



Initiative for Public Policy Analysis

# **China in Africa: An Evaluation of Chinese Investment**

**By**

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## **Executive Summary**

China increased presence in Africa has been of interest to many. China's economic interest and investments in Africa have particularly been under scrutiny. While some are optimistic, some others are concern as to what is China's real interest. Many have argued that the engagement is apparently meant to repeat what western countries did decades ago when they exploited African resources. This has led many to question whether China is a new colonizer, an exploiter or a partner in development.

This paper shows that China involvement with Africa is not new. The first phase of Chinese engagement with Africa began during the Bandung Conference of Non-Aligned Nation in 1955. There was a substantial improvement in the relationship towards the end of 1950s as a result of its worsening ties with the Soviet Union. China then was looking for allies in Africa to establish a counter balance weight to Soviet hegemony and western imperialism. The relationship with Africa plummeted in the 1980s when China shifted its focus to domestic economy development.

Contrary to what many might think, China did not foist itself on African government like the Western colonialists who took up the administrative governance and resources of each country they colonized. Investment data shows a clear trend that this re-emergence is largely beneficial. Generally, a significant investment has come from Chinese state-owned enterprises but investment from the private sector is growing in an unprecedented manner.

More importantly, Chinese investment in Africa is not a threat to African countries and they are full of gains. First of all, Chinese government imposes no political conditions on African governments before signing contracts either for exploration or other economic activities. Secondly, Chinese firms are willing to invest where western companies are unwilling. Western investors and aid agencies are unwilling to invest in areas such as: physical infrastructure, industry and agriculture.

Trade data shows Africa's trade with China is highly concentrated in only a few countries. About 60 percent of Chinese exports are destined for just six countries. Beyond this, there is imbalance in the trade as the distribution of the trade produces net deficit. However, the balance of trade deficit is not due to trade in oil as only 9% of Chinese oil is imported from Africa, while the United States 32 per cent and Europe 33 percent. However, African leaders considered a closer economic and political relation with China as a guarantee for future economic prosperity.

China's economic rise is shaping the international order by introducing a new development paradigm. The economic growth of China and other Asian Tigers demonstrates that economic growth could be brought about by any types of government, democratic or non-democratic. However, Africa must strive more to leverage Chinese engagement for maximum benefit. The stream of aid and investment gives African countries a unique opportunity to translate these external supports into overall gains. To take full advantage of this relationship, African government must play their political cards well, not only as separate countries but also through the collective mechanism of the African Union.

## **Introduction**

China's re-emergence in Africa has been of interest to many. Its re-emergence in Africa is seen as a combination of optimism, concern and puzzlement. There is intense debate generated by this re-emergence which centred on two core issues: what motivates the present engagement and what are its implications for Africa's development? However, many have argued that the engagement is apparently meant to repeat what western countries did decades ago when they exploited African resources and governed same. This has led many to question whether China is a new colonizer, an exploiter or a partner in development. While there is no one-to-one way to disparage this, the fact remains that China sees the African continent as a new investment frontier and political ally. China is keen on exploring the opportunities the continent presents and prepared to continue giving development assistance to African countries.

China's recent economic interests and investments in Africa have put its bilateral relations with Africa under scrutiny. As a fact, the impacts of Chinese economic activities are being felt in many parts of Africa. The areas of impacts include Foreign Direct Investment (FDI), funding for infrastructural development and increasing the prices of African commodity products and introduction of low-price electronic and telecom hardware products.

This paper presents Chinese re-emergence showing the nature of the investment viz-a-viz that of the Western world. In the opening section, China's emergence and re-emergence in Africa are presented in historical terms. The paper further look at the investment patterns, the sector(s), the dichotomy between Chinese government and private sector led investments as well as implications for economic development in Africa. In addition, the paper also examines the trade between African countries and China, the balance of trade, trade deficit, likely African countries to benefit and likely African countries to lose and why. We would show that China's re-emergence is of immense benefits to African countries. Lastly, this paper will look at the lessons of development regarding China's re-emergence and the public policy implications for African countries particularly in terms of economic development and poverty reduction.

## **China in Africa: Historical Evolvement**

The first phase of Chinese engagement with Africa began during the Bandung Conference of Non-Aligned Nation in 1955.<sup>2</sup> There was a substantial improvement in the relationship towards the end of 1950s as a result of its worsening ties with the Soviet Union. China then was looking for allies in Africa to establish a counter balance weight to Soviet hegemony and western imperialism.<sup>3</sup> Because of its own history of colonization, China saw itself as the leader of Third

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<sup>2</sup> Piet Konings, "China and Africa: Building a Strategic Partnership" *Journal of Developing Societies*, Vol 23: 3 ( 2007): 343

<sup>3</sup> Piet Konings, 344

World countries. African countries were therefore seen as natural allies<sup>4</sup>. In addition, China recognized the importance of Africa countries' in its diplomatic struggle with Taiwan. It realized that independent African countries were a key voting bloc within the United Nations (UN) and could help resolve to its advantage the diplomatic feud with Taiwan.<sup>5</sup> Apart from having African countries on its side in the diplomatic squabble with Taiwan and gaining a seat at the United Nations Security Council, China had seen African countries as strategic partners since the 1950s. It funded many construction projects and supported independence struggles between the 1960s and 1970s. It promoted bilateral relations among African countries.<sup>6</sup> During the period, China provided aid to thirty African countries<sup>7</sup>.

The relationship with Africa plummeted in the 1980s when China shifted its focus to domestic economy development. The period marked a gradual departure from socialist economic development to reform in favour of capitalist economy. The reform necessitated looking around for Foreign Direct Investment (FDI) from Western countries. However, the relationship with the West was cut-short when China was hit by economic sanctions and political isolation over the crackdown of students' protest in Tiananmen Square in 1989.<sup>8</sup> China must have learnt a useful lesson during the isolation and sanctions imposed by the western nations that it would be counter-productive to trade and rely on western countries for Foreign Direct Investment. This prompted China once again to widen its contacts in the developing countries such as Africa.

### **China re-emergence in Africa**

The 1990s marked an important phase in China's re-emergence in Africa. The period was characterized by unprecedented involvement in the continent. The relationship was broadened in various areas to include: trade, investment, development assistance, technology transfer and training. These areas witnessed increased activities and investments from both Chinese private sector and state-owned enterprises. It was also marked by advancement of development assistance to several African countries. One of the primary aims of this development assistance is geared toward focussing more on technical assistance and infrastructure development.

Contrary to what many might think, China did not foist itself on African government like the Western colonialists who took up the administrative governance and resources of each country they colonized. However, African leaders considered a closer economic and political relation with China as a guarantee for future economic prosperity considering China's accomplishments within a short period of time. Between 1981 and 2005, China reduced the number of people

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<sup>4</sup> Liang Zheng, "Neo-colonialism, Ideology or Just Business: China's Perception of Africa" *Global Media and Communication*, Vol.6: 3 (2010): 271

<sup>5</sup> Piet Konings, 347

<sup>6</sup> Liang Zheng, 272

<sup>7</sup> Deborah Brautigam, "The Dragon's Gift: The Real Story of China in Africa (Oxford: Oxford University Press, 2009), 31

<sup>8</sup> Liang Zheng, 272

living in poverty from 84 percent to 15.9 percent.<sup>9</sup> Also many African nations did not only see China as an economic partner but also a country which could offer an alternative development model. Moreover in terms of access to loans and funding for projects, African countries see China as an alternative to institutions such as the International Monetary Fund and World Bank.<sup>10</sup> They also want to rely less on Western foreign investment and development assistance. Generally, China makes use of its aid and investment to support three core priorities: strategic diplomacy, ideological values and commercial benefit. Chinese engagement with Africa nations reflects these priorities.

First, as already noted, at diplomatic level China courts Africa to secure support for One China Policy. Secondly, at ideological level, China is of the view that it once occupied a position similar to Africa's current one. With low interest loans from Japan in 1978, (China and Japan were under a long-term trade agreement), to finance export of \$10 billion in industrial technology and materials to China in exchange for Chinese oil and coal, China began the commencement of its economic development.<sup>11</sup> China has employed similar agreements to forge its economic ties with Africa and for the latter's development. China sees its foreign aid and investment as working to promote Chinese economic interests as well as Africa's development.<sup>12</sup> Having achieved a sustained economic growth, China sees that its development model could be a template for Africa's own economic emergence.

Almost half of the Chinese assistance is classified as official aid while the rest comprises concessionary loans and debt reliefs. In 1996, China provided \$410 million in Overseas Development Assistance. This has swelled to more than \$3 billion in 2007.<sup>13</sup> The volume of Chinese aid including its concessional loans to Africa has grown from a total of \$800 million in 2005 to a commitment of \$10 billion between 2009 and 2012.<sup>14</sup> However a secret database of Chinese aid to Africa obtained by the Washington-based Centre for Global Development (CGD) put the aid figure at \$75 billion in 50 African countries from the years 2000-2011.<sup>15</sup> In terms of infrastructure project, Chinese financing rose from \$1 billion in 2003 to \$7 billion in 2006.

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<sup>9</sup> "Poverty headcount ratio at \$1.25 a day (PPP) (%of population),"World Bank, <http://data.worldbank.org/indicator/SI.POV.DDAY/countries/CN?display=gragh> (accessed November 10, 2013)

<sup>10</sup> Liang Zheng, 273

<sup>11</sup> Deborah Brautigam, *The Dragon Gift*, 46

<sup>12</sup> David Haroz, "China in Africa: Symbiosis or Exploitation, Fletcher Forum of World Affairs" Vol.35: 2( November 2011): 69

<sup>13</sup> Because of transparency issue, it is difficult to actually obtain accurate figure for Chinese aid from government sources. I used the aid estimate given by Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009)

<sup>14</sup> Carnegie Endowment for International Peace, China's Growing Role in Africa: Myths and Facts, February 9, 2012: <http://carnegieendowment.org/ieb/2012/02/09/china-s-growing-role-in-africa-myths-and-facts/9j5q> (accessed November 13, 2013)

<sup>15</sup> Paul Eckert, New database focuses on China's secretive aid to Africa, Reuters, April 29, 2013: <http://www.reuters.com/article/2013/04/30/us-china-africa-aid-idUSBRE93T01Z20130430> (accessed on November 15, 2013)

China's aid is characterized by equality, and mutual respect for the sovereignty of the recipient countries. The loans are not conditional, interest free and repayment can be easily rescheduled. The loans are meant for projects that would generate income and make recipient countries self-reliant and not one that would make them depend on China.<sup>16</sup> In addition, China's aid and loan is attractive to African leaders for four reasons: Firstly it is not characterized by conditionalities on good governance, fiscal discipline, and other conditions usually attached to western aid. Secondly, many African leaders and political elites are threatened by internal and external demand for political liberalization and democratization which are also parts of western donors' conditions.<sup>17</sup> Thirdly, rather than using a country's debt to control its economy, China quickly grants debt cancellation as it did in 2000 when it granted debt cancellation totalling \$1.3 billion to 31 African countries.<sup>18</sup> Lastly, Chinese export credit has provided African governments with alternative sources of finance which have helped them to diversify trading partners for countries that have tended to remain glued with old colonial trading patterns.<sup>19</sup>

### **Key drivers of the engagement**

China's engagement with Africa is largely driven by the following key considerations: Firstly, China needs resources notably crude oil to power its modern, growing economy and to support its expanding industrial base. The rapid growth of its manufacturing sector has also created increased domestic demand for natural resources including oil and gas, precious metals, aluminium, copper and iron ore.<sup>20</sup> These are natural resources that Africa has in abundance. Secondly, Africa's population is seen as a potential market for Chinese products. While Chinese growth relies heavily on manufacturing sector, it needs a new and dependable consumer market to sustain its steep developmental trajectory.<sup>21</sup> Thirdly, African manufacturers and other industries had enjoyed many years of monopoly and protection. African countries economic reform liberalized the protected market and opened up the door to increased economic activities from other players elsewhere. Many firms which were hitherto been shut out of the market are now interested in the new markets, including Chinese firms.

Fourthly, the privatization of publicly owned enterprises in China are necessitated with the need to scout for new investment opportunities outside China to complete their transition from the state-owned enterprises. To do this, the privatized enterprises needed to step up entry into international market such as Africa. Supported by China ExIm Bank with annual disbursement of \$4 billion in 2000 to \$15 billion in 2005, Chinese firms are ready to seek opportunities in other countries.<sup>22</sup> Lastly by establishing its presence in Africa, China wants to project the image of a global super-power. Moving out of its region, China wants to demonstrate that it could also

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<sup>16</sup> Piet Konings, 346

<sup>17</sup> Piet Konings, 349-350

<sup>18</sup> Piet Konings, 351

<sup>19</sup> Todd Moss and Sarah Rose, "China ExIm Bank and Africa: New Lending, New Challenges" Centre for Global Development, CGD Notes, November 2006:2

<sup>20</sup> Piet Konings, 350

<sup>21</sup> David Haroz, 72

<sup>22</sup> Todd Moss and Sarah Rose, 1

compete on the world stage with the United States and countries in Europe.<sup>23</sup> Of course, this reason seems to have gained currency given the investment portfolio of Chinese state-owned and private firms across Africa and elsewhere in the world. By implication the US has been forced to recognize China's immense economic power and political influence in the world.

### **Investment patterns in Africa**

China's investment patterns in Africa in recent time have been a grave concern to many including Africans as well as non-Africans. But it seems Chinese investment in Africa has been reported from a sentimental perspective. When two countries trade, the gains that would accrue to each of them would largely be dependent on the structure of output for each of the country and their comparative advantages. In addition the transaction costs in each country would determine if its products would be competitive or not. The case of China and African countries is of no exception. Both China's state-owned enterprises and private sector invest in Africa. However, the philosophy guiding them is quite different. While state-owned enterprises are driven by state's interests and largely invest heavily in the extractive sector, Chinese private companies are driven by market forces and are investing beyond the extractive sector. In addition, the private sector is driven by profit and the goal of creating lasting economic opportunities for host countries.<sup>24</sup> Nevertheless, both of them tend to concentrate on different sectors and country.

Generally, a significant investment has come from Chinese state-owned enterprises but investment from the private sector is growing in an unprecedented manner.<sup>25</sup> The scale of investment in each sector and country is not the same. This indicates that China's investment in Africa is growing and increasingly diverse and concentration is not necessarily in the extraction sector. Both China's state-owned enterprises and private sector account for \$14.7 billion Foreign Direct Investment as of 2012, a growth of more than 60 percent from 2009. Overall, China's investment in Africa has exceeded \$40 billion<sup>26</sup> in Foreign Direct Investment (FDI), through various kinds of investment.

Nevertheless, a breakdown of Chinese investment pattern shows that each region of the world offers some attractiveness to China. Contrary to the general belief, Asia is China's backyard and attracts the biggest share of its investment and not Africa.<sup>27</sup> The widely held opinion regarding

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<sup>23</sup> David Haroz, 72

<sup>24</sup> Xiaofang Shen, "How the Private Sector is Changing Chinese Investment in Africa" Vale Columbia Centre on Sustainable International Investment, No. 93 ( April 2013): 1

<sup>25</sup> Jing Gu, "China's Private Enterprises in Africa and the Implications for African Development, "European Journal of Development Research, Vol. 21:4(2009): 573

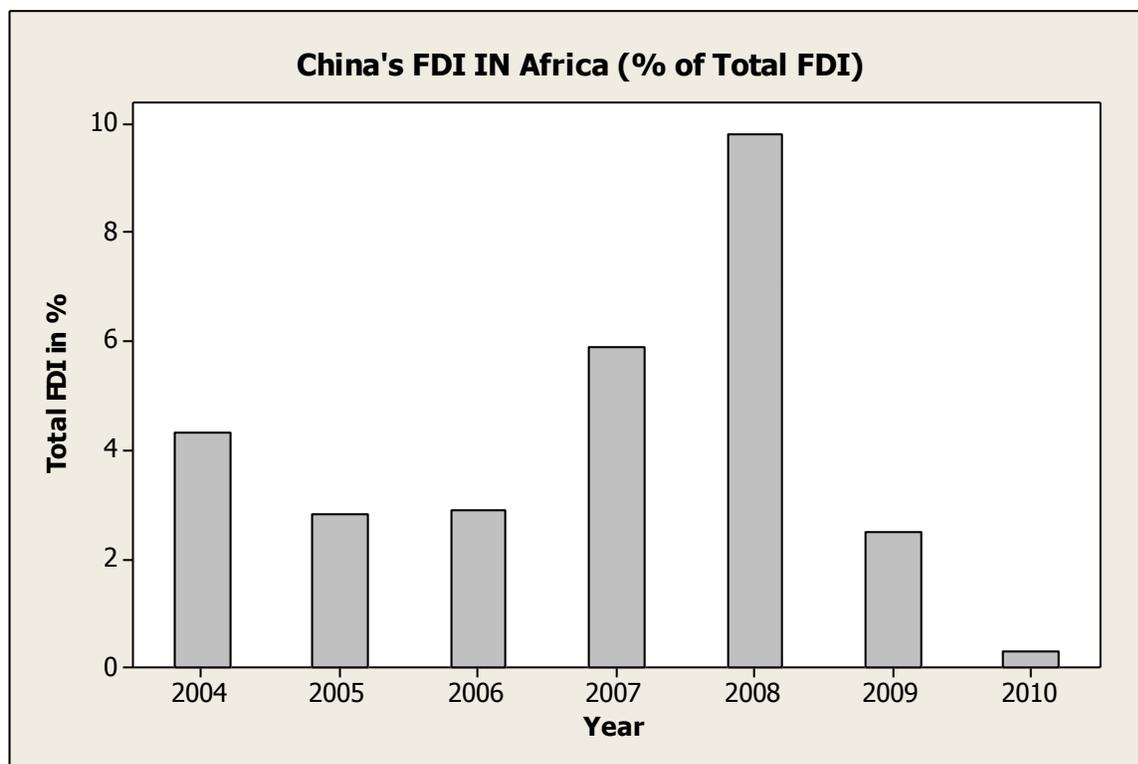
<sup>26</sup> Ambassador David Shinn, China's Investments in Africa, ChinaUSFocus, November 1, 2012: <http://www.chinausfocus.com/finance-economy/chinas-investments-in-africa/> (accessed November 15,2013)

<sup>27</sup> Katarina Kobylinski, "Chinese Investment in Africa: Checking the Facts and Figures, Association for International Affairs, Briefing Paper, (July 2012):3

[http://www.academia.edu/1798405/Chinese\\_Investment\\_in\\_Africa\\_Checking\\_the\\_Facts\\_and\\_Figures](http://www.academia.edu/1798405/Chinese_Investment_in_Africa_Checking_the_Facts_and_Figures) (accessed November 10, 2013)

Chinese aggressiveness investment in Africa falls like a pack of card in the face of available data.

**Fig 1: Total share of Africa in China's global FDI**



Source: UNCTAD Statistics

As shown in Fig 1, at its peak investment Africa is merely 10 percent. Of the global total percentage of the China's FDI, Africa accounted for 4.3 percent in 2004, peaked at 9.8 in 2008 and declined to 0.3 in 2010.<sup>28</sup> By implication, all major Chinese enterprises witnessed a huge investment between 2005 and 2008, but in 2009 and 2010 their profile has shrunk.

The possible reasons for the decline could be attributable to the general perceptions about doing business in Africa. Africa is still regarded as a difficult place to do business. This has much to do with uncertainties in regulations, layers of regulatory control, multiple types of taxation and political instability. Also not all the investments by Chinese firms in Africa are actually profitable and successful. The initial hype about investing in Africa by the Chinese firm has evaporated. It is on record that one of the China's main global failures occurred in Africa. For example, the investment portfolio of \$8 billion by China Civil Engineering Construction Corporation (CCECC) for the upgrade of Nigerian railway shrank to \$850 million in 2006.<sup>29</sup> In addition, there is a tremendous risk associated with Chinese investment which makes profit

<sup>28</sup> Katarina Kobylinsky, 6-7

<sup>29</sup> Katarina Kobylinski, 8

making more volatile. For instance, most of its oil blocks in Nigeria are located in areas where banditry, insurgency and illegal appropriation of oil are rife.<sup>30</sup>

## **What Africa has gained**

The question which one needs to ask is whether Chinese investment in Africa is a threat to African countries or it is a gain. To answer this, one has to take look at what western partners had done and what they are currently doing. Granted that the West has provided a significant amount of aid, increased Chinese aid to Africa pales in comparison to what the West had offered Africa as Overseas Development Assistance.<sup>31</sup> However, throwing money at the problem is not an answer to Africa development challenges. If it were, several billion of dollars offered for the past five decades ought to have positively changed the face of Africa. But the Western development partners are voting with their feet in sectors that are critical to Africa economic development. It is note-worthy that China is investing at this critical time which has contributed to making Africa to record 5.8 percent economic growth in 2007,<sup>32 33</sup> its highest ever. This economic growth owes its success largely in part to Chinese investment.

First of all, one needs to recognize that the Chinese government imposes no political conditions on African governments before signing contracts either for exploration or other economic activities.<sup>34</sup> Secondly, Chinese firms are willing to invest where western companies are unwilling. Western investors and aid agencies are unwilling to invest in areas such as: physical infrastructure, industry and agriculture. These are areas that are crucial to Africa development. It is well known that Africa desperately needs infrastructure of all type. Finding about \$20 billion per annum<sup>35</sup> required in infrastructure investment is laborious. China investment is a welcome development for Africa.

Since the late 1970s, the United States Agency for International Development (USAID) has not funded heavy infrastructure projects in Africa. The World Bank and USAID in the 1990s reduced support for agriculture as high as 90 percent<sup>36</sup>. Recently, the World Bank pulls its support for palm oil farmers in Africa because of pressure from environmental non-governmental organizations.<sup>37</sup> Chinese firms have committed huge investment in upgrading Africa's infrastructure. For the past few years, Chinese companies have built bridges, upgraded railroads,

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<sup>30</sup> Piet Konings, 354

<sup>31</sup> David Haroz, 70

<sup>32</sup> Stephanie Hanson, "China, Africa and Oil", Council on Foreign Relations, (June 2008): [http://www.cfr.publication/9557/china\\_africa\\_and\\_oil.html](http://www.cfr.publication/9557/china_africa_and_oil.html) (accessed November 10, 2013)

<sup>33</sup> According to the World Economic Forum, this growth is expected to decline between 2012 and 2013: <http://www.weforum.org/events/world-economic-forum-africa>

<sup>34</sup> Piet Konings, 352

<sup>35</sup> The China in Africa Toolkit: A resource for African Policymakers, China in Africa Project working paper, South African Institute of International Affairs, South Africa, 2009: 39

<sup>36</sup> Piet Konings, 357

<sup>37</sup> Thompson Ayodele, "World Bank Palm Oil Mistake" New York Times, (October 15, 2010): [www.nytimes.com/2010/10/16/opinion/16ayodele.htm](http://www.nytimes.com/2010/10/16/opinion/16ayodele.htm) ( accessed on November 16, 2013)

telecommunication networks, and other much needed infrastructure. One unique thing, regardless of this scale of investment infrastructure, is such investments are without conditions. In view of the unwillingness of Western countries and its agencies to invest heavily in African infrastructure for fear of generating inadequate returns to offset the investment risks, Chinese investment is highly valuable and significant.

Also China's demand for minerals and other extractives has increased the world prices for commodity such as copper, aluminium and others. Its demand for these minerals has helped in reversing the age-long decline in prices. This in turn gives African governments much needed revenue and economic boost. Many of the deals closed by Chinese firms in Africa are ones that western companies would not stake their investment. For example, in 2005 China and Nigeria signed a \$800 million crude oil sale agreement. This in turn would lead to China's buying of 30,000 barrels a day for five years. It also won a license to operate four oil blocks and take-over of the Nigerian refinery. These are risky and money losing ventures that no western oil company would ever think of staking its investment<sup>38</sup> because these investments are located in a politically volatile and hot spots zones.

In addition, Chinese investment provides additional source of investment capital at a time when aid alone is unable to address unemployment, poverty alleviation and generate a significant multiplier effect through the local economy by the way of sourcing and provision of local management expertise and technology transfer. To make this happens, China has taken up some measures. Cheap consumer goods still account for high proportion of Chinese export to Africa. It has indicated its readiness to support Africa's product value chain.

Also, to be more relevant in the 21<sup>st</sup> Century, Africa must develop its human capital and have access to new technology. China has provided both. It has offered training to many African professionals under its commitment to train Africa's emergent workforce. Machinery, electronic equipment and high tech products have been exported to Africa. Above all, China has built more factories to process African raw materials in Africa rather than just extracting low value-added African commodities for processing in China.<sup>39</sup> For example, a Chinese baggage manufacturing company commenced trading with Africa in 2000. In 2003, it established a factory in Nigeria which serves the domestic market in Nigeria, brings revenue to the government and serves other countries such as Ghana.<sup>40</sup> With respect to skill transfer and human capital development, between 2000 and 2006, China has trained 16,000 African professionals. Another 20,000 was scheduled to be trained between 2010 and 2012.<sup>41</sup>

Last year, the former Chinese president Hu Jintao announced an expansive aid programme that would offer 18,000 government scholarships and train 30,000 Africans in various sectors by 2015.<sup>42</sup> Africa also gains from favourable loans offered by Chinese banks. This comes along

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<sup>38</sup> Piet Konings 354

<sup>39</sup> ibid

<sup>40</sup> Jing Gu, 575

<sup>41</sup> David Haroz, 75

<sup>42</sup> Jonathan Kaiman, "Africa's future leaders benefit from Beijing's desire to win hearts and minds," Guardian, April 29, 2013: <http://www.theguardian.com/global-development/2013/apr/29/africa-future-leaders-china-aid-programme> (accessed November 15, 2013)

with a combination of grants as well as concessional and commercial rate loans. Because of Africa's poor credit ratings, they must pay huge risk premium to access commercial capital. On the other way, Chinese concessional loans are subsidized through aid budget thus permitting lower interest rates than those available through commercial lending houses.<sup>43</sup>

African imports from China are more diverse but three major areas are dominant: machinery and transport equipment, manufactured goods and handicrafts.<sup>44</sup> Nevertheless, Chinese products are generally considered to be more suitable to the African demand. Their prices are generally cheap and could be easily affordable to a large number of people. These products fit into income level in each African country. The relatively low prices in mobile phones in Africa are largely because of influx of Chinese phones which flooded the market. This ultimately drives down the price of other market suppliers. This gives access to mobile to millions of Africans. Again, access to computer in Africa has been driven up because of importation of cheap computer from China. This has made many not well off families to have access to computer which was once seen as exclusively for the rich in African countries. China helped greatly in driving down the prices to the level within the reach of many.

Africa is saddled with debt. Traditional donors had pledged to draw-down some of this debt burden but this is contingent on African governments imposing tight fiscal measures. China has pledged to retire \$1.2 billion debt owed by highly indebted poor countries and least developed countries in Africa. As of 2009, China had cancelled \$3.83 billion in debt globally, mainly for African countries.<sup>45</sup> To increase economic development, Africa must sustain high growth rates and increase its trade volume particularly their export sector. Although there is still more room for improvement, trade between China and Africa has increased over the years making China the second trading partner after the United States. In fact the growth rate of 5.8 recorded has largely come from this increased trade with China. In addition, China has exempted 440 African exports from Chinese tariffs.<sup>46</sup>

While it is incontrovertible that Chinese investment brings development to Africa, the fact remains that the impact of the Chinese investment on host economy is dependent on four important factors : 1. The investment motives of the investing firms. 2. The time horizon of the investment. 3. The extent of linkages to other firms. 4. The capacity of local firms to absorb spill-over and face competition.<sup>47</sup> From available literature, it is clear that private investment is market driven while state-owned enterprises are government driven. The investment motive is also a reflection of attractiveness of African market and intense competition faced by private firms in China. With respect to linkages and spill-over effect, these are dependent on prevailing public opinion in the host country. For instance, where the provision of inward investment

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<sup>43</sup> Ibid

<sup>44</sup> Mthuli Ncube, 5

<sup>45</sup> "Wen Says achieving MDGs remain long, uphill journey, promises to expand China's foreign aid," Xinhua, September 23, 2010: [http://news.xinhuanet.com/english2010/china/2010-09/23/c\\_13525852.htm](http://news.xinhuanet.com/english2010/china/2010-09/23/c_13525852.htm) (accessed November 17, 2013)

<sup>46</sup> David Haroz, 75

<sup>47</sup> Jing Gu, 582

regime is weak or declined as a development option by the host government, it effectively limits knowledge and technology transfers.<sup>48</sup>

China has helped to spur Africa's economic growth but more can still be achieved. What is missing is a lack of strategic engagement on a long term basis that would have a broader impact on poverty alleviation in the continent. This raises two main concerns: 1. The resource rich African countries which ought to have a greater leverage in dealing with the Chinese have not converted this into a strong negotiating power. 2. The African Union (AU) has been unable to coordinate African engagement with China to capitalize fully on Chinese engagement for a broader continental gain.<sup>49</sup>

## **Balance of trade**

As already indicated, China's investment in Africa is a small proportion of its global Foreign Direct Investment. Africa has attracted huge Foreign Direct Investment from China. The FDI which was a mere \$75 million in 2003 has increased to more than \$12 billion in 2011.<sup>50</sup> While there has been a remarkable increase in Chinese investment recently, there is also a decline. Chinese exports and imports have shown a tremendous growth from 2000 to 2004. In the year under review, exports increased from \$5 billion to \$13.8 billion while imports increased from \$5.6 billion to \$15.6 billion. Its growing oil imports accounts for its trade deficit in 2004.<sup>51</sup> The total bilateral trade between China and Africa in 2008 was \$114 billion. Out of this figure, exports by Africa to China totalled \$52 billion while imports by Africa from China stood at \$62 billion.<sup>52</sup> The inference from this is that Africa has a trade deficit of \$10 billion. Generally, the volume of trade between China and Africa in 2012 was \$198.5 billion. Trade between the US and Africa amounted to \$108.9 billion in the same year.<sup>53</sup> Is the trade between China and Africa evenly spread across Africa? It is definitely not. African countries differ in their exports as well as imports including their comparative advantages. This determines gains, losses and balances of payment challenges.

Available trade data shows Africa's trade with China is highly concentrated in only a few countries. About 60 percent of Chinese exports are destined for just six countries: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), and Benin (5%). Also 70 percent of Chinese

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<sup>48</sup> Jing Gu, 582

<sup>49</sup> David Haroz, 79

<sup>50</sup> DAMBISA MOYO "Beijing, a Boon for Africa" New York Times, June 27, 2012: [http://www.nytimes.com/2012/06/28/opinion/beijing-a-boon-for-africa.html?\\_r=0](http://www.nytimes.com/2012/06/28/opinion/beijing-a-boon-for-africa.html?_r=0) (accessed November 17, 2013)

<sup>51</sup> Piet Konings, 356

<sup>52</sup> Mthuli Ncube, Charles Leyeka Lufumpa, Leonce Ndikumana, "Chinese Trade and Investment Activities in Africa," African Development Bank Group, Policy Brief Vol. 1 Issue2 (July 2010):7: <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Chinese%20Trade%20%20Investment%20Activities%20in%20Africa%2020Aug.pdf> (accessed November 16, 2013)

<sup>53</sup> Simone Foxman "Trade ties between China and Africa could surge 25% this year—and that's just the beginning," Quartz (April 11, 2013): <http://qz.com/73463/trade-ties-between-china-and-africa-could-surge-25-this-year-and-thats-just-the-beginning/> (accessed November 15, 2013)

imports originate from four countries: Angola (34%), South Africa (20%), Sudan (11%) and Congo DRC (8%).<sup>54</sup> Again it should be noted that Africa's export to China is not well diversified with the exception of South Africa. The most evident is the export of Angola and Sudan which highlight the importance of commodity export.<sup>55</sup> Africa's aggregate imports from China have increased fourfold without a commensurate and diverse exports base apart from commodity export. This creates a balance of trade problem between China and many African countries. Again it is important to examine here the importation of crude oil from Africa. It has been widely reported that China's main goal is to get enough crude oil and other natural resources from Africa to feed the expansion of its industry and development.

Half of China's crude oil is sourced from the Middle East which accounts for 62 percent of global reserves while one-third of its crude is imported from Africa.<sup>56</sup> Compared with other countries, China imports 9 percent<sup>57</sup> of its oil from Africa, the United States 32 per cent and Europe 33 percent.<sup>58</sup> China's inroad into Africa's oil reserves is insignificant. As a matter of fact, it holds less than 2 percent of Africa known reserves. Western oil companies' activities are well pronounced in extractive industries in Africa. Of all the International Oil Corporations (IOCs) in Africa, more than 65 percent of them are from the West. Most of the African assets held by China's National Oil Corporations (NOCs) are of a size and quality of little interest to international oil companies (IOCs). In fact, many of these assets were relinquished by the IOCs.<sup>59</sup> China is also accused of turning a blind eye to human rights abuse when it comes to natural resource extraction in African. Interestingly, China's foreign policy regarding this is gradually changing as it realizes that it must also protect its interests. For this reason, it has had a rethinking and supported UN Security Council resolutions authorizing peacekeepers for Darfur, Sudan. It also places a pressure on Sudanese government to allow a UN peacekeeping deployment<sup>60</sup> something the Chinese government would not have done a decade ago.

## Gainers and Losers

As already mentioned each country has its own comparative advantages and each differs in what it could exports or imports. In view of this, gains from trade relations with China would not be evenly spread. It is expected that some countries might have a positive balance of payment. A country in which its imports are more than its exports will experience a negative balance of payment. In this regard, whether a country is subject to trade related gains or loss will be determined by four conditions.

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<sup>54</sup> Mthuli Ncube et al, 4

<sup>55</sup> Mthuli Ncube et al, 6

<sup>56</sup> Stephanie Hanson, China, Africa and Oil, Council on Foreign Relations Report, June 2008: 1

<sup>57</sup> Ibid

<sup>58</sup> David Haroz, 72

<sup>59</sup> Erica S. Downs, "The Fact and Fiction of Sino-African Energy Relations" World Institute, China Security, Vol. 3 No. 3 Summer 2007: 44

First, while it is generally agreed that the expansion of Chinese economy offers rapidly growing market opportunities, an African country which exports a product that China imports stands to gain. It is able to take advantage of market opportunity because its export should grow in regards to the Chinese and in turn this stimulates economic growth.<sup>61 62</sup> Second, an African country which imports a product that China exports may gain to the extent that expanding Chinese exports are associated with falling prices.<sup>63 64</sup>

Third, an African country which exports similar products or the same product to those exported by China is likely to suffer a trade-related loss which would be caused by falling export prices and reduction in third country markets' share. Fourth, an African country which imports products that are also imported by China is likely to incur trade related loss. This is because it will face a significant import competition in third country markets which is likely to be associated with rising prices.<sup>65 66</sup> It is incorrect to assume that as long as a country exports what China imports (crude oil, minerals and other raw materials) is a guaranteed for balance of payment. This is actually not the case. As data shows, Nigeria and Algeria are both exporters of oil and gas to China, yet they still have a negative balance of payment with China.<sup>67</sup> The inference from this is merely exporting what China imports is never a ticket that that would result into a positive balance of payment. If the same country also imports massively from China more than it exports irrespective of the products, it will result in negative balance of trade.

### **Lesson on development**

China's economic rise is shaping the international order by introducing a new development paradigm. Its developmental approach is driven by a desire to have equitable and high-quality growth. It also turns traditional ideas like democracy,<sup>68</sup> rule of law and property rights on their heads. China is making a path for other developing countries across the world that wishes to develop their economies and fit into international order as a way to be truly independent and protect their political choices.<sup>69</sup> China clearly shows that economic development and finance can in fact be led by the state. It challenges poor countries in Africa by proving that being poor does not mean they cannot join the league of prosperous countries. China also challenged the ideas of the Washington Consensus notion that development can take place when a country is democratic. Were it to be so, China ought to have remained extremely poor just like it was six decades ago.

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<sup>61</sup> Christopher Stevens and Jane Kennan, "How to Identify the Trade Impact of China on Small Countries" Institute of Development Studies, IDS Bulletin Vol 37 No 1 (January 2006):38: <http://onlinelibrary.wiley.com/doi/10.1111/j.1759-5436.2006.tb00245.x/pdf> (accessed November 16,2013)

<sup>62</sup> Oyejide Titiloye Ademola, Abiodun Bankola and Adeolu Adewuyi, "China Trade Relations: Insights from AERC Scoping Studies," European Association of Development Research and Training Institutes, European Journal of Development Research, Vol.21, 4(2009): 496

<sup>63</sup> Christopher Stevens and Jane Kennan, 38

<sup>64</sup> Oyejide Titiloye Ademola, Abiodun Bankola and Adeolu Adewuyi, 496

<sup>65</sup> Christopher Stevens and Jane Kennan, 39-40

<sup>66</sup> Oyejide Titiloye Ademola, Abiodun Bankola and Adeolu Adewuyi, 497

<sup>67</sup> Mthuli Ncube et al, 7

<sup>68</sup> Joshua Cooper Ramo, The Beijing Consensus, Foreign Policy Centre, London, (2004):4

<sup>69</sup> Joshua Cooper Ramo, 3

The economic growth of China and other Asian Tigers demonstrates that economic growth could be brought about by any types of government, democratic or non-democratic. The key inference from Chinese development is not about the type of government but the economic policy being pursued by the government. The key driver for China's rise is its economic reforms which embraced capitalist orientation, the insulation of economic activities from Communist Party control, and its search for natural resources and encouraging greater efficiency through mergers and acquisitions, gaining advanced technology and enhancing industrial research and development.<sup>70</sup>

The establishment of Export-Import by the state has not only increased trade, it has enhanced Chinese influence as well. China ExIm Bank is saddled to promote exports and investment<sup>71</sup> as well as export credit, international guarantees, loans for overseas construction and investment. With official financial backing from banks like ExIm, it is possible for Chinese firms to enter markets generally avoided by western companies because of risk.<sup>72</sup>

### **What needs to be done**

Time has come for African leaders and critics to begin looking inward to avoid repeating the mistakes of the past. Every country that is prosperous today was once poor. China six decades ago was an extremely poor country in which more than half of its inhabitants were poverty-stricken. Within a short period of time, China commenced the gradual economic domination of the world. There is a general consensus that African producers of manufactured products are threatened by the competition from Chinese exports in three market spheres: domestic, intra-African regional and global. According to World Bank, Africa Competitiveness Report,<sup>73</sup> Africa's competitiveness is low. Its export remained undiversified and its share of world trade is low. The report further said intra-African trade is particularly limited and regional integration could also help African countries become more competitive and resilient to external shocks.

Where intra-Africa trade exists, the volume is low. Given the situation in Africa, it is quite possible for African products to compete with Chinese products. This is largely dependent on lowering the transaction costs for local entrepreneurs. Right now, African governments must address concerns usually expressed by local investors regarding infrastructure, policy stability and improvement on regulatory transparency to make compliance easy and extortion of bribes difficult.

In addition, the economic policies embarked upon by various Africans governments have made it impossible to prepare local industry for competition. Shortly after independence a lot of industries monopolized individual countries' markets. A number of them were shielded by

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<sup>70</sup> Jing Gu, 580

<sup>71</sup> Todd Moss and Sarah Rose, 1

<sup>72</sup> Todd Moss Sarah Rose, 2

<sup>73</sup> Africa Competitiveness Report 2011 "Africa: What Does It Take to Compete?" World Bank: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTAFRSUMAFTPS/0,,contentMDK:22199687~pagePK:51246584~piPK:51241019~theSitePK:2049987,00.html> (accessed November 16, 2013)

government from competition in a form of import protection. Since they monopolized the market and still relied on government for support, the products they produced could not meet consumers' expectations. At the same time, consumers were forced to buy the same products because there were no alternatives. As the wave of privatization and liberalization kicked in as part of economic reform, these industries could not stand the competition of products sourced from other markets. Till today, many of these protected industries have not been able to have their products compete with the ones produced in China or elsewhere.

While many of the imports from China are relatively cheap, in view of labour costs and lower transaction costs, it is evident that wages are already rising in China. The Chinese cabinet is promising to raise minimum wages by 13 per cent a year until 2015.<sup>74</sup> The impact of the increase in wages in China would ultimately jerk up the prices of the products exported. This means African countries must be strategically positioned to take advantage of this. While African entrepreneurs in small and medium sized enterprises have benefited from the informal and formal linkages with Chinese business network, this will have to be complemented by making doing business easy and exports procedures easier. But taking the advantage of this will be a mirage if Africa still wants to remain an exporter of natural resources.

## **Conclusion**

It is indisputable that Africa has benefited from China's re-emergence. The entire argument of many critics of China in-road into Africa has been centred on the trade imbalances between China and many African countries. In fact, it is argued that the main goal of China in Africa is to exploit its resources to develop its growing industry and foreign aid to Africa is a bribe to the leaders to make them acquiesce to this nature of relationship. . As already shown, China's aid and investment in Africa has helped to build a super-structure upon which African countries' economic growth can be built, even in areas where western countries and agencies are not willing to invest. Again the argument that China is interested natural resources such as crude oil and minerals does not hold water in the face of available data.

The impacts of Chinese re-emergence in Africa are more visible in infrastructure development, investment, trade and human capital development. It has also led to African commodity producers to command higher prices considering China's massive importation. Again it has also imposes a considerable challenges on African countries that have not diversified their economies. Loans from China have provided African countries with an alternative source for capital, which weakened the position of the World Bank in project financing in Africa. China's Overseas Development Assistance has extricated African nations from being glued to conditions such as tight fiscal control, transparency and commitment to the rule of law and democracy which attached to aid from western countries. If managed effectively, Chinese ODA and investment can help in really addressing deficient infrastructure and spur growth.

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<sup>74</sup> "China's minimum wages to increase," CBC, Feb 08, 2012: <http://www.cbc.ca/news/business/china-s-minimum-wages-to-increase-1.1203483> (accessed November 16,2013)

However, Africa must strive more to leverage Chinese engagement for maximum benefit. The stream of aid and investment gives African countries a unique opportunity to translate these external supports into overall gains. To take full advantage of this relationship, African government must play their political cards well, not only as leaders of individual countries but also through the collective mechanism of the African Union. African governments including the African Union (AU) and civil society must work together to establish a constructive policy framework that will ensure that the Foreign Direct Investment (FDI) helps to make a positive net contribution to their economies and societies. If this engagement is managed poorly, Africa risks Chinese exploitation and ultimately misses a unique opportunity to advance its political, economic and social development.

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