

## China and Africa: A Mutually Opportunistic Partnership? (ARI)

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**Theme:** The relationship between China and Africa is positive for both sides and the exchange of essential natural resources for infrastructure to foster economic development is more likely to benefit than paternalistic and failed aid strategies.

**Summary:** China's rapidly growing demand for energy and natural resources has created increasingly important strategic partnerships with African nations. Blessed with a strong endowment of mineral fuels and ores, Sub-Saharan nations are benefitting from Chinese demand that has driven commodity prices up and generated billions in infrastructure investment on the continent. While some believe China's entry into Africa is simply another neo-colonial effort with a clear disregard for human rights and the legitimacy of governments, many believe China's pragmatic and businesslike approach is more dynamic and well rounded than classic Western aid efforts. Not only are Chinese investments inherently different in their goals and strategy, but they are also significantly larger. There is no doubt that China will continue to need Africa for years, as its paradox of abundant human capital and scarce natural resources will make Africa a key partner in fuelling the double-digit growth rates needed to maintain political stability. It is the opinion of this paper that the relationship between China and Africa is positive for both sides. China is providing African nations with a tremendous opportunity and has made them relevant again to global policymakers, but it is up to Africa to capitalise and drive a hard bargain so that it finally comes out winning.

### **Analysis:**

#### *Divergent Paths Come Together*

The story of Sub-Saharan Africa and China over the past 30 years has been one of completely divergent paths. China has been hailed by many as a sort of economic miracle, what Fareed Zakaria has described as compressing the West's 230 years of industrialisation into 30. The Chinese economy between 1979 and 2008 grew at an average annual rate of 9.9% and according to the Economist Intelligence Unit is poised to overtake the US as the world's largest economy by 2020, with a GDP on a PPP basis of US\$26 trillion. Compared to 1974, when it represented 2% of world GDP, China now represents 11% of world GDP and is a driver of global growth. In 2009 alone, China contributed 25% to all economic growth worldwide. In the process, China has lifted more than 400 million people out of poverty, surpassed Germany as the world's leading exporter and accumulated over US\$2.5 trillion in currency reserves.

China still has a way to go and is still a relatively poor country on a per capita basis but it can without question lay claim to the greatest poverty-reduction programme the world has ever seen. Then there is Sub-Saharan Africa: not only has it failed to develop and achieve

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economic take-off, but it can legitimately be argued that it has for years been a lost continent, left out and marginalised by the globalisation process. Sub-Saharan Africa represents 8.6% of the world's population, yet only 1.2% of its GDP.

The world has seemingly advanced, while Africa has stayed behind. However, regardless of how different their paths have been, an intriguing strategic relationship based on interests and mutual needs has begun to develop between China and Africa. With a population of over 1.2 billion and an insatiable need for natural resources and oil to fuel double-digit economic growth rates, China needs Africa's resources and is actively seeking them. China's role in Africa is making what once seemed a lost continent more relevant than ever before. Many feel China is the big investor Africa has been waiting for, while some feel its undemocratic nature will only aggravate Africa's true problems of governance and lacklustre political institutions. This ARI seeks to look at the drivers pushing the growth behind the partnership between China and Africa, its criticism and why it might ring hollow, and the new opportunities and threats it presents Africa as it moves into the 21<sup>st</sup> century.<sup>1</sup>

#### *China's Energy and Natural Resource Requirements*

Due to China's sheer size and explosive growth, demand for commodities has risen astronomically, prompting a global hunt for energy. Combining industrial export-driven growth, along with insufficient domestic production in every area (with the exception of coal), Chinese commodity imports have risen exponentially. Between 2000 and 2008 China's consumption of key metals such as aluminium, copper, lead, nickel, tin and zinc grew on average by 16.1% a year. Shipments of iron ore to China have grown by more than 27% a year since 2004. In 2009 alone, China demanded almost 60% of the world's iron ore to produce 47% of the world's steel production, driving up huge increases in trade with Brazil and Australia. With a fifth of the world's population, China consumes half of its cement, a third of its steel and over a quarter of its aluminium. China has become an absolute force in commodity markets, with an appetite for commodities that many describe with adjectives such as 'voracious' or 'ravenous'. This is not slowing down and always grows faster than analysts forecast. The International Energy Agency has underestimated Chinese demand for imported oil and gas every year for the past five years.

With a completely environmentally-unsustainable energy mix comprised of 69.6% coal, and the cost of renewables being so high that they are relatively prohibitive and incompatible with the administration's economic growth targets and desire to maintain cost advantages; demand growth for imported oil and LNG (liquefied natural gas) is projected to rise significantly. What is also important is that Chinese per capita energy demand is three times less than Europe's and seven to nine times less than America's; a figure that simply will not stay that low. The Chinese are after wealth and improving their standard of living, which almost has a one-to-one correlation with energy consumption. China's net oil imports are projected to rise by 13.1 million bpd by 2030, a level that would be comparable to the EU in that year. China's dependence on imported oil could rise from the current level of about 50% to around 80% by 2030. Placed in the context of what some call the energy 'trilemma' of economic competitiveness, security of supply and environmental sustainability, China's priorities are clearly guided towards the first two at the expense of the third.

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<sup>1</sup> A debate between two leading African scholars, Calestous Juma and George Ayittey, held by *The Economist*, does an excellent job outlining a local vision of the pros and cons of Chinese involvement. See <http://www.economist.com/debate/days/view/465>.

Elizabeth C. Economy, a China policy expert at the Council of Foreign Relations, did an excellent job of pointing out the kinds of magnitudes China faces in the future. These include:

- 52,700 miles of new highways.
- 14,000 new cars hitting China's roads each day, which equates to 130 million cars by 2020, making China eventually the world's largest automobile market.
- Relocation of more than 400 million people to urban centres by 2050 (larger than the entire US population).
- Half the new buildings in the entire world during 2000-30 will be built in China.

If these factors are taken into account along with the fact that manufacturing represents about 48% of China's GDP, it should be no surprise that demand for commodities has outpaced the growth of its economy. Given China's mismatch of an abundant population growing in wealth with a very scarce natural resource base (per capita), this trend will undoubtedly continue for years to come.

#### *An Ideal Match?*

A quick look at the 2007 US Geological Survey's Mineral Yearbook demonstrates just how wealthy Africa is with regard to mineral resources of all kinds. Most importantly, notice how prolific individually some Sub-Saharan nations are within that African share with regard to a particular mineral. This allows China to identify key countries with which to engage in bilateral negotiations, playing on the dynamic of mutual needs (aid and investment in exchange for key resources).

**Table 1.**

<b>Mineral Resources in Sub-Saharan Africa</b>		
<b>Commodity</b>	<b>Africa relative to World</b>	<b>Notable Sub-Saharan Producers % of African Production</b>
Platinum Group Metals	89%	South Africa 97%
Coltan	80%	Congo 100%
Diamonds	55%	Botswana 35%, Congo 34%, South Africa 17%, Angola 8%
Chromite	50%	South Africa 98%
Cobalt	49%	Congo 75%, Zambia 22%
Manganese	33%	South Africa 56%, Gabon 32%
Gold	20%	South Africa 56%, Ghana 13%, Tanzania 10%, Mali 8%
Uranium	17%	Namibia 46%, Niger 44%
Petroleum	12%	Angola, Equatorial Guinea Nigeria, Gabon, Congo-Brazzaville
Bauxite	9%	Guinea 95%, Ghana 5%
Copper	5%	Zambia 60%, Congo 17%, South Africa 14%
Aluminum Metal	4%	South Africa 48%, Mozambique 32%
Iron	3%	South Africa 73%, Mauritania 20%

Source: the author based on the US Geological Survey's Mineral Yearbook of 2007.

China's fuel imports from Africa rose from US\$10.1 billion in 2004 to US\$38.5 billion in 2008, a 280% increase. African exports of non-fuel minerals rose from US\$1.4 billion in 2004 to US\$7.2 billion in 2008, up 402.7%. In the same period, exports of precious stones and metals (mainly platinum and diamonds) rose from US\$742 million to US\$1.77 billion in 2008, up 138.8%.

The intriguing thing about the Sino-African relationship, however, is how it has gone beyond simply a relationship based on trade to a boom in investment that is challenging

the classic development paradigms established by Western IFIs such as the IMF and World Bank. It is safe to say that barely a week goes by without Beijing signing a multimillion-dollar bilateral agreement with an African country. The results are everywhere, with Chinese workers building roads, ports, dams, railways, football stadiums, hotels and office blocks. We will now examine how the Chinese are going about investing in Africa and offering aid, and what the reaction is on both sides to this recent phenomenon.

#### *Enormous Growth of China-Africa Trade in the Past Decade*

Although Chinese trade with Africa still represents only 4% of its total (key export markets for Chinese products such as the US, the EU, Japan and South Korea are still king), it is increasing at an incredibly rapid rate. Make no bones about it: China is particularly targeting African nations that possess energy and raw materials. Total trade between China and Africa rose from roughly US\$10 billion in 2000 to approximately US\$107 billion in 2008, a tenfold increase. The key trade dynamic between China and Africa is that of natural resources in exchange for cheaper and more affordable Chinese products than those the West can offer and Africans are currently able to produce. Mineral fuels such as oil were by far China's largest import from Africa, accounting for 71% of the total in 2008. Put together, mineral fuels, ores, precious stones and metals accounted for 87% of Chinese imports from Africa. As a result of this, the top five sources of African imports were Angola (40%), South Africa (15.5%), the Sudan (11%), the Congo (8.2%) and Libya (5.7%). With five important oil and mineral suppliers accounting for 80% of total imports, the trend for the remaining 20% remains the same. Other key suppliers to China on a smaller scale include Gabon (oil & minerals), Equatorial Guinea (oil) and Zambia (copper).

Surprisingly, China actually exported more to Africa than it imported from the continent. In 2008 Chinese exports to Africa were valued at US\$50.87 billion while imports from Africa were only US\$45.67 billion. Nonetheless, the top five export markets are still metals and energy suppliers to China, with South Africa, Nigeria and Angola receiving 35% of Chinese exports to Africa. The rest is scattered around the continent just about anywhere the Chinese can place their products. Price-sensitive markets in Africa have welcomed the easy availability of low-priced Chinese goods. There is, however, a cautionary tale to be told as Africa must be vigilant to ensure Chinese products do not flood the market and overwhelm any chance of beginning domestic African production in non-natural resource sectors.

#### *The Chinese Aid Strategy: Resource Backed Loans and Infrastructure*

In a column for *Foreign Affairs*, titled 'Africa's Eastern Promise', Deborah Brautigam wrote that the inspiration for China's aid strategy in Africa came from its own experiences. In the 70s, as China desperately sought modern technology and infrastructure without foreign exchange to use as capital, it leveraged on its natural resources. Using oil and coal, China directly swapped those goods for a US\$10 billion loan from Japan, a practice that China uses today in Africa through its resource-backed loans. As a result, in 1980 the money from Japan's loan went to building railways, ports and hydropower projects, helping develop transport systems, coal mines and power grids.

China understands its ability to influence in this capacity due to what it means to nations attempting to emerge from poverty or conflict. When the Congo announced that the Chinese would spend US\$12 billion to build railways, roads and mines in exchange for copper ore of equal value, that sum was more than three times the Congo's annual national budget and roughly 10 times the aid promised by all Western donors combined.

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China's broad strategy is to lend at deeply concessional terms in order to finance specific infrastructure projects in exchange for –or backed by– African natural resources.

As regards the Specifics, the first question involves the numbers: how much aid is going to Africa and how fast is it growing?

Chinese aid to Africa has grown from only US\$10 million in 2002 to US\$17.9 billion in 2007, an enormous increase. There is no sign of this slowing down, as Chinese premier Wen Jiabao recently pledged US\$10 billion in new low-cost loans between 2010 and 2012 last November at the China-Africa summit in Egypt. The loan pledge doubled the commitment made in 2006 and came at a summit at which delegates from both sides stressed that their ties go beyond the Chinese acquisition of raw materials. With US\$2.5 trillion in currency reserves, China has such a cash-rich position that it is certainly not short of funds if Africa wants or needs more.

Secondly, what kinds of projects is China financing and where are the funds going? Primarily, funds are being directed at projects for infrastructure for key suppliers of oil and minerals. According to an NYU Wagner School research team, a compiled list of Chinese-funded African infrastructure projects yielded a breakdown of 54% to public works projects, 28.5% to the extraction or production of natural resources and 2.5% to humanitarian activities, with the remaining 15% unspecified. The intentions are clear, and the Chinese have no intention of hiding that. Recently, China agreed to spend up to US\$23 billion to build oil refineries and other petroleum infrastructure in Nigeria in order to potentially strengthen its hand in the country as it seeks to secure 6 billion barrels of crude reserves. Analysing a group of African natural-resource suppliers to China which received over US\$24 billion in aid and investment between 2002 and 2007, the kinds of projects included are as follows: infrastructure, mining, oil refining, hydropower, dam construction, national stadiums, telecommunications, electricity, medical training, universities and administrative buildings.<sup>2</sup>

Third, what kinds of loans and terms are the Chinese providing? China's Eximbank offers loans at highly-competitive interest rates, ranging from LIBOR plus 1.25% to LIBOR plus 1.75%, as well as extremely generous grace periods and longer repayment terms. Donald Kaberuka, Chairman of the African Development Bank, has said that the Chinese take a much longer-term perspective on a country's ability to repay debts. They also allow the countries to repay debt directly with natural resources or oil, something previously unheard of with Western aid and commercial lenders. In addition, the Chinese forgive debts and reduce commercial barriers in the process, making low-cost loans part of a total economic effort. The fact that most loans are issued at market rates means they do not qualify as foreign aid. However, this may be a good thing. As Deborah Brautigam points out, 'In poor, resource-rich countries, which are often cursed rather than blessed by their mineral wealth, resource backed infrastructure loans can act as an agency of restraint, ensuring that at least some of these countries natural resource wealth is spent on development investments'.

There are certainly other loan conditions that worry some observers. One area many are concerned about is Chinese firms and workers getting the lion's share of the workload, basically providing money but leaving many African workers out of the construction

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<sup>2</sup> This group of countries includes Angola, The Democratic Republic of Congo, the Sudan, Gabon, Mozambique and Equatorial Guinea, which export oil, minerals, wood and ores to China.

process, hurting employment opportunities and technology transfers. This has been an issue, but African nations are beginning to drive a harder bargain. In the Congo, for instance, the government has stipulated that 10% to 12% of all the infrastructure work undertaken must be subcontracted to Congolese firms, that no more than 20% of the construction workers involved be Chinese and that at least one-half of 1% of the costs of each infrastructure project be spent on worker training.

Fourth, the key difference with IMF and World Bank aid is the lack of conditionality with regard to political and economic reforms attached to the loans. Unlike the IMF and the World Bank, the Chinese do not factor in human rights, democracy or economic reforms when doing business with or lending to African nations. This has come under heavy criticism, as the Chinese conduct heavy business activity in places like the Sudan and other pariah states. Some believe this will impede the spread of strong democratic and effective political institutions that will ensure all of this Chinese money ends up being reinvested and not in Swiss bank accounts.

#### *Western Hypocrisy and Challenging Classic Development Paradigms?*

Not all observers believe that China's whatever-it-takes hunt for commodities is really in Africa's interest. The most frequent critique is of China's foreign policy of dealing with undemocratic and highly oppressive regimes. In its drive to secure supplies of natural resources, many accuse China of supporting dictators and undermining Western efforts to spread democracy and prosperity. The US and European countries believe that a Chinese take-over in Africa would erode all possibilities of Western values and the concern for human rights from flourishing on the continent. After all, part of Africa's failure has been the lack of quality leadership and effective political institutions.

Primarily, one can point to China's continued extraction of oil in the Sudan and its loans to a number of repressive dictatorships. That said, some of the countries doing the criticising, most notably the US and France, have supported dictators and financed conflicts when it has clearly been in their interest. This is part of why China's message and strategy resonates so strongly with many African nations and leaders, the appeal of their principle of non-interference in the affairs of sovereign states. One can safely say that the behaviour of the Western powers on the African continent has been two-faced and hypocritical, as they have supported regimes just as corrupt if not more than those they accuse China of supporting. It is a fact that Western governments and multinationals have propped up dictators, financed conflicts, turned a blind eye to genocide and knowingly gone about business practices that used militias and child soldiers as a means to extract natural resources.

The main argument against China in Africa is that by aiding internationally-ostracised regimes, corruption, economic mismanagement and instability will proliferate. Some believe that if Chinese influence spreads too widely, the 'Washington Consensus' of economic liberalism and democracy will find itself in competition with a 'Beijing Consensus' of state-led development and disregard for human rights.

But from strictly an objective economic and poverty-reduction perspective, is emulating China inherently a bad thing?

It is interesting that the overwhelming majority of the economic take-off and development success stories in the 20<sup>th</sup> century have occurred with heterodox economic policies that have ignored many of the West's recommendations and used very little aid. As Dani

Rodrik, a notable Harvard economist, has pointed out: most poor countries that have made progress have done so crafting their own economic policy through gradual experiential learning and by possessing the autonomy to do what they feel is best. It may be controversial, but would China have been better off applying a 'one size fits all' World Bank structural adjustment programme in 1978 instead of its own unorthodox gradual approach as implemented by Deng Xiaoping?

A list of countries including China, South Korea, Taiwan, Singapore, Malaysia, Indonesia, India, Japan and even Chile have broken just about every rule in the book. All have at some point subsidised exports, directed credit, infringed on copyrights, placed domestic content requirements on local production, used tariff and non-tariff barriers, public ownership of large segments of banking and industry and restricted capital flows. Most of these countries have been much more successful than Sub-Saharan Africa in developing their economies. Perhaps what is most important, and what intrigues African policymakers about China, is that it can provide a personal level of expertise that Western experts cannot. William Easterly, a development economist and author of *The White Man's Burden*, pointed out very interestingly that development experts are greatly overrated as a means to achieve development. Remarkably, that statement challenges his own interest as a member of the profession who has dedicated years to the cause. This may be true and revealing, as Easterly goes further and points out that, unlike China, development experts from developed countries have never actually developed any of their own nations and perhaps even hurt developing nations more than they have helped. Easterly's comments question an entire establishment and industry, but are worthy of reflection.

In contrast to the Washington Consensus, the Chinese model rejects shock therapy and the big bang in favour of a process of gradual reform based on working through existing institutions. It involves a process of selective learning, or cultural borrowing and drawing on foreign ideas, including the neo-liberal American model, as well as many that are home-grown.

The key question African policymakers are asking themselves is which is better; Chinese pragmatism and experience or Western ideology? The consequences of following a Chinese or Asian philosophy of economic growth only time will tell, but given the results in development, can you blame Africa for looking East for ideas?

#### *The Opportunities and Concerns*

To come full circle, the following is a list of 10 potentially positive aspects for Africa that come simply as a result of China's increased presence on the continent:

- (1) Competition over African resources, allowing Africans more leverage and say in the negotiation process and to haggle for terms. China's arrival as an alternative source of trade, aid and investment has created a competitive environment where African states are no longer exclusively dependent on Western nations.
- (2) China has driven up both demand and prices for global commodities, making the supply of natural resources more lucrative than ever before.
- (3) China can offer its own experience of growth as an example and model for other developing countries to consider and learn from, something the US, as the doyen of developed countries, cannot.
- (4) Cheaper and more affordable Chinese goods for African consumers.
- (5) US\$2.5 trillion in currency reserves available for financing needs. The IMF possesses US\$257 billion in usable resources, while China has US\$2.5 trillion in

currency reserves. That makes Chinese currency reserves roughly 10 times bigger than all the funds at the IMF's disposal.

- (6) Better terms and more flexibility regarding aid financing.
- (7) The creation of special economic zones across the continent as a means of boosting non-natural resource industries and trade. The building of special trade and economic cooperation zones focusing on boosting manufactured exports can help overcome the Dutch disease.
- (8) Money for infrastructure, infrastructure and more infrastructure. Especially in countries that have been ravaged by conflict such as Angola and the Congo, this is absolutely key to getting their economies back on track. Since infrastructure requires such large investments, it typically needs to come from sources outside Africa.
- (9) Shifting of some labour- and energy-intensive industries to Africa as Chinese firms move up the value chain. This could be a potential solution to reducing the dependency on extractive industries and revenues from natural-resource exports. Robert Zoellick, President of the World Bank, is on record telling the *Financial Times* that China is interested in helping to create low-cost manufacturing bases in Africa.
- (10) Finally, and unquestionably most important, Africa is relevant again on the global stage as everybody seems to be talking about it a lot more since China has been around.

There are, however, some precautions that should be borne in mind in what seems to be a match made in heaven, of which the five most important are:

- (1) Chinese deals should not exclude African workers and firms from the bulk of the work in large projects by bringing their own workforces from China. This idea also applies to African firms getting a share in development contracts.
- (2) Cheap Chinese products should not flood African markets, putting local African products at a huge disadvantage, further hampering the diversification away from natural-resource sectors into textiles or manufacturing.
- (3) There should not be a disparity in the size of the trading partners, potentially allowing China to dominate the relationship and impose terms.
- (4) The Dutch Disease and over-dependence on natural-resource exports should be avoided.
- (5) The failure to improve governance and political institutions will prevent the money going to the right places instead of enriching corrupt officials.

## Conclusion

### *It is Ultimately up to Africans to Emerge as Winners*

While the effects of China's venture into Africa will only be known with time, the author believes that the relationship between China and Africa is positive for both sides. The exchange of essential needs such as natural resources and infrastructure to sustain or foster economic development is much more likely to achieve great things than paternalistic and failed aid strategies. As the Zambian economist Dambisa Moyo has pointed out, 'China's African role is wider, more sophisticated and more businesslike than any other country's at any time in the post-war period'. It is time for Africa to realise what it is worth to China and the world, to unify and to re-invest prudently in its people and in developing its human capital. The Chinese economy must grow enormously every year in order to maintain political stability, and that cannot happen without the massive quantities

of natural resources it needs. The Chinese 'supercycle' of 10% annual growth will drive commodity imports up by even larger percentages. The money and cooperation are there with China, but it is up to Africa to come out gaining from the relationship. Africa should not be afraid of requiring that African workers and firms get jobs and contracts, that safety and quality standards are upheld, and that its economies diversify away from simply producing primary products.

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