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China in Africa: a profile of political and economic relations

Konijn, P.

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China in Africa: A profile of political and economic relations

Introduction

The brand new headquarters of the African Union in the Ethiopian capital Addis Ababa opened on 28 January 2012. The 20-storey building, with a conference room that can seat 2500, was financed by the Chinese government and built by a Chinese company at a cost of US\$ 200 million. Top political advisor Jia Qinglin, who represented President Hu Jintao at the opening ceremony, spoke of a Chinese gift to Africa that symbolized the strong ties between the Asian giant and the African continent.



The late Ethiopian Prime Minister Meles Zenawi praised the Chinese economic model, proclaiming it as an example for Africa. According to Zenawi, the Western economic cure of the late 1990s was worse than the disease itself and Africa has been doing much better economically since economic cooperation with China began. The days when Europe and the US dominated international relations in Africa are gone and China and other emerging powers, like Brazil and India, have recently become important trading partners, investors and political friends of Africa.

It is not clear when the first contacts between China and Africa started. Ivory traders from an area in what is now Kenya and Tanzania are mentioned in Chinese writings from the 9th century but three large naval expeditions commissioned by the Ming Emperors in the 15th century definitely visited East Africa, returning to Beijing with a number of giraffes. Contacts with Africa were sporadic until the People's Republic of China was formally established in 1949. China's

interest in Africa was then mostly politically motivated, with Beijing seeking its support for international recognition of China as the only legitimate government of China and with Taiwan as just one of its provinces. The one-China policy has meant that Beijing can only have diplomatic relations with countries that recognize it as China's legitimate government. There are currently 49 African countries that have diplomatic relations with Beijing.

China supported anti-colonial liberation movements in Africa in the past, partly inspired by the Cold War with the US and rivalry with the Soviet Union over leadership of the Communist world. The financing and construction of the TA-ZARA railway in 1976, which connects Zambian mines with the port of Dar es Salaam in Tanzania, was a symbol of Chinese support for African independence. The 1800-km railway reduced Zambian dependency on Rhodesia (now Zimbabwe) for its copper exports.

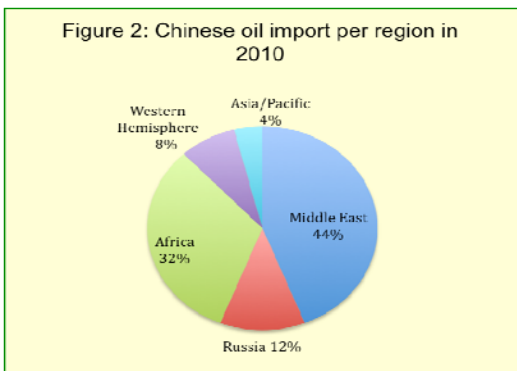
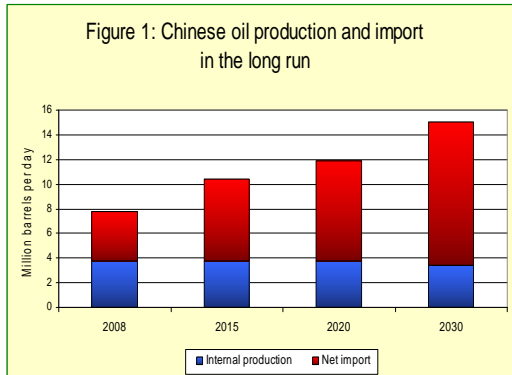
The principles of political equality, respect for sovereignty and non-interference in domestic affairs date from 1954. China's 'no strings attached' policy distinguishes it from Western countries in Africa and has attracted criticism from different sides, especially the US and Europe. China is criticized for doing business with pariah states, like Sudan and Zimbabwe, that violate human rights on a massive scale and are boycotted by the West. Most African governments, however, appreciate China's 'no strings attached' approach that ignores political conditions like good governance and anti-corruption measures.

Trade

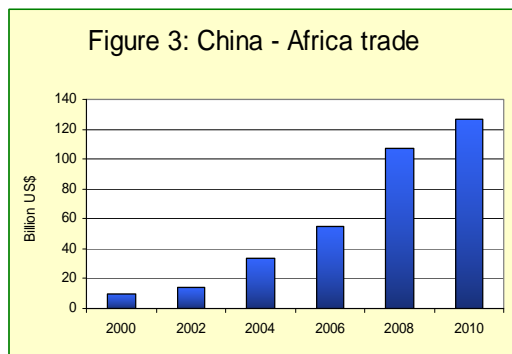
Relations between China and Africa have intensified since the end of the Cold War. A pragmatic business relationship has replaced the political ideology that characterized earlier relations. Why is China so active in Africa today? Basically because it needs natural resources, export markets for its businesses and political support. After three decades of rapid economic growth, Chinese demands for energy, metals, minerals and food have risen exponentially and the country is now importing large quantities of oil, copper, timber and other raw materials to meet its growing

demands. A major share of the energy and raw materials is used to manufacture goods that are then exported to the US and Europe.

According to the International Energy Agency, China will need to import 79% of its oil needs in 2030 (Figure 1). Africa is a major supplier of oil, with Angola and Sudan being among China's leading suppliers. Africa's share of China's global oil imports was 32% in 2010 (Figure 2).



Source Figures 1 and 2: Jiang, Julie and Sinton, J. (2011) 'Overseas Investments by Chinese National Oil Companies', OECD/International Energy Agency, Paris.



Source: Chinese Academy of International Trade and Economic Cooperation (2011), China-Africa trade and economic relationship. Annual report 2010.

Trade between China and Africa was modest in 1960, amounting to a total value of US\$ 100 million. By 1980, the figure stood at US\$ 1 billion and since 2000 trade has grown even more quickly to reach US\$ 127 billion in 2010 (Figure 3). China has been Africa's largest single-country

trading partner since 2009, with only the EU being bigger. Trade with Africa is less important for China though and Africa accounted for only 3.8% of all China's exports in 2010. Its share of China's imports was only slightly higher at 4.5%.

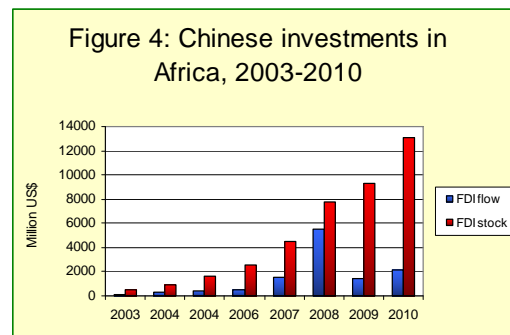
Trade between China and Africa was on the whole fairly balanced between 2000 and 2010. Chinese imports were as big as Chinese exports to Africa but there were huge differences between countries. Oil-exporting countries, like Angola and Sudan, have a large trade surplus with China, while resource-poor countries have a trade deficit. Chinese imports consist primarily of oil and other raw materials but their exports are more diverse and include, for example, clothing, electronic items, machines and telecom equipment.

China-Africa trade has fuelled economic growth in some African countries, where they have benefited from higher commodity prices due to increased demand from China. African consumers have profited from the import of cheap 'Made in China' products. African manufacturers, on the other hand, are having a difficult time competing with Chinese products.

Trade relations are also a source of tension. South Africa's Trade Minister, Rob Davies, has publicly stated that Africa should not be dependent on exports of raw materials but should produce manufactured goods for its domestic and foreign markets. At the World Economic Forum in 2011, China's former Special Envoy to Africa, Liu Guijin, acknowledged the problem and promised Chinese support for industrialization policies in Africa.

Investments

Chinese investment in Africa is still modest in size but is growing rapidly (Figure 4). The blue column represents the annual flow of foreign direct investment (FDI), which peaked in 2008. The red column represents the total value of investments in Africa in any given year. The official figures provided by the Chinese Ministry of Commerce do, however, need to be treated with cau-



Source: Edinger, H. & C. Pistorius, 'Aspects of Chinese investment in the African resources sector', *The Journal of the Southern African Institute of Mining and Metallurgy* 111 (July 2011).

tion as the real level of investment is probably much higher as the Ministry's figures only include investments that have been approved by the Chinese government.

Where does Chinese FDI go? It was received by 47 countries in Africa between 2003 and 2010, with the most important destinations being South Africa, Nigeria, Algeria, Zambia, DR Congo and Sudan. Together they received 78% of all Chinese FDI. The mining sector received the largest share of FDI in 2009 followed by manufacturing, construction and the financial sector (Figure 5).



Source: State Council of the People's Republic of China, 'China-Africa Economic and Trade Cooperation', Information Office of the State Council, Beijing (December 2010).

Chinese investment in Africa is embedded in its official 'Go Out' policy that was initiated in 1999. The Chinese government encourages companies to invest abroad, increase their access to and control of natural resources, diversify their products and markets, and become world-class multinationals. Forty-six Chinese companies made the Fortune Global 500 list of biggest companies in 2010. The state-owned oil company Sinopec was ranked seventh. By comparison, only three Chinese companies made the same list in 1994.

The two state banks, China Export and Import Bank (Exim Bank) and the China Development Bank (CDB), are the biggest backers of the internationalization of Chinese companies. Exim Bank extended US\$ 67.2 billion in loans for projects in Sub-Saharan Africa between 2001 and 2010, while the World Bank provided loans of US\$ 54.7 billion in the same period.

Chinese economic diplomacy actively supports the country's Go Out policy. The Forum for China-Africa Cooperation (FOCAC), which has been convened every three years since 2000, offers a stage for negotiations and the closing of business deals. For example, at the 2006 FOCAC meeting in Beijing, US\$ 1.9 billion worth of trade and investment deals were concluded.

It is the large state-owned energy, mining and construction companies that are benefitting the



most from China's Go Out policy and have access to Exim Bank and CDB loans. The role played by privately owned companies in the Chinese economy and FDI is growing and is likely to continue in the future.

Aid

China is being portrayed in the media as Africa's new, large donor. This is not the case. China's aid to Africa started with its support for Egypt in 1956, and the TAZARA railway, the largest single foreign-aid project at its time, was an early symbol of China's aid to Africa. In fact, China was giving aid to more countries in Africa than the US was in 1975.

The Chinese government provides little information about its foreign-aid donations. A 2011 White Paper estimated that its total foreign aid stood at US\$ 38 billion between 1950 and 2009. And although there is no official figure for Chinese aid to Africa for 2009, it is thought to amount to between US\$ 1.4 and US\$ 2 billion. By comparison, US aid stood at US\$ 7.2 billion and the World Bank allocated about US\$ 4.1 billion to Africa. All the African countries that have diplomatic ties with Beijing have received aid from China in the past.

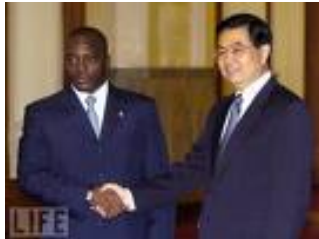
Aid is offered in the form of grants, interest-free or concessional loans and debt relief. Turn-key projects, like government buildings, hospitals, sports stadiums, railways and roads, that are handed over by Chinese construction companies in ready-to-use condition are well known. And Chinese development aid also finances scholarships for Africans to study in China and is used to send medical teams to Africa.

Chinese aid differs from Western aid in various important aspects. Firstly, China does not see itself as a donor and is not a member of the OECD donor community. Instead it defines itself as a developing country and prefers to speak of South-South cooperation. Aid is embedded in China's foreign policy and is based on equality, sovereignty, non-intervention and mutual benefit. China does not attach political conditions, like the promotion of democracy or anti-corruption measures, to its aid giving. In practice, the principle of

mutual benefit implies that aid is part and parcel of an integrated package of trade, investments and loans, which makes it difficult to distinguish aid money from other financial flows.

The 'resources-for-infrastructure' loans China has signed with Angola, DR Congo, Ghana and Zimbabwe are notable examples of its aid programme. China gained experience with resource-backed loans it concluded with Japan and Western countries in the 1970s and 1980s and used its natural resources as collateral for loans to buy power plants from Japan. China is itself now offering loans to developing countries. China's US\$ 2 billion loan to Angola in March 2004, much against the IMF's wishes, received a great deal of attention and has since been referred to as the 'Angola Model'. The basic idea is simple. The construction of infrastructure is financed through a loan and the revenue the country receives from the exports of natural resources is used as collateral and to repay the loan. In most cases this is oil (Angola) but it may also include cocoa beans (Ghana), tobacco and diamonds (Zimbabwe), sesame seeds (Ethiopia) or other natural resources.

DR Congo's US\$ 9 billion 'deal of the century' was announced in 2007. According to the original agreement, US\$ 6 billion would be used to finance the construction of 3600 km of new roads, 1800 km of railway lines, a hospital, schools and a university. The total amount of the loan was reduced to US\$ 6 billion in 2008 under pressure from the IMF that feared that DR Congo's foreign debt would become unsustainable.



In return for the loan, a joint venture, Sicomin, involving three state-owned Chinese companies (with a 68% ownership share) and the Congolese state-owned mining company, Gemines (22% ownership share), was awarded mining concessions for 11 million tonnes of copper ore and 620 tonnes of cobalt ore. The loan agreement with China's Exim Bank stipulated that at least 88% of the value of the goods and services procured must come from China and that one in five of the workers was Chinese. The US\$ 6 billion loan is being partly financed by development aid. A tranche of US\$ 3 billion is on concessional terms and, by definition, is at a lower interest rate than that offered for commercial loans. Exim Bank is compensated for any loss of interest revenue by the Netherlands Ministry of Finance.

China has become one of the major financial backers and builders of infrastructure projects in Africa, due partly to the success of its resource-backed loans. In addition, Chinese companies and banks have been willing to accept higher risks, work for lower costs and operate at lower profit margins than their Western competitors. Chinese construction companies are winning a large share of the international tenders issued by the World Bank and the African Development Bank, according to a World Bank report in 2008. Western donors have been less willing to finance infrastructure development in the last few decades and China has stepped in to fill the infrastructure finance gap.

Migration

Chinese migration to Africa has grown in the wake of increasing trade and investment and it is estimated that between 700,000 and 1 million Chinese are living in Africa today. This migration is visible in the large cities where Chinatowns have grown up and in the Chinese shops in the countryside. Cut-throat competition from Chinese traders in retail markets has led to disquiet among African traders. For example, 33 vendors petitioned the District Commissioner in northern Malawi in an attempt to ban Chinese traders from trading in the local markets. A smaller group of African traders is operating in China, mostly in cities like Ghangzhou and Yiwu, which allows them to buy products at source.

To conclude, China-Africa relations will probably intensify in the near future and result in a further growth in trade and investment. China's increased economic influence is currently creating new responsibilities, as is clearly visible in the ongoing conflict over oil between Sudan and the new state of South Sudan. China is actively brokering a peaceful solution between the two countries but armed conflict threatens to halt production, which is bad for business and also hurts China's economic interests.

Contact information

Author: Peter Konijn
Knowing Emerging Powers in Africa
info@emergingpowers.org
Website: www.emergingpowers.org

Contact ASC: Mayke Kaag, kaag@ascleiden.nl

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