

Economic Impact of China's Investments in Mali's Construction Sector on Mali

Sangare Zakaria Dit Zan¹

Abstract

While Russia, a few European countries and Asian nations have entered into joint venture with African nations by providing them foreign funding, China has been one of the predominant players. Mali is one of those countries that have been benefitted from this foreign investment. The major areas of Chinese funding include the textiles sector, construction among others. The noteworthy constructions in Mali that are the outcome of Chinese investment include the stadium for hosting 2002 Africa Cup, the bridge across Niger River, the expressway at the capital of Mali and as well as a conference center in the prime location of this African city. There are mixed reactions among the indigenous Malian population regarding this Chinese investment in Malian economy. Although some understand that the local textile and furniture industry will be at jeopardy due to the inflow of cheaper and imported clothes and furniture, the increment in employment opportunity growth of GDP and overall increment in economic emancipation of economy cannot be underestimated.

Key Words: Chinese investment, Mali, Construction Sector, Sino-African joint venture, China, foreign direct investment.

1. Introduction

1.1 Historical Overview of Diplomatic Relations between China and Mali

Mali is among the fifty West African countries that have established diplomatic relationship with China. According to the historical discourse, this diplomatic relationship between the two counties was established in October 25, 1960 (Liang 1989). As the history reveals, this relationship with Mali was developed after China established its embassies in four African regions of in the mid half of 1960 – Cairo, Rabat, Khartoum and Conakry.

¹ PhD Student in International Relations, School of Political Science and Public Administration, Wuhan University, China 430072. Email: papy2sangare@hotmail.fr ; Tel:15907114307

With the mission to establish diplomatic cordiality with African nations, Chinese envoys were sent in Mali. This African state extended its friendliness in return by accepting the proposal (Larkin 1973). The experience that Mali has acquired as a result of this diplomatic relationship has been a source of inspiration for other African countries too who can presume the merits of diplomatic engagement with a much more potent partner. Thus, as spelt out in the Forum on China-Africa Cooperation (FOCAC) this diplomatic cooperation on political, social and economic fields will help in achieving a win-win situation for both the countries based on South-South solidarity (Esterhuyse & Moctar 2014).

1.2 Chinese Investment in Mali's Construction Sector at Present

One of the major outcomes of this foreign relationship between Mali and China is that there has been significant impact on the economy of both the countries. China is one of the major trading partners of Mali now. Therefore, while Mali exports agricultural products like Shea butter and cotton to China, the African state in turn imports pharmaceutical, medical, electrical and chemical products from China. Thus, there had been recorded trade volume between the two countries after this along with increment in Mali's investment and employment opportunities (Esterhuyse & Moctar 2014).

A noteworthy sector that boomed due to Chinese investment is construction. In 2014, China invested US \$8 million in this African state to construct a 560 miles railway track that would connect Mali with the neighboring Guinea Conakry. Further, an old railway of 466 meters that connect Mali with Senegal was rehabilitated by the Chinese government in order make this land locked country gain easy access to overseas markets (Anon 2014). The Chinese government has also decided to invest in building 24000 Malian housing (Diarra 2014). Instances like these suggest that even though a poor state, the construction infrastructure Mali has prospered after the diplomatic relationship with China and strengthened its economy to some extent.

2. Economic Impact of China's Investment on Mali

Like other African countries, the major obstacles in the path of economic development of Mali were poor economic infrastructure and deficient construction funds. However, there has been drastic change in this scenario after 2009 when as many as 50 African countries started receiving direct investments from China. Thus, report of the Information Office of the State Council, China (2013) suggest that within the year from 2009 to 2012, the direct investment of China has increased from US\$1.44 billion to US\$2.52 billion with an annual growth rate of 20.5% (Information Office of the State Council 2013).

Fletcher (2010) says that if the case of the African state of Mali is considered then it will be found that it is inherently one of the poorest of states. The Official Development Assistance (ODA) programs for this state manifests on the form of only 15% enhancement of its gross domestic product. Nevertheless, the percentage of ODA for investment projects is much higher, and is around 45%. Different cost recovery strategies are employed for different types of infrastructures in Mali, which directly influences the levels of interest from foreign investors. For instance, the road transport projects in Mali show lower level of cost recovery as compared to telecom projects. When financial rate of return are low and social returns are high for such projects, it impels the national government to seek grants or gift funding for supporting them (Fletcher 2010).

Even though theoretically it is undesirable to borrow capital for a project if the fiscal return is low, in reality it is seen that much of the aid funding of such projects are fungible in nature. Here, the study conducted by Fletcher in 2010 on the perspectives of Malian population about Chinese investment in their country's economy has to be referred. The feedback of a sampled population of Malian respondent suggest that the government of Mali had already spent foreign fund of US \$6 million on making rehabilitations for the evictees because of the bridge project that the Chinese government has undertaken. Nevertheless, the respondent felt positive about the nature of this Chinese investment because he has known that the extra cost incurred on land clearance and the Chinese investors will also cover construction of feeder roads. Thus, some respondents are critical that Chinese investment in Mali would imply a direct influence of China on Mali's economy.

However, the study also showed that some Malian officials felt that the government had intention to build the bridge. Therefore, the money that has been pre-allocated for the project of building bridge can be spent elsewhere by investors as per their will. However, the researcher believes that the actual case is that the fund donors bring with them some technical expertise simultaneous with the money required for the projects. Hence, come influence of these Chinese investors on the portfolio of such projects is quite natural. Therefore, even though the Malian economy is heavily dependent on China as per as obtaining funds for its infrastructural projects are concerned, it will be the Malian government which will have significant control on the manner in which the aid funding is transferred from one budget to another (Fletcher 2010).

2.1 Routes of Chinese Investment in Mali's Construction Sector

China has invested considerably in construction projects on Mali. Assumptions are that more funds will come from the country for the construction sector of this African nation.

The very first project sponsored by China is the construction of the five-football stadium that was supposed to host 2002 Africa Cup of Nations (Kjøllesdal n.d.; Xiaoyun 2008) China invested in this construction project in the form of soft loan. Here it needs attention that negotiations were made between the two governments where it was decided that repayments will be made by the Malian government. However, the repayment will not be in the manner of classical monetary theory where supply creates demand and where there is no situation as such where under-consumption leads to undersupply (Florio 2011; Niehans 1987). However, at a later stage it was found that the repayment procedure that Malian government was supposed to follow have either been stopped or slowed down. It is thereby indicative that the Chinese government has shown some sort of flexibility in the form of adjustable terms, negotiable cost risks, grants, etc. (Fletcher 2010).

Adverse commentary from those who criticize China's investment in Africa suggest that it would imply China's direct presence in the civil and political area of the African states (Alden & Hughes 2009). Moreover, some argue that China's diplomatic relation with African states is an attempt of the country to establish itself as a global player in the world market in the longer run (Taylor 2006). But similar to Fletcher's observation, eminent researchers like Alder (2005), Zafar (2007), etc. suggest that this Chinese investment is a welcoming alternative for Mali and other African states. This is because the collaboration\ will lead to positive effects like growth in GDP, enhancement in African imports, incorporation of economic policies that emancipate poverty, etc (Zafar 2007). Another significant route through which investment of China on Mali's construction sector will be prominently visible is the railways.

The Chinese government has proposed to provide considerable of approximately US\$11bn with an aim to enhance the economy of Mali and provide better service delivery to the Malian population. Besides the capital invested by China, this project would also include two Chinese civil engineers for providing technical expertise. As part of this project, the existing meter gauge line that Dakar in Senegal to Bamako in Mali will also be upgraded. In addition to this, a completely new gauge line will also be developed under this project that connects Bamako to Conakry in Guinea. It is envisioned by both the Malian government and the Chinese government that this new railway track will enhance the economic infrastructure of Mali and attract the attention of foreign investors towards the indigenous resources of Mali such as iron ore, cotton, bauxite and uranium (Anon 2014; Anon 2015).

2.2 Construction sector of Mali before and after Chinese investment

Mali had been a predominantly agricultural country. Even to this date, agriculture exists as the major economic sector.

It contributes at least 42% to the Gross Domestic Product of the country and finds 70% Malian youth working in the sector. The country has been scarcely industrialized before the introduction of Chinese investment.

Even to this date, whatever construction business exists in Mali is the outcome of foreign investment and initiatives taken by the Malian government. While lack of private capital investment had been the major constraint that might have encouraged the development of construction industry and industrialized sector in Mali during the colonial period, the public funds were spend solely for meeting administrative expenses (IBP & Inc 2012). Therefore, the construction sector of Mali had been sickening before Chinese funds or other foreign aids were introduced in order to strengthen it.

Foreign aid from various sources had been a significant factor in changing the scenario of the Malian economy. However, the major aids earned by the country had been from China. The Chinese participants majorly participate in supporting the textile industry and the large-scale construction projects of the country. The noteworthy specimens of this Chinese-Malian joint venture include the bridge across Niger, the national stadium built for hosting Africa Cup 2002, an expressway in Bamako and a conference center (IBP & Inc 2012).

2.3 Impact of Chinese investment on local companies

The joint venture between China and Mali and other African countries resulted in increased demand of a number of commodities in China. There was at least 50% increment in the demand for iron ore, cotton, oil, diamond, etc. As Mali is one of the prominent producers of iron ore and cotton in Africa, the effect of this demand was felt in the Malian economy too. Thus, China became a direct destination for a number of locally manufactured commodities after this joint venture. However, among the most concerning negative impacts of China-Africa collaboration is that the locally manufactured clothing and furniture faced dire consequences. These indigenous products were fast replaced with cheaper substitutes from China (Kaplinsky et al. 2008). For instance, the hand dyed and polished indigenous textile of Mali, the bazin, is in the face of steep competition from the Chinese products. Two of the leading indigenous textile industries of Mali, namely Comatex and Batexci, are facing stunned progress from their cheaper Asian counterparts (Ighobor & Haidara 2012). But, considering the overall growth of GDP and impact on the economy of Mali, Chinese investment can still be considered positive for Mali.

3. Conclusion

To conclude, it is evident from the study conducted above that Mali's economic development is evidently dependent upon China's investment measures. Prior to such Chinese initiatives in its construction sector, Mali was essentially dependent on its agricultural produce, and hence development in its infrastructure faced considerable challenges.

Besides, human development too strived owing to lower economic gains—which underwent significant changes post Chinese investment in its various sectors, primarily construction. This is because, monetary investment through China has not only helped the country to spend in the construction of roads and bridges, making communication easier and effective but also have provided employment opportunities to its denizens thereby improving their living standards. Besides, such investment initiatives undertaken by China have aptly strengthened its position as a global leader, impacting affirmatively its economy and polity too. Therefore, to summarize, the relationship between China and Mali have provided a fruitful opportunities to both the countries to develop its social, economic and political position in the domestic as well as international order, further.

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