

The Centre for International Governance Innovation

# WORKING PAPER

Shifting Global Order

## The Implications of China's Ascendancy for Africa

HANY BESADA

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Working Paper No. 40

October 2008

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## **About the Author**

Hany Besada is a Senior Researcher and Program Leader, Health and Social Governance, at the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario, Canada. He holds an MA and a BA in International Relations from Alliant International University in San Diego, where he specialized in peace and security studies. Prior to joining CIGI, he worked as the Business in Africa researcher at the South African Institute of International Affairs in Johannesburg, and as a research manager at Africa Business Direct, a US trade and investment consulting firm, also in Johannesburg. While studying in the United States, he was a policy analyst at several nongovernmental and governmental research institutes and offices, including Amnesty International, the Office of US Senator Dianne Feinstein, the United Nations Association of the USA, and the Joan B. Kroc Institute of Peace and Justice.

## **Abstract**

China's spectacular economic progress has led some security analysts and policy makers in the North and the South to question Beijing's intentions in other parts of the world. This paper examines the extent to which China's engagement with Africa has produced mutual benefits for both and whether Africa is reaping the necessary benefits required for poverty alleviation and economic development. Chinese state-owned enterprises have invested billions of dollars in foreign reserves, construction, and engineering resources assisting African oil-producing exporters. While many in the west have started to question China's extraordinary level of interest in Africa – in particular, its economic engagement with perceived repressive regimes – African leaders view China's entry as a means of pulling Africa onto the path of globalization. It is thus important that African leaders and policy makers ensure that Chinese trade and investment bring reciprocal and tangible benefits for Africans, and contribute to economic stability and good governance.

## 1. Introduction

China's meteoric rise over the past two decades from an impoverished developing country to today's fourth-largest global economy and third-largest trader has gained considerable world attention, stunning supporters and critics alike, its economy easily outperforming even the most optimistic expectations. With record economic growth rates averaging nearly 10 percent a year over the past three decades<sup>1</sup> and the economy projected to grow by 7.2 percent over the next seven years (United States, 2007),<sup>2</sup> China has become one of the world's largest recipients of foreign direct investment (FDI), having attracted approximately US\$75 billion by 2007, excluding that in the financial sector, up from US\$69 billion over the previous year.<sup>3</sup>

This newly acquired wealth, including more than US\$1.68 trillion in foreign reserves by April 2008,<sup>4</sup> more than one-fifth of global reserves, has given the Chinese government the opportunity to embark on a military modernization program, to modernize its space program, and to rise to world leadership status. As expected, some security analysts and policy makers have begun to question Beijing's intentions not only in regards to its involvement in Africa but also more broadly in the rest of the world.

China's position is strategically unique, given its ability to remain involved on issues both as a developing country and a

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\* The author is grateful to Agata Antkiewicz and Miran Ternamian for discussion and assistance.

<sup>1</sup> See [http://www.economist.com/finance/displaystory.cfm?story\\_id=9861591](http://www.economist.com/finance/displaystory.cfm?story_id=9861591).

<sup>2</sup> Historically, figures released by Chinese government departments and institutions have been received with some scepticism and, at times, found to be in sharp contrast to those released by Western government departments and international academic institutions.

<sup>3</sup> See UNCTAD, 2007b; United States, 2008; and [http://www.chinadaily.com.cn/china/2008-01/22/content\\_6412652.htm](http://www.chinadaily.com.cn/china/2008-01/22/content_6412652.htm).

<sup>4</sup> See <http://www.iht.com/articles/ap/2008/04/11/business/AS-FIN-China-Foreign-Reserves.php>.

former member of the Non-Aligned Movement and as a permanent member of the United Nations Security Council.<sup>5</sup> As such, China shares the developing nations' sense of humiliation, a determination to take control of their own destiny, and the need to restore dignity following decades of economic colonization and exploitation. Since the 1970s, China has begun to shape its foreign policy engagement with the world in a way that supports its quest to reclaim its place as an independent and sovereign state among the community of nations. This has entailed the promotion of cooperation rather than confrontation, economic development rather than revolution, and international engagement rather than isolation. China has begun to capitalize on its longstanding linkages with the developing world, particularly Africa, where Chinese interest is taking the form of increased trade, investment, and economic cooperation, and grand pledges of aid by Chinese officials during high-level visits to dozens of African states.

This growing trend in China's foreign policy is increasingly viewed as an important aspect of the government's long-term strategy for the country. This paper analyzes the internal dynamics that have shaped, and will continue to shape, Sino-African relations. It also examines the extent to which China's engagement with Africa has helped alleviate poverty and spur economic development.

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<sup>5</sup> The term "non-aligned" was first used by Indian prime minister Jawaharlal Nehru in a 1954 speech in Colombo, Sri Lanka. The principles that would serve as the basis of the Non-Aligned Movement were: mutual nonaggression, mutual respect for each other's territorial integrity and sovereignty, equality and mutual benefits, mutual non-interference in domestic affairs, and peaceful coexistence. The origin of the Non-Aligned Movement can be traced back to a conference in Bandung, Indonesia, in 1955, hosted by the leaders of the developing world, at which they declared their desire not to become involved in the East-West ideological confrontation of the Cold War.

## 2. China's Africa Policy

China's Africa policy can best be understood from its unique political and economic perspectives. Although China reaps considerable economic gains from Africa, it would be simplistic to regard those economic benefits as the sole driver of China's policy agenda toward Africa. Media outlets and Western scholars often suggest that China's relationship with Africa is built on its dependency on and demand for energy resources, markets, and investment opportunities for its booming industries and job-seeking workers. China has often been criticized for taking advantage of the vulnerability of African economies and the desperation of its people and leaders for increased foreign investment to spur development and growth.

This perception, however, fails to take into account four important points. First, China's more active engagement with Africa is part of its continuing emergence as a truly global player and, as such, is no different from the traditional behaviour of major powers. Second, in its global and regional diplomacy, China, like all great powers, is pursuing multiple objectives, including those that create tensions between values and interests at both the national and global level. China can no more be expected to subordinate its commercial and strategic interests to other considerations than have the Western powers in their policies toward Africa and the world. Third, Beijing's relationship with Africa dates back to the early 1950s, long before China's rapid economic expansion and its sensational appetite for the continent's mineral resources. Finally, most African states that have benefited so far from China's increasing trade and investment, as well as from debt relief, are not endowed with mineral wealth and offer few investment opportunities to Chinese enterprises. At the end of the day, it is not the responsibility of

China but, rather, of African leaders to ensure that their respective countries capture the benefits while minimizing the downside of China's interest in the continent – a policy prescription that holds true for defining the terms of engagement of any external power.

Thus, China's Africa policy should be viewed not as a mere quest for resources but in the context of its diplomatic strategic pursuits and global foreign policy objectives – namely, to solidify its position as a global power, on a par with other permanent members of the UN Security Council; to sustain its economic and human development; and to ensure Taiwan's reunification while countering secession drives by minority areas within China, including Tibet. In pursuing these objectives, China seeks the political and diplomatic support of UN member countries, particularly from less developed countries. As the largest regional group within the UN system, Africa is a natural ally on which Beijing has become closely dependent to further its political objectives.

Politically, Chinese engagement with the continent has paid dividends over the past five decades in its diplomatic battle to deny Taiwan international legitimacy in multilateral institutions. For instance, in December 2003, China deployed 90 peacekeepers to Liberia, following that country's decision to switch diplomatic recognition from Taipei to Beijing. In December 2007, Malawi severed its ties with Taiwan after Beijing reportedly offered billions of dollars in aid to the country as an incentive to do so. By January 2008, only four African states – Gambia, Burkina Faso, Swaziland, and Sao Tomé and Príncipe – continued to maintain diplomatic relations with Taiwan.<sup>6</sup>

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<sup>6</sup> See <http://news.bbc.co.uk/2/hi/asia-pacific/7186918.stm>.

China has followed up this diplomatic success over Taiwan with cooperation with African countries on such non-traditional security threats as pandemics, terrorism, and transnational crime. Following the fateful 9/11 attacks on the United States and the outbreak of SARS in 2003, Beijing sought Africa's support for its effort to play a greater role in the global fight against these emerging challenges. In 2006, China concluded agreements with a number of African states on the deportation of criminal suspects, judicial cooperation, and extradition. It also proposed a strategic partnership with the continent, including a US\$38.5 million grant to treat malaria. Some African states have taken part in joint military and training exercises with China. These areas of cooperation offer a glimpse of China's drive to raise its international status.

China's Africa policy places equally important emphasis on its economic objectives – essentially, the need to sustain China's economic development. Given Africa's vast investment opportunities, untapped human and natural resources, attractive markets, and low-cost labour, China has ardently strengthened its long-standing relations with the continent over the past two decades. It is widely believed that China's human development and economic growth hinges on its ability to tap into Africa's plethora of resources while offering tangible benefits to host economies in the process. Forging a mutually beneficial situation, as Chinese officials increasingly emphasize in diplomatic circles, has become a major feature of Chinese economic engagement with Africa.

### **3. China's Scramble for Africa's Resources**

For more than a decade, China has sought access to Africa's rich energy and raw materials to fuel its surging economy. The Chinese leadership always understood that the country's

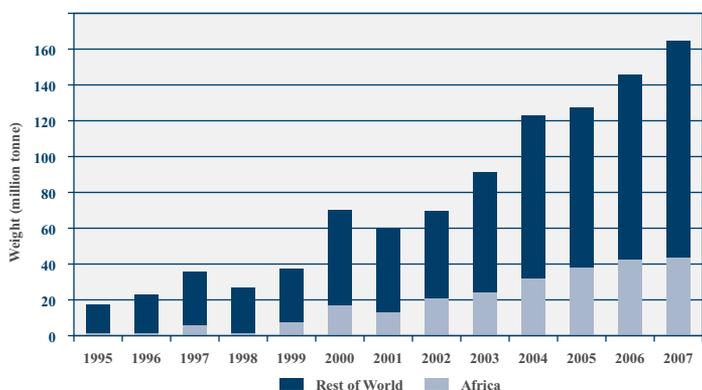
unprecedented growth required a continuous supply of raw materials, especially hydrocarbon fuels. The country's booming domestic energy demand, coupled with insufficient coal output and falling domestic crude oil production, prompted China to look overseas for stable resources.

The turning point came in 1993, when China went from a net exporter to a net importer of petroleum. By late 2004, the country had become the world's second-largest oil consumer, at 5.46 million barrels a day (bbl/d), outstripping Japan's 5.43 million bbl/d, and placing it behind only the United States' 19.7 million bbl/d (Downs, 2004; United States, 2005). By 2007, Chinese oil consumption had reached 7.7 million bbl/d (Monfort, 2008), accounting for more than 15 percent of the world's energy demand. Moreover, the country was importing more than 45 percent of the oil it consumed, a figure that is expected to rise to more than 50 percent by 2010.<sup>7</sup> Indeed, over the past decade, China has doubled its oil consumption and is largely responsible for increasing the share of global oil used by non-OECD states from 37 percent in 1997 to almost 43 percent in 2007 (Monfort, 2008). Experts believe that China will surpass the United States as the world's largest consumer of fossil fuels and energy soon after 2010, while its energy demands are expected to rise by 150 percent by 2020 (Luft, 2004). Energy experts point out that China's oil imports from Asia's oil-producing states have not been sufficient to meet even its current energy demands, while Chinese officials are certainly aware of the limitation of Middle Eastern oil and gas production given its primary allocation to European and US markets.

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<sup>7</sup> See [http://www.businessweek.com/globalbiz/content/feb2008/gb20080213\\_989993.htm?campaign\\_id=twxa](http://www.businessweek.com/globalbiz/content/feb2008/gb20080213_989993.htm?campaign_id=twxa).

Figure 1: Africa's Share of China's Crude Oil Imports, 1995-2007



Source: Statistics Canada, 2008

As a late entrant into the global oil industry, Africa is the last major source of oil reserves that are not already managed primarily by major Western energy companies and are thus available to Chinese corporations. As Figure 1 shows, in 2005, China imported more than 38 million metric tonnes of crude oil from Africa (York, 2006), which now supplies more than 31 percent of China's total oil imports (Medeiros, 2006). China thus has placed a high premium on strengthening relations with African states through a strict adherence to the doctrine of non-interference in internal affairs, which bodes well with some African leaders, particularly in Zimbabwe and Sudan, coupled with pledges of increased aid, investment, and lower tariffs on African exports. These policies implemented by the Chinese administration have been echoed by officials during high-level visits to Africa.

In recent years, Chinese state-owned enterprises (SOEs) have invested billions of dollars in foreign reserves and used Chinese construction and engineering resources to assist Nigeria,

Tunisia, Angola, Sudan, Gabon, and Algeria, among other African countries, to develop their oil, gas, and other mineral resources. In March 2004, for example, China's Eximbank extended a US\$2 billion loan to the Angolan government in exchange for a contract to supply China with 10,000 barrels of crude oil per day (Lee, 2004). The loan was designed to be reinvested in infrastructure construction, with approximately 30 percent going to local subcontractors but the bulk expected to go to Chinese companies. The agreement was part of a reported offer, estimated at US\$12 billion, which came with long maturities and low interest rates (Downs, 2007). At the time, the government in Luanda had been under intense pressure from the International Monetary Fund (IMF) to improve transparency and management issues with respect to its oil revenues, since the poverty-stricken population of Angola had seen very little of the windfall of foreign reserves that had accompanied increased Foreign Direct Investment (FDI) in the oil sector. Since the end of the civil war in 2002, Angola had been negotiating with the IMF to establish a formal financial arrangement designed to give the government access to lending facilities, but the negotiations fell apart over the issue of revenue transparency. Now, the Chinese loan undermined the IMF's leverage altogether.

In Sudan, Chinese companies have invested more than US\$15 billion since 1996, largely in the oil sector, helping Sudan to go from a net importer of oil to one of Africa's largest exporters, currently producing more than 500,000 bbl/d and earning approximately US\$2 billion in revenue annually.<sup>8</sup> With estimated oil reserves of 1.6 million barrels, this impoverished African state is the source of approximately 7 percent of China's

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<sup>8</sup> See [http://www.economist.com/specialreports/displaystory.cfm?story\\_id=10795714](http://www.economist.com/specialreports/displaystory.cfm?story_id=10795714); see also Reilly and Gill (2007).

total oil imports (Blair, 2005). China's National Petroleum Corporation (CNPC) is the single largest shareholder – with a 40 percent share worth US\$1.7 billion (Goodman, 2004) – in the Greater Nile Petroleum Operating Company, Sudan's largest petroleum company. The other partners in the joint venture are Talisman Energy of Canada, the Sudanese government, and Petronas of Malaysia. Currently, CNPC is pumping more than 300,000 bbl/d, with plans to expand this amount. In another development, China's Sinopec is building a 1,500-kilometre pipeline to Port Sudan on the Red Sea.

In West Africa, PetroChina finalized a deal in July 2005 reported to be worth US\$800 million with the Nigerian National Petroleum Corporation to purchase approximately 30,000 barrels of oil per day for one year.<sup>9</sup> The following year, China National Offshore Oil Corporation, following an unsuccessful bid to buy US-owned Unocal, succeeded in acquiring a 45 percent stake reported to be worth more than US\$2.27 billion in a Nigerian offshore oil and gas field. The company subsequently promised to invest up to US\$2.25 billion in additional investment for field development (Linebaugh and Oster, 2006).

In central Africa, the China National Petrochemical Corporation has announced its intention to explore both offshore and onshore oil deposits in Gabon, which has proven oil reserves of some 2.5 billion barrels (Brookes and Ji, 2006). A Chinese consortium has also signed a US\$3 billion iron ore deal with the Gabonese government to rehabilitate and extend a railway as well as to construct a bulk commodities and container port.<sup>10</sup> In

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<sup>9</sup> “China, Nigeria sign oil supply pact,” Xinhua News Agency. July 9, 2005.

<sup>10</sup> “Africa: Western leaders monitor China-Africa summit,” The Nation (Nairobi). May 17, 2007. Available at <http://allafrica.com/stories/200705161110.html>.

early 2008, the Democratic Republic of Congo disclosed a deal reportedly worth US\$9.25 billion with the Chinese government that would provide much-needed financing for infrastructural development and renovations, using rights to mineral reserves as collateral. This promises to be one of China's largest investments in Africa yet, providing some 620,000 tons of cobalt and 10.62 million tons of copper for its resource-hungry domestic industries.<sup>11</sup> The agreement is expected to result in an ambitious infrastructure development boom, with the planned construction of more than hundreds of hospitals, schools, clinics, 3,300 km of roads, two hydro-electric dams, and 3,000 km of railway. This is significantly important for one of the world's poorest states, where output per head is a mere US\$714 a year and where half the population does not have access to clean water or electricity. In return, China is expected to reap more than US\$30 billion in profits at current copper and cobalt prices.

Indeed, energy analysts credit China's success in securing mineral rights in Africa to a wide range of economic instruments; particularly prestige construction projects, financial assistance, and arms sales to cement ties with oil-producing states. In Sudan, for instance, Beijing has used its technical expertise and links to other government-owned companies to transform the country's oil industry into a major export earner for Khartoum. It has invested some US\$2 billion in the Merowe hydropower dam, which is due to open in 2008 and meet all the country's energy needs for the next two decades. In Nigeria, China has offered the government export guarantee facilities reportedly worth US\$50 billion aimed at funding projects over the next three years. Analysts contend that this is a strategic decision by Beijing to promote and boost Chinese investment in that country (Green, 2008).

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<sup>11</sup> See <http://www.ft.com/cms/s/0/5e46bc14-1e29-11dd-983a-000077b07658.html>.

In southern Africa, Zimbabwe and South Africa constitute China's major sources for platinum and iron ore (see Brookes and Ji, 2006). Following the imposition of sanctions against Robert Mugabe's regime in Zimbabwe, which is accused of oppressing minority populations, squashing political opposition, and causing the exit of Western mining firms, China used its diplomatic and economic leverage to secure mining rights in that country. In 2004, withstanding an EU and US arms embargo against the regime, China sold Harare military vehicles and fighter aircraft reported to be worth more than US\$200 million (McLaughlin, 2005). Furthermore, Zimbabwe was able to acquire military-strength radio-jamming devices, which reportedly were used to block broadcasts of anti-government reports by independent news agencies during the most recent parliamentary election campaign, when international election observers accused Mugabe's ZANU-PF party of rigging the vote and harassing opposition candidates.

Aside from providing military hardware to secure rights to mineral deposits in Zimbabwe, in June 2006 Beijing threw the country's disintegrating economy a lifeline with energy and mining deals reportedly worth more than US\$1.3 billion. While neither China nor Zimbabwe has indicated how the investments will be repaid, the deals gave China access to Zimbabwe's resources of precious minerals, including the world's second-largest deposits of platinum, as well as gold, chrome, coal, nickel, and diamonds (see Thomson, 2008). Major investment projects include the construction of three coal-fired thermal power stations to aid the state power company, which has been cutting customers' power for seven hours a day,<sup>12</sup> and a deal with China

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<sup>12</sup> "China and Zimbabwe sign technological cooperation agreement," *People's Daily*. July 15, 2003.

Machine-Building International Corporation to mine coal and build thermal power generators in Zimbabwe to reduce the country's electricity shortages.<sup>13</sup> Chinese investments in other sectors of the Zimbabwean economy remain limited, but interest remains high in the resources sector. In his message to mark his eighty-third birthday on February 24, 2007, President Mugabe indicated that Zimbabwe had sizable uranium resources as well as old tin mines in which "Chinese investors" had recently expressed interest.

Zimbabwe was a keen participant in the much-vaunted November 2006 China-Africa summit. The summit generated much interest and debate among both Western and African analysts about the nature of Zimbabwe's relationship with China. Critics contend that Chinese investors are increasingly given preferential treatment in Zimbabwe over their local counterparts. Attesting to this criticism, the governor of the Reserve Bank of Zimbabwe, Dr. Gideon Gono, in a meeting with the deputy governor of the People's Bank of China, was quoted as saying, "I would like to unveil to the Chinese people the vast investment opportunities that... abound in Zimbabwe, including our natural resource endowments."<sup>14</sup> In return for Harare's guarantees, China's National Aero-Technology Import and Export Corporation and China North Industries Corporation (NORINCO) have agreed to finance multi-billion-dollar expansion projects by both Zimbabwe Electricity Supply Authority and Hwange Colliery Company. It is worth noting that the US government has sanctioned NORINCO on several occasions for supplying missile technology to Iran.

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<sup>13</sup> "China Updates," Mines and Communities. June 16, 2006. Available at: <http://www.minesandcommunities.org/Action/press1109.htm>.

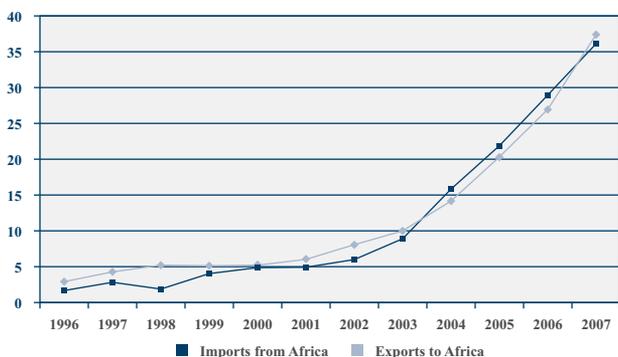
<sup>14</sup> "China Zimbabwe friendship further strengthened: Ambassador," Xinhua New Agency. April 23, 2005.

In addition to reaping Africa's resources to keep its own economy afloat, China's approach could be better illustrated by its emphasis on vertical integration-ownership of production facilities through to transport tankers to secure oil to Chinese consumers below international market prices. Instead of buying rights for future exploration and development, Beijing has concentrated on purchasing equity shares in established oil fields. With a vision of turning themselves into global players in the energy market, CNPC and other Chinese oil companies in Africa have fought to secure equity positions, which have enhanced their ability to learn from established industrial practices, minimized risks, and allowed for technology transfers. This strategic judgment with regard to energy security helps to explain China's long-term vision concerning its engagement with Africa. China maintains that it plans to be in Africa for the long haul, unlike many of the European multinational and mining firms that have a short-term outlook for the continent.

#### **4. China's Contribution to Africa's Economic Development**

China's red carpet treatment for 50 African heads of state in November 2006 to commemorate five decades of Sino-African relations together with high-profile state visits by top Chinese officials, including President Hu Jintao and Premier Wen Jiabao, to dozens of African states in recent months bear testimony to the continent's strategic importance for Beijing's economic and political growth strategies in a multipolar, post-Cold War environment. These visits came shortly after Chinese pledges to increase aid to the continent from about US\$2.3 billion in 2006 (Wang, 2007: 22) to US\$10 billion by 2009 (Baldauf, 2007) and to expand trading ties, which were already worth more than US\$73.3 billion in 2007, up from nearly US\$11 billion in 2000 (see Figure 2), making China Africa's third-largest trading partner

Figure 2: China's Trade with Africa, 1996-2007



Source: [http://www.tralac.org/unique/tralac/pdf/20080205\\_Africa-Chinaupdate2008.pdf](http://www.tralac.org/unique/tralac/pdf/20080205_Africa-Chinaupdate2008.pdf)

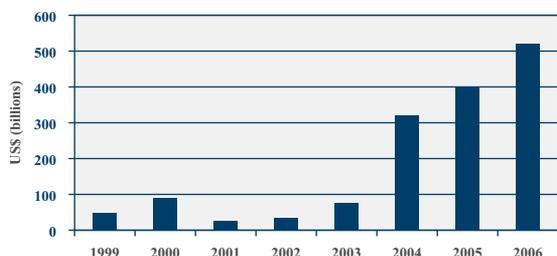
after the European Union (EU) and the United States.<sup>15</sup> Currently, Beijing accounts for approximately 9.6 percent of the continent's imports and 8.6 percent of its exports (UNCTAD, 2007a). It also hopes to boost Chinese FDI outflows to the continent, already estimated at US\$520 million in 2006, up from US\$1.5 million in 1991 (Figure 3), while China's stock of FDI in Africa increased to US\$2.56 billion in 2006, up from US\$49.2 million in 1990 (UNCTAD/UNDP, 2007).

China has received praise for its contribution to Africa's unprecedented economic growth of more than 5 percent annually over the past five years (Menen, 2008). This is largely the result

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<sup>15</sup> In 2006 the EU accounted for 32 percent of all sub-Saharan African exports and its investment on the continent accounted for 36.6 percent of total investments in Africa; the corresponding figures for the United States were 29.6 and 37 percent, respectively. See UNCTAD (2007b); World Bank (<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21052520~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>).

Figure 3: China's Outflows of FDI to Africa, 1999-2006



Source: Broadman, 2007; UNCTAD/UNDP, 2007

of riding on the back of high commodity prices and encouraging patterns in the growth of exports to China. The reorientation of China's economy toward trade over the past decade and a half has dramatically increased its trade-to-GDP ratio in excess of 70 percent. China has become a major importer of commodities and a significant exporter of manufactured goods. From 1998 to 2003, China's share of increased global demand was 99 percent for nickel, 96 percent for steel, 76 percent for aluminum, and 100 percent for copper (Lennon, 2004). In response to China's significantly increased demand for raw materials and oil, imports from Africa increased by more than 50 percent per year during this period. The share in total Chinese imports from sub-Saharan Africa of five of the most highly sought commodities – oil, iron ore, logs, diamonds and cotton; see Table 1 – grew to more than 80 percent in 2005, up from less than 50 percent in 1995. The most rapidly growing export was petroleum products.

As of 2008, seven sub-Saharan states source the bulk of their total imports from China. Sudan, as we have seen, has become closely aligned with China due to its expanding energy links with Beijing in recent years, and is the largest importer of Chinese products on the continent, accounting for more than 14

Table 1: Selected Commodities' Share of Exports to China, by Country, 2006

	Crude Oil	Metals	Wood	Cotton
	(percent)			
Angola	100.0			
Sudan	98.8			
Nigeria	88.9			
Congo	85.9			
Gabon	54.8		42.3	
Dem. Rep. of the Congo		99.6		
Ghana		59.8		
South Africa		45.6		
Cameroon			39.7	
Tanzania			23.4	53.8

Source: Wang, 2007

percent of its total imports; next are Tanzania and Ghana with 9.1 percent each, Nigeria with 7.1 percent, Kenya and Ethiopia with 6.4 percent each, and Uganda with 5.1 percent (Jenkins, 2005). Most of these countries' exports consist of manufactured products. Even though Africa remains a relatively marginal player when it comes to China's overall trade with the rest of the world, its trading relationship with China has important implications for both. Africa serves as a low-value consumer market for Chinese goods, particularly for loss-making SOEs, which have set up shop across the continent. The affordability of Chinese products fills an important gap in the market for many African consumers, who cannot afford more expensive consumer goods from Europe or, given the inability of their own economies to produce local equivalents, do without them altogether.

Equally important, over the past few years, Beijing has pumped millions of dollars into African industries geared to serve markets in the EU and the United States. Using the provisions of the EU's Cotonou Agreement<sup>16</sup> and the US *African Growth*

*and Opportunity Act* (AGOA),<sup>17</sup> Chinese investors have established joint ventures with local investors in a variety of sectors – particularly agriculture, agro-business, textiles, and light manufacturing – to produce goods for export to those markets at concessional rates. In the process, they are helping to build local capacity, boost technology transfers, and raise export levels of dozens of African economies.

However, this expanding Chinese investment has pre-empted the development of African capacity to build intermediate goods and an indigenous capacity for exports, in which there appears to be a limited amount except in the textile and agro-business sectors, and little incorporation of sub-Saharan Africa and China into coordinated global value chains. This might seem discouraging given the need to reduce African dependence on commodity exports to China and elsewhere. Surprisingly, it has helped Africa reduce displacement of domestic production and the negative impact of such displacement on local production and employment, adding to optimism about increased Chinese economic engagement with the continent.

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<sup>16</sup> The Cotonou Agreement was signed in June 2000 between the EU and a group of African, Caribbean, and Pacific states collectively known as the ACP countries. Since the First Lomé Convention in 1975, the EU has granted nonreciprocal trade preferences to these ACP states. Under the Cotonou Agreement, however, this system will be replaced by a new scheme, to take effect in 2008, known as the Economic Partnership Agreements. The new arrangement is expected to provide for reciprocal trade agreements, whereby not only will the EU provide duty-free access to its markets for ACP exports, but ACP countries will be expected to provide duty-free access to their own markets for EU exports.

<sup>17</sup> AGOA, which became law in 2000, and AGOA II, ratified in 2002, substantially improves preferential access for US imports from beneficiary sub-Saharan African countries by expanding the list of products those countries may export to the United States duty free under the Generalized System of Preferences from 4,600 items to more than 6,400; the provisions are scheduled to remain in effect until September 30, 2015.

Table 2: Chinese FDI stock in Africa, 1990 and 2005

<b>Region/country</b>	<b>1990</b>	<b>2005</b>
	<i>(US\$ millions)</i>	
Africa	49.2	1595.3
North Africa	3.4	618.4
Algeria	0.4	171.2
Egypt	1.8	39.8
Libya	1.0	33.1
Morocco	0.2	20.6
Sudan		351.5
Tunisia		2.2
Other Africa	45.9	976.9
Angola		8.8
Botswana		18.1
Cameroon	0.5	7.9
Cape Verde		0.6
Central African Republic	1.2	2.0
Chad	0.1	2.7
Congo		13.3
Dem. Rep. of the Congo		25.1
Côte d'Ivoire	0.6	29.1
Equatorial Guinea		16.6
Ethiopia		29.8
Gabon	2.9	35.4
Gambia	0.5	1.2
Ghana		7.3
Guinea		44.2
Kenya	0.5	58.3
Liberia		15.9
Madagascar	1.7	49.9
Mali	0.0	13.3
Mauritania		2.4
Mauritius	6.3	26.8
Mozambique	0.1	14.7
Namibia		2.4
Niger	0.1	20.4
Nigeria	6.7	94.1
Rwanda	2.9	4.7
Senegal	0.2	2.4
Seychelles		4.2
Sierra Leone	1.1	18.4
South Africa		112.3
Togo	0.2	4.8
Uganda		5.0
Tanzania	1.7	62.0
Zambia	3.2	160.3
Zimbabwe	2.5	41.6

Source: UNCTAD, 2006

In terms of FDI, China's commercial activities on the continent are qualitatively different from those sourced from North America or the EU. Historically, FDI from the developed world has been driven by privately owned enterprises focused on obtaining maximum profit over a short period of time and with the least amount of risk. Chinese FDI, however, is directed by partially or wholly state-owned enterprises, strategically placed, with the objective of forming long-lasting relationships with the communities and governments with which they cooperate, assisted in part by their accessibility to very low cost capital. In addition, a large number of these investments reportedly are linked either implicitly or explicitly to strategic objectives, principally securing reserves of mineral resources for Chinese industries back home. (See Table 2.)

This is not to say that Chinese FDI has produced tangible benefits only for Chinese manufacturing and for China's economy at large. Chinese investment not only enjoys the support of African governments – particularly in the agriculture sector, as a way of securing the food needs of their populations – but also is seen as a means of helping Africa get around restrictions imposed by the World Trade Organization (WTO). African governments have repeatedly called for the lifting of market restrictions by the North on their agricultural and textile products where they have a competitive edge. In multilateral trade negotiations, however, African calls for the revision of agricultural subsidies and tariff escalation<sup>18</sup> have fallen on deaf ears. For its part, however, China has earned credit by promoting African exports of both yarn and textiles – in a number of countries, such as Lesotho, it

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<sup>18</sup> Tariff escalation occurs when low tariffs are charged on raw materials imported from the South, higher tariffs are charged on imports of partially processed goods, and much higher tariffs are charged on fully processed products.

imports yarn to be woven in Chinese industries, while in other countries, such as South Africa, it imports sizable quantities of clothing with the aim of shipping it back to China before re-exporting it to US and EU markets.

Assisted by low labour costs and political connections, as well as assistance from the Chinese government, Chinese companies have been able to outbid Western firms for infrastructure project contracts across the continent, particularly in east and southern Africa. Also aiding the 900 or so Chinese firms operating in Africa is a contracted Chinese labour force numbering approximately 74,000 in 2006, up from 24,000 in 1996.<sup>19</sup> An example is the investment by Qingdao Municipal Government in Zambia's textile industry, where the newly created Mulungushi Industrial Park in Kabwe aims to take advantage of the AGOA provisions that allow Zambia to export textiles to the United States. Also in Zambia, a Chinese firm has formed a joint venture with a local company to buy a cotton ginnery in the country's eastern province, reflecting China's fixation on its vertical integration strategy.

In neighbouring Mozambique, Chinese companies have invested in building a large shopping centre and industrial warehousing in the capital, Maputo, in a soya processing plant reportedly worth US\$10 million, and an estimated US\$12 million in the production of prawns (Kaplinsky, McCormick, and Morris,

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<sup>19</sup> See Chen (2005); and Reilly and Gill (2007). China has more than 4 million labourers working abroad at any time, mostly engaged in construction projects. South Africa is home to more than 100,000 Chinese workers, and sizable Chinese communities can be found in Nigeria, Algeria, Zimbabwe, Sudan, and elsewhere. The majority of long-term Chinese residents living in Africa are small merchants involved in the retail sector. The continent has also witnessed an influx of Chinese tourists over the past few years; in 2005, Africa welcomed 110,000 Chinese tourists, a 100 percent increase over the previous year.

2006). Some of the most significant Chinese investments in the country have centred on infrastructure projects – already, approximately two-thirds of the country’s 600 km of roads have been rehabilitated by Chinese multinationals. On the border between Mozambique and Tanzania, Chinese firms have won a tender to rehabilitate a large bridge deemed vital for cross-border trade between the two countries. They have also won tenders to repair water treatment plans in Beira and Quelimane reportedly worth US\$15 million and in Maputo worth more than US\$30 million.

In January 2008, China signed an agreement to provide Gabon with more than US\$83 million to help fund a hydroelectric dam scheme; the loan bears 3 percent interest over a 20-year term, including a seven-year grace period.<sup>20</sup> In Sudan, in early 2008, in a deal reportedly worth US\$396 million, two Chinese companies won tenders to increase the height of the Roseires Dam, which supplies Sudan with more than 70 percent of its hydro-power. The dam is projected to increase electricity power generation by 50 percent.<sup>21</sup>

In Zimbabwe, Beijing’s economic support remains strong, and Chinese firms have secured contracts to develop the country’s agricultural, mineral, and hydroelectric resources. China already supplies Zimbabwe with expertise, technical assistance, and agricultural equipment, and in September 2006, it announced a US\$200 million capital injection into Zimbabwe’s farming, manufacturing, and mining sectors. Tobacco is among Zimbabwe’s top exports, and China, as the largest importer, has made large investments in tobacco production and processing. Chinese

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<sup>20</sup> See <http://africa.reuters.com/business/news/usnBAN732858.html>.

<sup>21</sup> See <http://chinadigitaltimes.net/2008/04/china-sudan-dam>.

investors and a local company have also joint-ventured a large cement factory in Gweru to meet national demand.<sup>22</sup>

Meanwhile, state-owned China International Water and Electric has been contracted to farm 250,000 acres in the southern part of Zimbabwe. Chinese and Zimbabwean developers believe the project will yield 2.1 million tons of maize every year and require the building of a massive irrigation system.<sup>23</sup> It remains unclear how Zimbabwe will pay for the project, although unconfirmed reports claim payment will be made in tobacco.<sup>24</sup> Through lines of credit at Chinese banks, China also supports Zimbabwe's small and medium-sized enterprises (SMEs). With this assistance, Zimbabwe's Ministry of Small and Medium Enterprises set aside US\$10 million in 2005 for disbursement to SMEs in such industries as textiles, soap, tile, and fiberglass manufacturing. Large SOEs, such as the Zimbabwe Iron and Steel Company, which is presently being refurbished, also receive Chinese assistance; in January 2008, Zimbabwe awarded a Chinese company a US\$9.5 million contract to repair a blast furnace (Kadzere, 2008).

The growth of Chinese FDI in construction and infrastructure projects reflects China's commitment to a deeper imprint on the continent, with the strategic aim of achieving parity with the West, particularly the United States. China's political agenda is also served by the building of a coalition of partners that views its role in Africa as contributing to South-South cooperation and to harnessing a mutually beneficial relationship with the

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<sup>22</sup> "Zimbabwe eager to strengthen economic ties with China," *People's Daily online*. September 28, 2006. Available at [http://english.peopledaily.com.cn/200609/28/eng20060928\\_307027.html](http://english.peopledaily.com.cn/200609/28/eng20060928_307027.html).

<sup>23</sup> "China and Zimbabwe sign technological cooperation agreement," *People's Daily*. July 15, 2003.

<sup>24</sup> "Chinese demand coal guarantees," *Financial Gazette* (Harare). May 20, 2005.

continent. To a large extent, the Chinese have been successful in meeting these goals, due mainly to their ability to build relatively good infrastructural projects at prices that are reportedly 25 to 50 percent lower than those of other foreign investors (Corkin and Burke, n.d.).

According to anecdotal research, Chinese firms have outbid and outperformed their Western counterparts in Africa due to a combination of factors. These include: their access to cheaper capital than other foreign or even local investors; less pressure from the Chinese government to sanction SOEs to adopt good environmental and labour standards; the use of Chinese materials; the almost exclusive use of Chinese labourers, many of whom live in isolated communities and are often less expensive than African workers; and the Chinese government's ready provision of subsidies for investing overseas.

In addition to the dozens of mega-infrastructure projects and development initiatives by Chinese SOEs across the continent, even in countries with less than abundant mineral resources. In Guinea-Bissau, China paid for the tiles and marble of the parliamentary building of this impoverished West African state. In East Africa, China financially supported and assisted with the construction of new foreign ministry buildings and stadiums in Djibouti and Uganda. In Kenya, China Development Bank announced in December 2007 that it was providing US\$20 million in development credit to build low-cost housing and improve health care and education in the country.<sup>25</sup>

These mega-projects point to a deep Chinese commitment to expanded foreign policy agenda on the continent. Chinese

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<sup>25</sup> See <http://Africa.reuters.com/wire/news/usnL06885098.html>.

analysts argue that these projects enable China to exert more pressure on African states to curtail Taiwan's attempts to establish a sizable presence on the continent. In addition, African analysts point out that China understands the challenges of governing in areas where the bulk of the population lives in abject poverty. Thus, tangible examples of modernization, such as Chinese-built stadiums, highways, or foreign ministry buildings, resonate well with African leaders who seek to portray their legitimacy to their populations, who are often dissatisfied and frustrated with the slow pace of reform and economic development and have little patience for the rhetorical proclamations of prosperity in the near future.

Technical development assistance to Africa, though still less than official development assistance from the West, is slowly becoming a bargaining chip China can use to further its economic engagement with the continent. Chinese engineering, medical, and agricultural teams have provided technical support to African states since the 1960s; this HIV/AIDS support accelerated from the late 1980s, and covers the spectrum from building schools and clinics to treating patients. China has sent more than 15,000 doctors to work in over four dozen countries, treating more than 180 million cases of HIV/AIDS.<sup>26</sup>

As a developing country itself, with limited resources to invest abroad, China had preferred technical support to Africa over financial aid. It felt better able to address Africa's ills through the "soft power" flexing of its muscles via developmental assistance programs. Over the past decade, China has actively encouraged African policy makers and academics to

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<sup>26</sup> See [http://www.chinadaily.com.cn/china/2007-02/01/content\\_798163.htm](http://www.chinadaily.com.cn/china/2007-02/01/content_798163.htm); and <http://www.fmprc.gov.cn/zflt/eng/yhjl/t404109.htm>.

study in China to learn from the Chinese model of economic liberalization and reform and from its communist political ideology and social cohesiveness. China has projected its brand of economic development and its reform model as indications of the “soft power” it hopes to portray as it seeks new economic partners to help it achieve the scale of industrialization and modernization it wishes to realize in the coming decades.

It is estimated that, from the mid-1950s, when China started providing official development assistance and debt relief to Africa, until May 2006, the country contributed a total of US\$5.7 billion for more than 800 aid projects (He, 2006). In 2006 alone, the value of Chinese aid to Africa is thought to have reached US\$2.3 billion. In November 2006, at the third summit of the Forum on China-Africa Co-operation, China pledged to double aid to Africa to about US\$10 billion by 2009, to cancel all debt stemming from Chinese interest-free government loans that matured by the end of 2005 (about US\$1.4 billion) for 31 of the most highly indebted and least developed states (LDSs) on the continent that have diplomatic relations with Beijing, and to provide US\$3 billion in preferential loans and US\$2 billion in preferential buyers’ credits to African states.

In Liberia and Mozambique, China signed memos cancelling all debt owing to it by these impoverished states – an amount that jointly totalled more than US\$30 billion. In Liberia’s case, Beijing introduced a tax exemption policy for all imports from Monrovia. In June 2007, China gave Guinea-Bissau US\$4 million as part of a protocol for financial support (Horta, n.d.), and later US\$400,000 for Guinean refugees residing in the north of the country. In January 2008, the Chinese government announced a donation of some US\$500,000 in humanitarian aid to Somalia

through the World Health Organization.<sup>27</sup> In both Liberia and the Central African Republic, China provided direct funding for training programs to strengthen the capacity of the civil service in those countries. In areas of small-scale agricultural production and hydro-irrigation, China has supported training programs involving thousands of farmers across the continent. In Djibouti and Ethiopia, in the Horn of Africa, Beijing has supplied modern telecommunication equipment, along with maintenance training programs. During the November 2007 Beijing Summit, China's leadership announced the dispatch of more than 300 volunteers to Africa and a grand pledge to build more than 100 schools across the continent by 2009.

In other cases across the continent, Chinese development assistance has taken different forms. As part of its 2006 economic assistance package, China eliminated tariffs on 190 commodities from the continent's 25 LDSs, increasing the number to 440 a year later (Broadman, 2008). In 2006, Chinese prime minister Wen Jiabao announced a doubling to 4,000 in the number of scholarships for African students to study in China; that year, 3,737 African students were studying at Chinese higher learning institutes and universities, up from 2,757 the previous year.<sup>28</sup> According to its Ministry of Education, China has awarded more than 17,000 scholarships to students from 50 African states since the 1950s.

## 5. Challenges of Sino-African Relations

It has not, however, been all smooth sailing for Sino-African relations. China's involvement in Africa has elicited strong crit-

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<sup>27</sup> See [http://www.chinadaily.com.cn/china/2008-01/22/content\\_6413076.htm](http://www.chinadaily.com.cn/china/2008-01/22/content_6413076.htm).

<sup>28</sup> See <http://news.xinhuanet.com/english/2007-12/17/content7264552.htm>.

icism, not only from the West, but from Africa as well. Indeed, many in the West, and increasingly in Africa, have started questioning the motives behind China's extraordinary level of interest in the world's poorest region. In the West, Beijing has come under fire in recent years for its economic engagement with perceived repressive regimes in countries such as Sudan and Zimbabwe.

China's military cooperation, particularly where African dictators are involved, has been under scrutiny over the past decade. China has traditionally focused its military cooperation on providing basic equipment, arms sales, and training programs – indeed, China was the continent's third-largest arms supplier, after Russia and Germany, from 2001 to 2004, supplying nearly 7 percent of the continent's military purchases (Amosu, 2007). China reportedly has sold aging fighter jets to Zimbabwe's autocratic Robert Mugabe. Indeed, China has become one of the most important investors in Zimbabwe, following the exodus of Western multinationals in the mid-1990s when the government seized White-owned farms and distributed them to landless peasants and cronies of the regime. Chinese firms have bought a 70 percent stake in the country's only electricity generation facilities, at Hwange and Kariba,<sup>29</sup> as well as stakes in the national railway. On the streets of Harare, Chinese investors and shopkeepers are prominently visible, competing with local vendors.

In the Horn of Africa, China stands accused of prolonging the violence and civil conflict that took place between Ethiopia and Eritrea during 1998 and 2000 when it sold US\$1 billion's worth of arms to both sides of the conflict.<sup>30</sup> China has been

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<sup>29</sup> See <http://allafrica.com/stories/200506200960.html>.

<sup>30</sup> See [http://www.jamestown.org/images/pdf/cb\\_005\\_021.pdf](http://www.jamestown.org/images/pdf/cb_005_021.pdf); and Eisenman and Kurlantzik (2006).

severely criticized for not pressuring the administration of Sudanese President Omar al-Bashir to put an end to the conflict in Darfur, which has claimed the lives of more than 300,000 Sudanese, with two million others driven from their homes and forced into refugee camps, all at the hands of government soldiers and allied Arab militias – the Janjaweed, in particular. Moreover, in 1997, the United States imposed economic sanctions against al-Bashir’s government, accusing it of sponsoring state terrorism and acting as a safe haven for Islamist terrorists, including Osama bin Laden. Yet China has threatened to veto any UN Security Council vote that proposed the use of military force or sanctions against Khartoum, relenting only slightly in 2006, following a backlash from the West and from African leaders who began to question China’s sincerity and commitment to the continent’s economic development and good governance initiatives. Meanwhile, China has become Sudan’s largest arms supplier, providing arms, ammunition, helicopters, and anti-personnel mines that have been used both in Darfur and in the south of the country, where a 27-year conflict between Khartoum and the largely animist and Christian regions ended in 2005 (see Goodman, 2004; Luard, 2006).

Military cooperation and perceived diplomatic support for dictatorial regimes are not the only two spheres in which China has been criticized as far as its policy towards the continent is concerned. Controversy and public protests have been sparked in both Zambia and Namibia over the alleged poor working conditions and low pay of Chinese firms. Chinese companies have also been accused of selling very cheap and inferior consumer goods to the great disadvantage of local entrepreneurs. In Lesotho, for example, local street vendors attacked Chinese-owned businesses in November 2007, throwing rocks and chanting anti-Chinese slogans, and accusing Chinese investors of

colluding with the government to force them out of the city centre in the country's capital, Maseru.

In December 2006, South African president Thabo Mbeki issued a stern warning to fellow African leaders not to allow China to become a neo-colonial power and pointed out that relations with Beijing should be built on common interests and lead to mutual benefits for both sides. This came in the wake of a national debate in South Africa on the need to protect the South African textile industry, which has been hit hard by the dumping of Chinese products, forcing the closure of many local textile and garment factories and businesses and the shedding of thousands of jobs (He, 2007). That same year, the two countries signed a Memorandum of Understanding aimed at restricting Chinese textile exports to South Africa.

Critics of Chinese economic relations with Africa point to the potential long-term negative impact of China's growing interest in the continent. They argue that Beijing's demand for oil and other raw materials inevitably helps to perpetuate Africa's reliance on such exports and impedes the growth of more labour-intensive industries such as agro-business and manufacturing. Critics also argue that Chinese development assistance is intimately tied to the expansion of Chinese multinational companies across the continent and to credits from the Chinese Export-Import Bank, which threatens to perpetuate the continent's vicious cycle of debt for decades to come.

Chinese leaders defend their policies in Africa and try to counter arguments that China's involvement with the continent has led to more harm than good. They repeatedly point out that Western policies and neoliberal economic formulas have not succeeded in alleviating Africa's poor economic growth, poverty,

and inequality and that the Chinese model of development, sensitive to Africa's domestic needs, should be given a chance to work. With regard to arms sales to despots and autocratic regimes, China argues that these sales are helping African governments stem the various rebellions that wrack these fragile states, producing the stability that is important not only for China but also for other states whose investors and citizens work in Africa.

In a bid to improve its standing as a responsible economic partner, China recently initiated cooperation with Western institutions, and the World Bank on aid projects on the continent. In December 2007, for instance, Chinese diplomats met with Western donors in Kinshasa to coordinate. In the lead up to the 2008 Summer Olympic Games, China began to apply pressure on the government in Khartoum to bring about reduced violence in the Darfur region in Sudan, although it continued to oppose sanctions by the UN Security Council. China played a vital role in convincing Khartoum to allow a hybrid UN-African Union peacekeeping force to be deployed in Darfur, and it sent some 275 military engineers to the region. In southern Africa, in April 2008, China recalled one of its merchant ships that had been met by the refusal of South African dock workers to unload its military cargo, which had been destined for Zimbabwe.

Nevertheless, it is important to reiterate two key points with regard to China's engagement with Africa. First, China's activity is part of its continuing emergence as a truly global player, and as such is no different from what major powers traditionally have done. Second, in its global and regional diplomacy, China, again like all great powers, is pursuing multiple objectives, with inevitable tension between values and interests at both the national and global level. China can no more be expected to subordinate its commercial and strategic interests than Western powers have done.

## 6. Conclusion

Chinese and African government officials often point out that Chinese foreign and economic relations with the continent have been built on mutual respect dating back to the time of China's support for the African independence movement in the 1960s. Its history as a country once subjugated and invaded by the European powers has allowed China to promote itself as sensitive to African needs without carrying political baggage in terms of adherence to good governance and human rights or to prudent macroeconomic stabilization programs – policies that the so-called “Washington Consensus” has been championing in the developing world since the end of the Cold War.

Therefore, it is no surprise that critics and champions of China's Africa policy have been waging a battle against each other in academic and policy making arenas on how best to evaluate Chinese economic expansion in Africa. Both camps agree, however, on one critical point: it is incumbent on African leaders and policy makers to ensure that Chinese trade and investment promote reciprocal and tangible benefits for the African population as well as economic stability and good governance.

Given China's momentous economic growth, its burgeoning middle class, and modernizing industries, African states have the opportunity to use their low-cost labour and abundant natural resources to export more non-traditional goods – such as processed commodities, food, light manufactured products, agro-processed items, and household consumer goods – competitively to Chinese consumers. To this end, a few large business enterprises from other African states have joined South African flagship corporations in showcasing Africa's entrepreneurship and ingenuity in the world's most populous state.

The ascendancy of China's engagement with Africa seems all but unstoppable. Whether it will prove a curse or a blessing for the continent is unclear, but at this point no region in the world is deriving as much benefit as Africa from China's economic boom. African leaders view China's entry as a way to pull their continent along the path of globalization, which they have missed thus far. African states must seize the enormous opportunity that China's increased engagement with the continent presents and that their populations expect will help eradicate poverty and disease on the continent in the coming decades. Africa needs to manage and sell its mineral resources to China at competitive prices and to invest the proceeds in its own development – an avenue that offers bright prospects for the continent's ability to end its reliance on Western aid. High commodity prices, fuelled by China's prodigious appetite, offer African states an opportunity to expand their manufacturing and services sectors, enabling them to generate their own sustainable economic growth over the medium and long term. At the end of the day, African leaders have a responsibility to ensure that all their people, whether in urban areas or remote villages, benefit from China's expanding trade with and economic assistance to the continent, while keeping in mind the history of Africa's engagement with external powers.

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