our own policies towards Africa, and whether, in fact, our own need for strategic resources, including fuel, will be threatened. After all, countries will necessarily gravitate towards those countries who are most heavily and directly invested in them. If the US continues to fail to develop private sector-led growth, can we realistically expect to maintain the same respect and relationships with the African people and the nations of Africa?

Perhaps an even more salient question is what opportunities for jobs in America are never created because American business may be more a spectator than an actor in the African marketplace. It is not a matter of how many jobs are lost, but how many are never created because we have failed to engage in Africa to the same extent others have, particularly as China makes Africa in its highest strategic interests? China's engagement in Africa puts them at the planning tables for nearly all new projects and opportunities. How many jobs are we not creating by not being engaged in Africa?

There are some in this country, (and I hear this from some of our member companies involved in Africa), who believe that it is almost impossible to compete with the Chinese. I do not accept this and think that if we do not compete more effectively in Africa our long-term interests and hopes, as well as our national economy, will suffer sufficiently as to render us a mid-level economy over this century. I believe that our political and economic engagement with Africa is in our highest national interests.

Our strategy as it regards China in Africa should be two-fold: we need to find ways to compete, certainly, and I also believe it is in the interests of China, the United States, and the nations of Africa that we find ways to more effectively cooperate.

First, in terms of competition, we should not isolate China as the primary competitor. It is certainly the largest, but as I noted earlier, many other nations are now becoming far more engaged in China, and the economic environment is becoming increasingly competitive. We need to look at our own economic stance towards Africa, regardless of whom we perceive as primary competition. The fact is that we have not shown the same competitive strengths as others, and we need to ask ourselves what needs to be done.

We need to expand and strengthen the ability of American companies to make investment decisions. We need to engage our university systems in more economic research in Africa. Our business schools need to focus more on developing markets globally, just as American companies need to conduct more on-the-ground research in Africa. A company will not invest in Africa if they doubt their ability to recover their investment. Therefore, making investment decisions rests with the quality and the research that provides confidence in long-term sustainability and profitability of investment.

We should recognize that the development goals of Africa do not simply benefit Africa, but are essential to our own national economic security. Private sector-led development throughout Africa will bring about a growing middle class, create greater stability throughout the continent, and provide for US businesses stronger and more reliable business partners. Our traditional approach to development needs to be re-examined and altered to make private sector economic development among our highest priorities.

Secondly, we need to examine specific barriers to US companies ability to compete more effectively in Africa. There are several serious barriers, largely self-imposed, that hamper our ability to compete.

One such barrier is access to financial markets. Few US banks will finance US companies seeking to do business in Africa, and our own agencies designed to mitigate such risks, such as the Ex-Im Bank have fallen woefully short in addressing the problem. We can provide one example after another of good US projects in Africa failing to get necessary government support. While I think Ex-Im is attempting to address the problem, as is OPIC, the support provided US companies is far below the level of support that the Chinese counterparts provide for their private sector companies seeking to do business in Africa.

A second impediment for US companies doing business in Africa is the necessity to find partnerships. One simply cannot do business easily in Africa without having a reliable partner on the ground. There is no mechanism set up that allows us to easily find a partner. We have a limited number of US Commercial offices in Africa and under budget constraints those that we do have are being closed. These closures are coming at exactly the wrong time. They come when China and others are increasing their commercial government presence throughout the continent. Among the highest priorities of Chinese embassies is to support its business development in Africa.

At the Corporate Council on Africa we have developed through the support of the US Agency for International Development a US-Africa Business Center whose primary purpose is to identify business partners in Africa for US companies, especially small and medium-sized businesses wishing to do business. It is the only such organization in America and it can only meet a small proportion of the need. This operation needs to be significantly expanded and duplicated in other parts of the country. China provides support for its small businesses investing in Africa. We do very little of this, and as a result hurt our own economy as well as fail to help develop the private sector in Africa.

Diplomatically, I believe that our current Assistant Secretary of State, Johnnie Carson, deserves a great deal of praise for insisting that many of our new ambassadors selected for African posts have significant economic experience. The challenges in Africa are now as much economic as they are political, and traditional diplomacy is no longer applicable to this rapidly changing economic environment.

To his credit, he is also working with US companies to see that they win contracts in Africa. The Department of State and the Corporate Council on Africa are jointly working together now to take a delegation of US power companies to Africa in the first quarter of 2012. The delegation may be lead by Assistant Secretary Carson. The purpose of the mission will be to significantly increase the involvement of US power companies in the development of the power sector in Africa. Few projects could be more important to Africa, as there is not a country on the continent that is meeting its current power needs, and until they do we cannot expect rapid economic development in Africa. This is but one example of how US companies can make a difference to Africa as well as buttress the economy of the United States of America.

At the same time as we increase our competiveness for a share of the African market, I also strongly believe that we must find ways to cooperate with China in Africa. The stakes for humanity are too high for us not to cooperate. While we must recognize that we must compete internationally with China and others if we are to heal our own economic wounds, we must also recognize that partnerships globally must be developed.

In a world facing growing food shortages, water scarcity, climate change, and the social instabilities they cause, any responsible path forward must rely on international cooperation. Yet today we find the United States and China, competitors at the best of times, struggling to resolve how to address their common interests in Africa, a continent that has suffered more than any other in recent centuries from disasters both natural and man-made.

If the U.S. and China can find common ground in Africa, both Africa and U.S-China relations can make dramatic strides forward. But the challenge is to convince all the actors to put the health and wealth of the global community above national interests, a difficult and rare endeavor.

It is ironic that as we face new global crises, the competition for economic and political advantage is occurring, as it has throughout human history, in Africa, where mankind's struggle for survival first began. Africa offers the arable land needed to provide food for a hungry world; it offers the water to feed the world and quench the thirst of billions, and it offers the remaining minerals necessary to maintain a modern global society. And the primary players competing over African hearts, minds and resources today are the Americans and the Chinese, with China having the early advantage of money for investment and a plentiful worker supply for export to the continent.

But it is not just the U.S. and China with an interest in Africa. The Gulf States, Russia, India and Europe are all looking to Africa as well to feed their people, with the African peoples themselves struggling to control their own destinies and put food on their tables. Africa matters, and the U.S. and China are going to play an outsized role in Africa’s future. But they need to find common ground and lead together. Partnerships of all kinds are needed for Africa's development, and our own economic self-interests.

There can be better days ahead for Africa. Infrastructure development is moving at a rate unseen before, but the needs are still great. No African country has a sufficient power supply to meet current needs, let alone the projected needs of the future. Famine has returned, if it ever really left, to the Horn of Africa, and water is scarce for a large percentage of the continent's population.

Together, the U.S. and China can lead the world into a more cooperative arrangement, beginning in Africa. They cannot do so without the support of Africans, but they remain, at this moment in history, the two nations most able to develop a stronger Africa, and a more harmonious world. It is not a case for bipolarity. It is simply recognition of history at this particular moment. Someone must lead and right now, the U.S. cannot lead alone.

Cooperation comes a step at a time. There must be some confidence and trust building. A project or projects will need to be agreed upon and the host country must be a party to all agreements.

There are several opportunities for the U.S. and China to cooperate economically in support of both mutual and continental benefit. For example, economic cooperation in South Sudan is to the advantage of both the U.S. and China. A peaceful and developed South Sudan clearly benefits the interests of China, which has made enormous investments into the oil sector, and would build up a pocket of political stability in an otherwise very tough neighborhood for the U.S. The U.S. and China both have interests in promoting stability in the Horn of Africa. Consistent supply lines and agriculture development is important to both nations, and the Horn of Africa could be one of several future global breadbaskets providing Africa with increased economic power and a better quality-of-life.

Closer cooperation between China and the United States is not something to be feared, but welcomed, by Africa. Such cooperation would bring about greater stability in reality and perception, and would lead to the opening of new markets and a faster influx of new investment into Africa. The sign of two great nations cooperating in and with Africa would be a very positive and welcoming sign of stability and promise for new investors.

Competition is inevitable, but competition does not preclude cooperation. Instead, a cooperative effort to build Africa through amicable competition and cooperation can lead to improved development across the continent, and can lead to far greater understanding for all parties. If the U.S. and China choose to cooperate in their efforts in Africa, and always include African leaders and the African peoples in the process, they will set the tone for every other nation, and point Africa toward a brighter future.

What we need now is for the leaders in the U.S. and China to find the courage necessary to seek common ground and elevate international development among its highest priorities.