

# Policy Brief

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## China's Growing Economic Presence in Africa<sup>1</sup>

Hany Besada, Yang Wang, John Whalley

### Introduction

China now accounts for around 9 percent of Africa's oil and gas exports,<sup>2</sup> and comparable amounts pertaining to its other key mineral exports (copper, gold, platinum, manganese, and etc). At this margin, China appears to be an increasingly substantial engine of growth on the continent, and although the levels are still modest for now, they are growing rapidly.

This policy brief documents the size and rate of change of this growing presence, focusing primarily on trade and finance.<sup>3</sup> It also discusses the rate of change and projections of its growth. Inevitably, given that these developments are so recent, we are forced to use incomplete and often anecdotal information in compiling the overall picture. However, some figures already stand out as clear indicators.

Trade between Africa and China (imports and exports summed) grew from US\$10.6 billion to US\$73.3 billion between 2000 and 2007<sup>4</sup>, with sub-Saharan Africa accounting for US\$7 billion and US\$59 billion for these two years respectively<sup>5</sup>. Similarly, Chinese foreign direct investment (FDI) stock in Africa has grown from US\$49 million in 1990 to US\$2.6 billion in 2006. This corresponds approximately to a 30 percent growth in annual trade and investment since the late 1990s between Africa and China. It should also be noted however, that this started from a low base, and current levels of trade and investment are still relatively small. In 2006, China accounted for only US\$520 million of new inward FDI to Africa out of a global total of US\$36 billion (or 1.4 percent)<sup>6</sup>, as well as accounting for only 8.6 percent of total African exports and 9.6 percent of total African imports<sup>7</sup>. African interdependence with China therefore remains proportionately smaller than is the case with most other geographical areas, but it is growing rapidly.

What lies behind these developments are a number of factors. To a certain extent, it can be said to be simply a by-product of rapidly growing Chinese engagement globally, rather than just in Africa. In Africa, however, China's concern is clearly to achieve greater security of supply pertaining to resources (especially oil and gas), rather than relying on global markets. Africa is also



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a market for China to deploy its large foreign exchange reserves, since the feeling in China is of potential political opposition from North America (and also from Europe) to proposed reserve-financed buyouts, such as Beijing's failed attempt to buy the Union Oil Company of California (UNOCAL) in 2005. The strong commitment at the upper echelons of government in China, to speed the growth and development of countries now poorer than China, is also important. The approach is to set aside human rights and governance concerns, which have restrained OECD flows in the past, and use commercial arrangements to directly fuel growth and development on the continent – in effect filling the partial void left by the OECD. The recent extensive spread of democratically elected governments in Africa, combined with the improvements in infrastructure, an emphasis on good governance, low labour costs and business-friendly investment laws further fuel the continent's ability to attract FDI.

The impact of these developments on Africa has been both significant and positive. Growth rates have been elevated, with a positive impact on poverty alleviation. These flows provide substantial and largely untied development finance for Africa (in contrast to present conditional OECD flows). The continent may therefore present only a small part of a rapidly changing global economic structure in which China is centrally involved, but for Africa this will likely prove to be of high significance.

## Sino-African Trade and Investment Flows

This growth of Chinese FDI (primarily in resources, construction and infrastructure) reflects a high-level Chinese decision to contribute to South-South cooperation via mutually beneficial commercial relationships with the African continent. But at the same time, it also reflects commercial decisions made by individual Chinese enterprises. One claim that is supporting this theory is that Chinese firms have been successful in delivering comparable infrastructure projects at prices in the range of 25 percent and 50 percent less than those which other foreign investors charge.

Western states maintained close relationships with Africa via language, cultural ties, information linkages and staff exchanges, which assist in trade and finance and give Western countries a substantial advantage. In comparison, Chinese enterprises had to face the disadvantages of language barriers and culture differences. China's ability to rapidly expand its share of African trade and finance is therefore all the more remarkable.

## The Objectives Behind China's Africa Policy

A key element in understanding what lies behind the growth in Beijing's involvement in Africa is its central foreign policy guiding principle of non-interference in the internal affairs of sovereign states. China's growing presence in Africa therefore largely reflects commercial rather than political considerations. To underscore the point, Chinese officials have repeatedly argued that attempts by other countries to link positions on democracy

and human rights to economic integration violate the rights of sovereign countries. With Western aid increasingly tied to human rights, good governance and Western neoliberal notions of economic reform, Africa has welcomed China's unconditional aid approach.

Over the past decade, Chinese development assistance has taken a variety of forms in Africa. Engineering, medical and agricultural teams had been providing technical support to African states since the 1960s, although this accelerated by the late 1980s. China trained over 14,600 people in different fields for Africa.<sup>8</sup>

Debt forgiveness and aid from China also contributed to infrastructure development in African countries, proving, in turn, to be the key to political stability. Of particular importance are China's programs for education and health in Africa, which are recognized as playing a central role in addressing poverty, income disparity and unemployment. These infrastructure improvements also helped African countries to secure other loans and investment opportunities, contributing to further development. "South-South cooperation" was therefore centrally embodied in China's aid activity in Africa, which, in turn, has been welcomed by a large number of governments, businesses and non-governmental organizations (NGOs) on the continent.

## Resources and China's Involvement in Africa

A key factor underlying China's recent rapid expansion in Africa is Beijing's desire to gain secure access to supplies of oil, gas, and key minerals. As a late entrant to the global oil market, Africa perhaps represents the last major sources of oil reserves that are not primarily managed by major Western energy companies, and hence available for Chinese corporations to invest in, and ultimately resulting in partial control.

Since Sino-African oil trade is developing rapidly due to Beijing's focus on partnering African firms in infrastructure development projects, it is often viewed by Africans as more mutually beneficial than trade with OECD countries.

## Textile and Apparel Investments

Another element in the growth of China's trade and investment in Africa has been the continued use of African operations to circumvent new trade restrictions that are specifically targeted against China, following the abolition of the Multi Fibre Arrangement (MFA) in January 2005. The situation is complex since immediately following the termination of the MFA, some of the quota-hopping foreign investment induced to enter Africa, so as to avoid trade restrictions on apparel imports in the OECD from China, was induced to return to it. It was the subsequent new restrictions against China (see Dayaratna-Banda and Whalley, 2007) under China's WTO accession terms that induced new investment flows to Africa.



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Although the Agreement on Textile and Clothing (ATC)<sup>9</sup> ended the MFA and aimed to eliminate quotas and increase developing countries' access to the previously protected markets of developed countries, it also allowed developed countries to apply special safeguarding measures under specific conditions, by introducing new trade restrictions if their domestic industries were believed to be threatened by liberalized imports. Such new restrictions were also facilitated by China's WTO accession terms. As a result, following substantial increases in China's textile and clothing exports to the US and the EU during the first quarter of 2005, a series of new restraints on textile and apparel exports against China appeared successively. These have been dubbed "China Containment Agreements" (CCAs) by Dayaratna-Banda & Whalley (2007). Effectively, the CCAs have placed China's textile and clothing sector in a similar situation as was the case in the old MFA era.

Therefore, the majority of the responses to the MFA, including quota-hopping foreign investment, are still present under the CCAs. In order to circumvent quota limitations under CCAs, Chinese firms have continued to use the production of the least restricted African countries, in terms of US trade, to obtain preferential tariff treatment in the US after the MFA abolition.

## Other Considerations and Concluding Remarks

Somewhat paradoxically China, with GDP per capita of perhaps US\$1,800 (rather than the OECD's figure of US\$30,000), is now poised to become a major source of new developmental finance in Africa.

There are, however, evaluations of this growing presence offered elsewhere, which have not been discussed above. One is the claim that, despite all the benefits, China's growing presence is also comingled with responses to attempts to bring in disciplinary measures against corrupt practices at home and, essentially, this amounts to exported corruption. Tales of Chinese enterprises approaching African governments, offering reserve-financed low interest loan infrastructure projects, on the condition that contracts are awarded to specified Chinese enterprises, tend to underscore such concerns. They also emphasize the incentive to conduct business in lax accounting standard jurisdictions across the continent, with an increase in Chinese workers. There are also claims by local unions of low wage employment of local workers on the continent by Chinese enterprises, and even displacement of local labour by imported Chinese labour. Both arguments have been used to suggest negative consequences for Africa due to a growing Chinese presence.

Within the bigger picture, however, we would argue that such claims have to be seen alongside the large benefits flowing to Africa from China's involvement. Whether or not corruption at home motivates some amount of FDI, Africa seems to benefit from increased Chinese trade and FDI flows. Meanwhile, labour adjustments from Chinese FDI appear to be small, especially given the large FDI in oil and resources. The bottom line would seem to be that large trade and investment benefits have already accrued in Africa, resulting from China's growing presence, and more seem poised to follow. China in Africa is therefore seemingly a highly positive story for Africa and offers an even more promising future for the continent.

## Endnotes

- <sup>1</sup> The authors are grateful to Andrew F. Cooper, Yao Li, Sean Walsh and Weimin Zhou for discussion and assistance.
- <sup>2</sup> According to the World Bank and UNCTAD, the European Union and the United States account for 36 percent and 33 percent respectively of Africa's oil and gas exports.
- <sup>3</sup> Broadman, Harry (2007). *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC, US: World Bank.
- <sup>4</sup> MOFCOM Statistics & <http://www.atimes.com/atimes/China/IL13Ad01.html> & <http://www.info.gov.hk/gia/general/200707/17/P200707170123.htm> & [http://en.wikipedia.org/wiki/Sino-African\\_relations](http://en.wikipedia.org/wiki/Sino-African_relations) & [http://www.afdb.org/portal/page?\\_pageid=293,174339&\\_dad=portal&\\_schema=PORTAL&press\\_item=19012282&press\\_lang=us](http://www.afdb.org/portal/page?_pageid=293,174339&_dad=portal&_schema=PORTAL&press_item=19012282&press_lang=us) & <http://www.info.gov.za/speeches/2007/07051515451001.htm>.
- <sup>5</sup> MOFCOM Statistics
- <sup>6</sup> 2006 Statistical Bulletin of China's Outward Foreign Direct Investment & UNCTAD/UNDP, Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Nations, New York, March 2007.
- <sup>7</sup> MOFCOM Statistics & UNCTAD Handbook of statistics 2006-07 <http://www.unctad.org/Templates/webflyer.asp?docid=8612&intItemID=1397&lang=1&mode=toc> & based on our calculations.
- <sup>8</sup> Zhang, Chun (2006). "'Neocolonialism' label can not be pinned on China," Shanghai Research Center for International Issues, Nov 2002. [http://www.sinofile.net/saiweng/sip\\_blog.nsf/d6plinks/YZHI-6VB8J3](http://www.sinofile.net/saiweng/sip_blog.nsf/d6plinks/YZHI-6VB8J3).
- <sup>9</sup> The Agreement on Textile and Clothing (ATC) was concluded in the Uruguay Round negotiations in the World Trade Organization.

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