







Valeria LAURIA  
Founder and Director, A-id  
Agenda for International  
Development  
Rome, Italy

### **Intersecting - Chinese infrastructure firms in Africa: the importance of the local context for the right path to recovery**

Public infrastructure investment has rightly been among the main countermeasures proposed for a post pandemic recovery and for promoting resilience over the long term. In the context of African economies, the COVID pandemic has renewed the call for urgent investments in adequate physical infrastructure. Infrastructure that are sustainable and resilient and that can foster economic activities, create employment, strengthen supply chains formation, and support skill and technological transfer. Now the key question is: what are the right conditions for this to happen? Lessons can be learned from the results of a recent research we have conducted on the impact of Chinese firms' engagement in the Ethiopian infrastructure sector.

Ethiopia is the second most populated country in Africa and one of that has recorded impressive economic performance over the last decades, putting infrastructure development

at the centre of its development agenda. Despite the scarcity of Ethiopia's natural resources, the country has ranked as one of the key recipients of Chinese financing and one of the largest African markets for Chinese contractors working in the infrastructure industry<sup>1</sup>.

For a long time, the literature on China-Africa relations has questioned the capacity of Chinese-led infrastructure projects to have a positive impact on employment, skill and know-how transfer, and value creation in local industries. The standard account reports that Chinese companies fail to integrate their activities with host societies, concentrating in so-called enclave economies, with no or very limited economic benefits for the local communities (Ferguson 2005; Corkin 2013; Wethal 2018).

Yet, our fieldwork evidence tells a different story<sup>2</sup>. In contrast with the mainstream narrative, which depicts Chinese infrastructure projects as secured enclaves, my research shows that Chinese firms operating in the Ethiopian infrastructure sector are increasingly integrated with the local economy. Employment represents the strongest backward linkage created by Chinese companies. The Chinese firms' presence has contributed to skills transfer and triggered capacity building processes. Such processes include training activities, language courses, and forms of higher education cooperation. There is also evidence that Chinese firms' operations have led to the diversification of the local production structure and to the expansion of the local

building materials manufacturing industry. However, joint venture and subcontracting opportunities between Chinese and local firms are still scarce. Technological transfer from Chinese companies to Ethiopian companies also remains underdeveloped.

This proves that the picture is more complex than we tend to think. Chinese companies' behaviours are fluid and with different effects. The creation of economic linkages is highly dependent on the characteristics of Chinese firms working in the sector as well as on the local circumstances in which the firms operate. Two main lessons can be learned from the Ethiopian experience. On the one hand, the size of Chinese companies, their ownership type (private versus state owned enterprises), the industry in which they operate (energy, telecommunication, transportation, water facilities) and the length of operation in the country have proven to be important factors to determine their level of integration with local economy and society. On the other hand, the Ethiopian policy environment, local industrial capabilities, the capacity of local labour force, and the ability of local officials to supervise and monitor projects can amplify or dampen the strengths and limits of infrastructure partnerships. In other words, development linkages are strongly dependent on the capacity and willingness of the Ethiopian decision-makers to create both the normative conditions for an adequate development of local businesses and a system of rights that can empower local workers.

In a post pandemic era, African governments will play a critical role in the creation of a policy and regulatory environment that can make the most out of foreign firms operating in their infrastructure industry. Beyond the speed of executing infrastructure projects, African governments should then place more emphasis on the design of tailored policy instruments. The case of Ethiopia shows that local-content policies (such as policies on labour and contracting, policies aiming at building local and absorptive capacity, policies helping local actors to establish joint ventures) and industrial policies, especially those capitalizing on the linkages with the manufacturing sector, must be high on the agendas of policymakers for the years to come.

1. <https://chinaafricaloandata.bu.edu/>

2. The provided evidence is the result of firm-level surveys, interviews, observations, and direct access to contracts and financial agreements produced through 4 years of PhD research, with fieldwork in both China and Ethiopia.

#### Bibliography

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