Theme 5

Creating a win–win for FDI and multinational partnerships – modernisation not westernisation

Africa is at an important tipping point in its relations with the current three economic superpowers: the US, China and Africa's largest trading partner, Europe. Africa can either continue to be party to an extractive economic model that leaves Africa in a deficit in terms of its own sustainable development needs, or African nations can become better managers of the conditions under which they are prepared to partner on foreign direct investment (FDI) and multinational business initiatives.

Dance of the lions and dragons: How are Africa and China engaging, and how will the partnership evolve?

#1 Trade partner

#1 Infrastructure financier

#1 Foreign direct investment growth

#3 Donor

10 000 + Chinese firms in Africa

30% + Chinese firms in manufacturing

~90% Private-owned Chinese businesses

89% Local employees

$440 billion Africa–China opportunity by 2025

Ten recommendations to accelerate the Africa–China partnership:

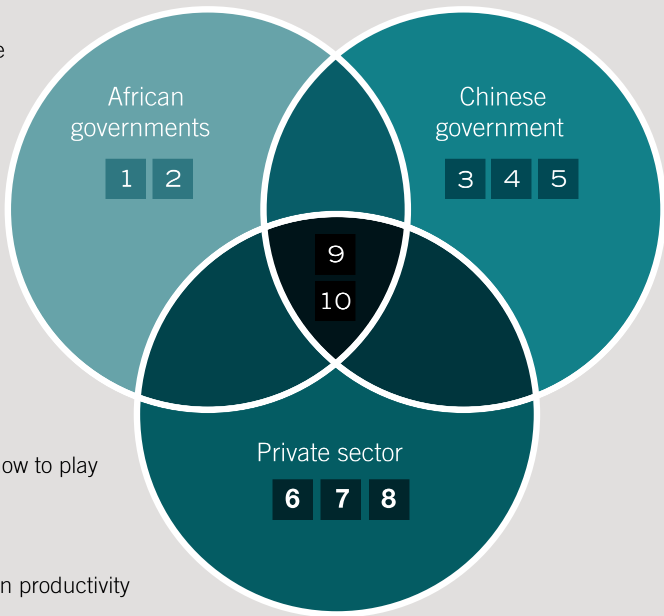
1 Define China-capable

2 Build China-capable bureaucracy

6 Chinese firms: Explore brownfield growth options

7 African firms: Decide where and how to play

8 African firms: Drive step-change in productivity



3 Open government financing to private Chinese firms

4 Extend responsible business guidelines to private Chinese firms

5 Use results-based aid approaches

9 Establish agriculture demand deal

10 Switch to public-private partnerships model for infrastructure

Source: McKinsey analysis

When successful companies crowd out the job creation potential of smaller businesses

The tension for economic development in Africa will be finding the critical balance between developing globally competitive industries and stimulating enough job creation to absorb the youth bulge which is looming large on the employment horizon. The key to unlocking a win-win for both parties will be to create a better integrated supply and value chain between the two groups.

As the table below highlights, the challenges vary significantly for each African nation. In certain countries, small, medium and micro enterprises (SMMEs)may contribute little to GDP growth, but significantly to employment and therefore more inclusive growth. Ethiopia, Zambia and to a lesser degree, Uganda and Rwanda would be cases in point. Ghana, and to a lesser degree, Kenya, Nigeria and South Africa are countries where support for SMMEs contributes significantly to both GDP and employment. Finally Zimbabwe's GDP benefits from SMME development, yet this market segment seems to be less important for job creation.

The implication is, if multinationals understand their role in the broader economic ecosystem, they can develop their initiatives more responsibly. In those African countries where small and medium sized countries play a key role in job creation, multinationals can play an important role in the support systems they can build around their supply chains or enterprise development projects.

Selected African small and medium enterprises' contributions to employment and GDP

Countries	Contributions to GDP (%)	Contributions to employment (%)	References
Ethiopia	3.4%	90%	Central Statistics Agency CSA), 2003; Gebrehiwot, 2006
Ghana	70%	49%	Ghana Bank Doing Business Report, 2013; World Bank, 2006; Amor & Quartery, 2010;
Kenya	40–50%	80%	Mwarari & Ngugi, 2013
Nigeria	50%	70%	Ariyo, 2011; Kolasinski, 2012
Rwanda	20.5%	60%	Mukamuganga, 2011
South Africa	50–60%	60%	DTI, 2012; Willemse, 2010
Tanzania	60%	20%	Echengreen & Tong, 2005; Ngasongwa, 2002
Uganda	18%	90%	Uganda Ministry of Trade, Industry and Cooperatives (MTIC), 2015
Zambia	8%	30%	Mbuta, 2007
Zimbabwe	40%	15%	Katua, 2014; Zwinoira, 2015