The Paradox of China's Transformation
Social Investment Forum International Working Group
Spring Symposium 2010
Washington, D.C.
18 May 2010

The Role of China in Africa: Trade, Investment and Aid

Remarks by David H. Shinn
Elliott School of International Affairs
George Washington University

I am pleased to participate in this panel session dealing with the role of China in Africa. I have been asked to focus on the drivers that bring Chinese companies to Africa. It is important to look first at China's principal interests in Africa. They are relevant to the engagement in Africa of Chinese companies as the larger ones are mostly state owned or controlled.

- First, China has an interest in maintaining access to oil, minerals and other natural resources.
- Second, China desires to leverage political support from as many of Africa's fifty-three countries as possible. They constitute more than one-quarter of the membership of the UN.
- Third, China wants to end diplomatic recognition of Taiwan by the four African countries that continue this relationship.
- Fourth, China sees Africa and its population of one billion people as a growing market for Chinese exports.

Overview of China-Africa Trade Relations

It was not until China became a manufacturing powerhouse in the 1990s that China-Africa trade began to rise impressively. China's "going out policy" sought to find new markets for Chinese exports while its rapidly expanding economy required large quantities of raw materials. China-Africa trade rose from $5 billion in 1997 to $11 billion in 2002 and, driven by high oil prices, peaked at $107 billion in 2008 before falling back to $96 billion in 2009.

Since 1995, China-Africa trade has been largely in balance, although the fall in African commodity prices in 2009 led to a significant surplus for China. China is Africa's second largest trading partner after the United States and is projected to pass the United States this year. China exports a wide array of products to Africa led by machinery, textiles and clothing, transport equipment, footwear and plastic products. Oil, minerals, base metals, stone products and raw logs comprise almost 90 percent of Africa's exports to China.

About 80 percent of Africa's exports to China come from only five oil and mineral exporting nations. China became an oil importer in 1992 and African countries now provide almost one-third of China's petroleum imports. This constitutes, however, only about 13 percent of total African oil exports. The United States and Europe, both larger global oil importers, each purchase about one-third of Africa's total oil exports.

China also imports from Africa about 90 percent of its cobalt, 35 percent of its manganese, 30 percent of its tantalum and 5 percent of its raw logs. There are concerns about China's purchase of timber from the African black market and the illegal purchase of African ivory. While China's overall trade with Africa is nearly in balance, there are huge country-by-country disparities. Sixteen African countries, mainly oil and mineral exporters, have trade surpluses with China while thirty-seven countries, mainly the poorer ones, have trade deficits with China.

China has a program similar to the American Growth and Opportunity Act (AGOA) whereby it imposes no tariffs on about 500 products from thirty-one of Africa's poorest countries. This program has not significantly increased imports from these countries just as AGOA has not had a large impact on U.S. imports from Africa. Compared to the United States, however, China seems to attach more importance to the potential of Africa's one billion people as a significant export market.

Overview of China-Africa Investment Relations

In the early 1990s, China identified Africa as a key market for development and began establishing trade and investment centers in a number of African countries. Most Chinese investment in Africa by total dollar value is undertaken by companies that have majority government ownership, referred to as state-owned enterprises (SOEs). Companies run by Chinese provincial and local jurisdictions also invest in Africa and are sometimes twinned with one or more African countries.

By 2008, there were probably more than 2,000 Chinese companies, most of them small private ones, operating in Africa. Upon arrival, they often build new facilities, create businesses that are vertically integrated, buy supplies from China rather than locally and tend to sell to government entities. They are sometimes willing to take loses and support prestige projects in order to gain market entry or share and, in the case of SOEs, support Chinese government policies. Most African governments welcome Chinese investment, especially following the decrease in new investment from the West in the past decade.

The motives behind Chinese investment in Africa include profit maximization, avoiding market saturation in China, gaining access to raw materials and natural resources and, in a few cases, as a way to obtain advanced western technology by collaborating with western companies. Chinese technology is usually appropriate for African requirements. Chinese companies work closely with long-standing Chinese communities in those relatively few African countries where they exist. Companies based in Hong Kong and Macau have their own investment links with Africa that China can take advantage of.

Africans continue to be critical of some aspects of Chinese corporate social responsibility (CSR) such as inadequate attention to worker safety, failure to comply with minimum wage laws, minimal attention to environmental concerns, unwillingness to train African workers, sale of counterfeit and adulterated products and unfair investment practices. CSR has in recent years, however, become a higher priority for China's relations with Africa.

Measuring China's foreign direct investment (FDI) is an art rather than a science. It is difficult to separate trade credits, development cooperation, project financing by

Chinese financial institutions and direct investment by Chinese companies. Premier Wen Jiabao put the total FDI stock in Africa at $7.8 billion at the end of 2008 or only about 3 percent of total FDI in Africa. By my count, however, the figure is at least $20 billion and growing rapidly.

At least forty-eight of Africa's fifty three countries have received some Chinese FDI. The largest amounts have gone to South Africa, Nigeria, Sudan, Zambia, Algeria, Niger, Egypt, Ethiopia, the DRC and Angola. China has created a variety of investment promotion organizations. Most of them operate globally; a few focus exclusively on Africa. The most important ones are the China Development Bank, the China-Africa Development Fund, the China Investment Corporation and the China Export and Credit Insurance Corporation. Newer organizations with little track record include the China-Africa Business Council, the China-Africa Joint Chamber of Commerce and Industry and the Small-Medium Enterprises International Market Development Fund.

During the twenty-first century, most Chinese FDI to Africa has gone into resource extraction, especially oil and minerals, telecommunications, construction and recently banking. China recently began establishing special economic zones—a concept that worked successfully in China—in a half dozen countries in Africa.

Chinese investment in Africa's agricultural sector has received more attention than it deserves because of charges, usually inaccurate, that it is buying or obtaining long-term leases on land in Africa to feed its own people. China has a long history of agricultural aid projects in Africa; investment in agriculture is more recent and modest. Much of the media attention devoted to this subject fails to distinguish between China's agricultural cooperation and its less frequent investments in agriculture. Most independent observers agree that Chinese government policy is to minimize acquisition of land in Africa or elsewhere to feed Chinese.

Chinese investment in African banking is a more recent phenomenon. The biggest deal occurred in 2007 when the Industrial and Commercial Bank of China purchased 20 percent of South Africa's Standard Bank for $5.5 billion. The China Development Bank also paid $3 billion for a 3.1 percent stake in Barclays, which has a strong presence in Africa.

A mutual learning process is underway for the Chinese SOEs and private companies and for governments in China and Africa. Chinese investment has the potential to assist economic transformation through technology transfer. On the negative side, Chinese FDI in manufacturing emphasizes projects that do not build local capacity or expertise. It has tended to focus on retail, general trading and textiles, which has led to the displacement of African companies.

Overview of Chinese Foreign Aid to Africa

In 2009, Wen Jiabao announced eight "new" measures the Chinese government will take to strengthen China-Africa cooperation. Most of them were restatements of previous policy, but he did call on China to work with African governments to tackle the challenges of the global financial crisis and climate change. Chinese aid is part of a foreign policy package to help its companies expand export markets and develop business interests in Africa.

As in the case of investment, it is exceedingly difficult to measure China's aid. China does not publish country-by-country aid disbursement figures, which are treated as a state secret. In the Chinese context, it is difficult to determine what constitutes aid as most of its big programs are concessionary loans. The concessionary aspect of the loan is legitimate aid, but the principal must be paid back unless China eventually cancels the debt, which it has a record of doing for the poorest African countries.

China provides three kinds of aid: grants as in-kind transfers of products and occasionally cash; interest-free loans; and concessional loans with subsidized interest rates. China's Export Import Bank manages all the concessional loans. Analysts who have looked closely at Chinese aid to Africa agree that the total annual amount in the past several years is about $1.5 billion.

Over the years, Chinese aid has gone into a wide variety of projects ranging from agricultural, stadiums, basic infrastructure and public health. Today, infrastructure constitutes as much as 70 percent of China's aid investment, although it is difficult to separate commercial deals from foreign assistance. China has become the hydropower, road and bridge builder of Africa. Companies such as ZTE, Huawei and Alcatel Shanghai Bell are also replacing western telecommunication companies in much of Africa as a result of their support with governmental concessionary loans.

China does not attach political strings to its aid other than the reasonable requirement that a recipient accept the "one China" principle. On the other hand, there are economic strings. Most Chinese aid is tied to the purchase of Chinese goods and services, which is also usually the case for western aid. It sometimes comes with a significant component of Chinese labor, which is not part of the western pattern. Today, China is an important aid donor in Africa. Like other donors, it has had its share of marginal and failed projects.

Increasingly, China is engaging with multilateral assistance organizations such as the UNDP, other specialized agencies of the UN, World Bank, IMF, African Development Bank and the Global Fund to Fight AIDS, TB and Malaria. It prefers to interact within the UN system rather than the OECD's DAC. China appears ready to become a more active participant in the global donor system. It will use its influence, however, to mold the international system more to its liking.