European Proceedings of
Social and Behavioural Sciences
EpSBS

www.europeanproceedings.com e-ISSN: 2357-1330

DOI: 10.15405/epsbs.2021.09.02.60

**ICEST 2021**
**II International Conference on Economic and Social Trends for Sustainability of Modern Society**

# GLOBAL INTEGRATION AND BUSINESS RISKS IN AFRICA

R. Vildanov (a)*, S. Galiullina (b), O. Konnova (c), I. Anastasia (d)
*Corresponding author

(a) Department of International Relations, History and Oriental Studies, Federal State Budgetary Educational Institution of Higher Education "Ufa State Petroleum Technological University", Ufa, Russia, Hist-ufa@yandex.ru
(b) Department of International Relations, History and Oriental Studies, Federal State Budgetary Educational Institution of Higher Education "Ufa State Petroleum Technological University", Ufa, Russia, galiullinasd@yandex.ru
(c) Department of International Relations, History and Oriental Studies, Federal State Budgetary Educational Institution of Higher Education "Ufa State Petroleum Technological University", Ufa, Russia, olga-ugues@mail.ru
(d) Department of Social, Humanitarian and Economic Disciplines of the Ufa Law Institute of the Ministry of Internal Affairs of the Russian Federation, Ufa, Russia, nassa@bk.ru

## Abstract

In today's world, globalization has made the world as one, without boundaries or frontiers, especially in terms of the economy. The development of the African continent is largely determined by its current economy, as well as politics, and, most importantly, by its social structure. Economic restructuring programs, as well as various reforms carried out at the end of the 20th century, did not lead to higher productivity, employment growth and poverty reduction. Despite persistent problems of material mortality and gender inequality, some progress has been made in the social sphere. Africa's trading partners are expanding and diversifying. Trade ties are also diversifying among African countries, now China has become the most important partner in the field of trade. Following the PRC, it is followed by the United States (the PRC bypassed the United States in 2009) and the EU. What stops investors? Why does this happen? The article tries to identify the optimal strategy for foreign business in investing in the African continent. It is noted that the debts of countries are a very heavy burden on the economies of African countries, and debt servicing is an unbearable burden for most countries. The main debts arose in the 1970s and 1980s. Later, international debt relief mechanisms were even established. It was the reduction of the debt burden that allowed many countries to maintain their positive growth. Nevertheless, over the past 20 years, African countries have owed billions of dollars to foreign investors. In this regard, China's actions cause a lot of controversy and accusations of neocolonialism. The Russian style requires neither a political oath, nor loyalty to the common past, nor an oath to the values of freedom. But it involves help from Moscow in the extremely important period.



*Keywords:* Africa, China, Debt, Russia, BRICS

https://doi.org/ 10.15405/epsbs.2021.09.02.60
Corresponding Author: R. Vildanov
Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

# 1. Introduction

The current situation of the African countries is largely due, on the one hand, to favorable climatic conditions, and on the other hand, their situation in the world has had a great influence on the dependence of the continent on other countries of the world: first in the form of colonialism, and then in the form of the cold war between East and West. The development of the African continent is largely determined by its current economy, as well as politics, and, most importantly, by its social structure. Economic restructuring programs, as well as various reforms carried out at the end of the 20th century, did not lead to higher productivity, employment growth and poverty reduction.

## 1.1. Investments in Africa

In early 2000, the International Monetary Fund launched a global campaign to attract investors to Africa. Then the marketing concept of Africa was created, which in various variations is repeated everywhere today:

- Africa is a risky investment that, however, can pay off with a line.
- Any technology will be in demand in Africa due to underdevelopment and weak competition of markets.
- The demographic dividend (the potential for economic growth due to the excess of the young population over the elderly) makes Africa what China was in the 1970s. Marketers did a good job to make the down side.

# 2. Problem Statement

Despite persistent problems of material mortality and gender inequality, some progress has been made in the social sphere. The basis for the transformation of the continent in the future will be the ability of African countries to provide quality and affordable education for the population. It is education that is the key to success, which will lead to an increase in labor productivity, economic growth and stability in society. This will happen even if at least universal primary education is introduced.

Local government programs to promote universal primary education are under way, and literacy rates are rising. You can also note the steady growth of higher education institutions that are observed in modern Africa. But at the same time, there are problems: the level of literacy is growing at a very low rate, a significant part of the population can neither read nor write. In addition, funding for secondary education is lacking. The authorities devote more attention and funding to primary as well as higher education.

For example, the overall literacy rate of African youth has increased thanks to the implementation of universal primary education programs by local governments. (Kedir, 2015).

Since 2000, most African countries have seen stable economic growth, but even economic development has not been able to significantly reduce poverty among the population. Of course, some countries on the continent have their own modernization programs, that help to develop the economy, try to regulate the private sector, contribute to the emergence and development of civil society, non-

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governmental organizations (Lyausheva et al., 2019). At the same time, it is important to take into account that the economic growth of the countries of the continent is due to large investments from the state budget in infrastructure and other sectors of the economy, which could contribute to rapid growth. But this is also associated with an increase in the debt burden on the state budget. Despite the increase in GDP over the past decade years, continent countries have failed to achieve significant human development results. This is evidenced by the reports of the United Nations Development Programme (UNDP) (Drivers of economic growth in Africa, 2017).

Nevertheless, modern Africa is no longer a mysterious continent. This is a region that actively manifests itself in international relations, the world economy and culture. It is not surprising that this region is also actively attracting various investments.

Africa's structural transformation requires substantial funding, including external borrowing. Development programmes should include investment in infrastructure, industrialization, developing a stable medical system, increasing agricultural yields and improving regional integration.

Africa's trading partners are expanding and diversifying. Trade ties are also diversifying among African countries, now China has become the most important partner in the field of trade. Following the PRC, it is followed by the United States (the PRC bypassed the United States in 2009) and the EU. It is important to note that economic relations between Russia and Africa are very actively being built in the 21st century and scientific and technical cooperation is being intensified (Vogel, 2018). After the collapse of the USSR, the interest of Russian companies in Africa decreased significantly. In the conditions of unstable 1990. all attention was riveted by its own economy. The situation changed only in 2000. Also, the Bricks platform is an important platform for penetration into Africa. Since BRIC became BRICS, more attention has been paid to the African continent. This is in the best interests of Russia, strengthening its position in the global economy and developing investment (Vildanov, 2016). But in general, Russia's share in Africa is less than 0.5%, while our country is very far behind China. In this regard, Russia lags behind Brazil (Sapuntsov, 2015).

## 3. Research Questions

What stops investors? In fact, investors are not very happy with the situation. Indeed, giants such as Google, Uber or Bolt are operating in Africa. Many firms are present here to show their range of influence. The reason for this attitude is quite ordinary. You can talk about the attractiveness of the region for a long time, but the standard of living of the population, blatant poverty make Africa not too attractive for Western investors. Some companies were forced to stop working in five out of 10 countries after several years of work and billions of investments because they suffered constant losses.

Why does this happen? Most families in Africa live on $2-3 a day. Under these conditions, the population is very low in purchasing power, which actually slows down many projects.

The second problem is that local companies are in no hurry to pay their bills. Debt was a very heavy burden on African economies, and debt servicing was an unbearable burden on most countries. The main debts arose in the 1970s and 1980s. Later, international debt relief mechanisms were even established. It was the reduction of the debt burden that allowed many countries to maintain their positive growth.

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But all of the above does not scare some categories of investors, they are actively penetrating into Africa.

## 4. Purpose of the Study

The purpose of the paper is to to reveal optimum strategy for foreign business in investment on the African continent.

## 5. Research Methods

The research methods included text analyses and case studies.

## 6. Findings

China. For this, both direct entry and through the BRICS format are used. Often you can hear the opinion that Chinese companies are most active in Africa. This is facilitated by the policies of local authorities, since African governments, mired in debt, need loans.

For example, to modernize Lusaka Airport, local authorities had to take a loan from a Chinese bank, on the terms of attracting Chinese developers to Zambia. The builders, in turn, brought all the personnel and equipment from China. Even building materials, maintenance personnel, everything was from China. In other words, the Chinese, issued a loan to Africans, managed to do it so that the money would still return to China. On the other hand, the Chinese are much more comfortable as partners than Europeans. They can even be said to communicate in the same language. And this is not only due to the spread of the Chinese language. Chinese investors are interested in neither human rights, nor freedom of speech, nor transparency of the economy. They are ready to work with both democratic and authoritarian regimes (Salakhetdinov & Sidorov, 2018).

Nevertheless, over the past 20 years, African countries have owed billions of dollars to foreign investors. Loans were received for the construction of airports, railways, seaports. The money was obtained on preferential terms. But in the end, loans need to be paid. There were difficulties with this. Therefore, Chinese investors wanted to receive either money or as an alternative to some local assets. Therefore, as debt on loans accumulated, the Chinese began cautious hints about the transfer of property. Western countries criticized by the Chinese authorities in applying so-called "debt traps." Such a "trap" is understood as a situation when significant amounts are issued in the form of loans to poor countries, and when debtors cannot pay off loans, they have to sell or transfer their assets, such as natural resources or infrastructure. A frequently cited example is the 2017 lease with China, when Sri Lanka leased the port of Hambantota for 99 years (Salakhetdinov, 2014).

In this case, the history of Zambia is interesting. Zambia has accumulated a significant debt to China. There were rumors that in the face of non-payment of loans, the Zambian authorities could transfer the country's electricity industry to the Chinese.

Zambia got into a difficult situation after the spread of the coronavirus, in fact, this country is on the verge of default. At the same time, Western creditors criticize the Zambian government for paying more attention to debt on loans to the PRC.

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Zambia was unable to pay interest on its US dollar-denominated sovereign debt. The official reason was the covid situation, which put the country's economy in a difficult situation. Interest was due in October. Although there was a grace period of one month, the government was unable to reach an agreement with creditors (Mfula, 2018).

The debts of Zambia and other African countries have arisen in recent years. Debts to China have especially increased during the implementation of "One Belt and One Road". Threats of default by African countries have grown significantly after the pandemic. In this situation, The Group of Twenty countries tried to mitigate the debt burden. At the same time, the PRC faced criticism.

According to the Zambian Ministry of Finance, at the end of June, its debt more than 10 billion. According to the World Bank, the debt to China is $3.4 billion, which is than double the level of of mid-2010. Zambia hides the conditions for obtaining a loan from China, and it also hides it from other creditor countries. The Zambian government has asked its creditors for a six-month grace period. But creditors controlling roughly 40% of Zambia's foreign-currency government debt bonds did not grant the government a deferral to repay the debt.

At the same time, the Zambian government announced an agreement with a major state creditor, the China Development Bank, to defer loan payments. Loans were obtained during the implementation of the One Belt and One Road program. The publication of such a message was probably done, in the prospect of obtaining deferrals from other creditors.

Although COVID-19 is one of the reasons for the deteriorating financial condition of Zambia, the country's financial situation has been in dire straits for quite some time. Zambia's economy is heavily dependent on copper exports. At the same time, the government is modernizing the country's infrastructure. Against the backdrop of a fall in international trade, the national currency of Zambia weakened, which caused an increase in the value of public debt in dollars. In such a situation, the dependence of the local government on loans from China has increased even more.

Many African countries, such as Djibouti and Kenya, also actively borrowed from China. The debt supply of these countries has more than doubled. Against this background, the success of Angola looks more "modest" with an increase in debt "only" by 80%. Western countries do not want to postpone payments to African countries, due to fears that the released funds will go to pay debts to China, -writes Ghanaian Finance Minister Ken Ofori-Atta in an article for the Financial Times (Ofori-Atta, 2021).

Western countries criticize the Chinese authorities for the fact that they are accumulating multibillion-dollar debts of developing African countries issued for various modernization projects. China is unhappy with the criticism, China's official authorities deny accusations that they are responsible for the economic problems of these countries, arguing that developing countries primarily allowed a high percentage of the ratio of external debt to gross domestic product.

In the context of the coronavirus pandemic, The Group of Twenty countries decided to ease the debt burden on developing countries by easing payment terms or even suspending payments. Western countries criticize China, while criticized for the lack of similar measures, more modest amounts of aid to developing countries.

Chinese loans, oddly enough, have much higher interest rates than other loans. About 3%, compared with 1% on loans on loans issued by such global lenders as the World Bank and the International Monetary

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Fund. Additional interest on Chinese loans also increases the burden on countries. At the same time, the amount of funding under the Belt and Road strategy has quadrupled in two years to over $ 4 billion in 2020 (Kumon & Kawate, 2020).

It can be noted that the countries of the African continent are experiencing a recession for the first time in 25 years due to the COVID-19 pandemic. At the same time, many South African states were in a state of economic crisis even before the pandemic. For example, countries such as Angola, Mozambique. In the case of Zimbabwe or Zambia, their dire financial situation is caused by the difficult conditions of debt to China.

With the COVID-19 Pandemic, African debt is back on the international agenda. Now the question of what exactly to do with the debt is being decided, to repay it or to forgive it. Although most of the loans were of an interstate nature.

In April 2020, The Group of Twenty finance ministers and World Bank officials supported the Debt Service Suspension Initiative (DSSI). This initiative concerns 40 least developed African countries. A similar initiative by the The Group of Twenty suspended debt repayment until June 30, 2021, which was supported by the International Monetary Fund and the G7. It should be understood that the DSSI does not provide for the reduction of the debt of developing countries itself, the G20 and the Paris Club of creditors have approved a modern common framework for debt relief for developing countries. DSSI does not imply cancellation of debts, but only a deferral from the payment of loan payments. In principle, creditors wanted the poorest debtor countries to be able to apply for debt restructuring, even to the point of writing off the most complex debts. But Western countries would like all creditors to be on an equal footing here. At the same time, Chinese creditors have been criticized for their position on the debt of developing countries.

The Paris Club of Lenders has also published a Memorandum of Understanding supporting the DSSI principle. In this situation, creditors are trying to coordinate their actions with creditors outside the Paris Club, for example, China. Parisian creditors are trying to advise other market participants on how to restructure debts, how to conclude new agreements. But analyzing the data, we can say what they get with varying degrees of success.

## 7. Conclusion

In this regard, China's actions cause a lot of controversy and accusations of neocolonialism. In this regard, the situation with the penetration of Russian interests is indicative. The topic of "golden shares" of Russia is very indicative. This is a set of steps and actions taken by either the Russian authorities or Russian corporations to promote Russian projects.

These "gold stocks" are a soft power promoter, as well as a real trigger, the switching of which can itself shift the political regime. It should be noted that such "golden shares" were not imposed on the existing regime. Rather, local authorities asked Russia for it, as an option, to maintain power (Shpunt, 2020).

Therefore, we can talk about the Russian style of conducting African affairs. The style of the European Union implies reliance on post-colonial influence and significant historically established force contingents. The US style involves management through finance, lending to these countries. The Chinese style involves the exchange of sovereignty for access to resources and assets. The Russian style requires neither a political oath, nor loyalty to the common past, nor an oath to the values of freedom. But it

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involves help from Moscow in an extremely important period. Of course, there are limitations. The tool can be only in those countries where a political map has developed like this. But in these countries, the Russian style is more effective than everyone else.

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