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China's Trajectory in Africa

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China’s Trajectory in Africa

Kongdan Oh Hassig

Executive Summary

The sheer size of China and its relentless pursuit of economic development have attracted widespread attention. Some contend that China is interested only in its own economic development and, in pursuit of that, will take advantage of unsophisticated and poorly governed countries, while muscling aside competitors. If this is the case, China's policies constitute a form of neo-colonialism that will retard the modernization of Africa. Another viewpoint is that China offers a useful alternative, or at least a needed source of competition, to Western policies and practices that have had little success in relieving African poverty.

China's activities in Africa can be usefully viewed in terms of China's political, economic, and social evolution from a poor, powerless, embargoed state to one that is well on the way to becoming a global superpower. If this is the historical trajectory that China is following, then there is reason to expect that domestic and international pressures of a political, economic, and cultural nature will force China's policies and practices to gradually conform to those of other major powers who have gone through a similar evolution. At the same time, history never exactly repeats itself, so it is likely that the policies of the current Western powers will be influenced by the rise of China. Such change would be in the natural order of things and no great cause for alarm.

One might not expect China to have a close connection with the continent of Africa. China has traditionally been a regional continental power, not a sea-faring nation. Africans have not historically populated China, nor the Chinese, Africa. Nor have the Chinese ever taken African colonies. China is not a developed country that considers itself to be in the position to offer advice to the developing world, of which it is still a part. Most importantly, the Chinese government and people have devoted most of their attention to economic self-improvement, not to internationalization. And yet, Chinese engagement in Africa has become a hot topic over the last decade.

The fact is that there is only so much a nation can do to develop itself without going out into the world. Today, economic, social, and political outreach is necessary for China's development. China's leaders gradually loosened controls on business contacts as far back as 1979; by the 1990s, the Chinese were gaining experience with foreign business, and it was during this period that China "discovered" Africa as a potential economic partner. The government officially adopted a "going out" policy in 2001, and everyone from state-owned corporations to unemployed peasants began to look abroad. African states and businesses are not ideal business partners; however, China is stepping into this risky and unappealing environment, willing to do business where other nations are cautious or discouraged.

One of the difficulties in evaluating China's impact on Africa is getting reliable statistics on its trade, investment, and aid. Like most authoritarian governments, China divulges no more information than it deems necessary. The Chinese government's secrecy and widespread corruption in Chinese business and politics are compatible with Africa's secrecy and corruption: a "lock and key" situation. Yet even though China-Africa economic statistics are imperfect and unreliable, the general trends of China's engagement in Africa seem clear.

For China, aid, investment, and trade are intertwined. Beijing will extend an aid package to an African country for whatever use its government wants to put it. Having earned the good will of the government elites, China is then in a position to make advantageous investments, as long as there is something in it for the local elites. The investment, if it is a productive one such as oil fields or mines, creates the basis for continued trade between the African country and China, and the resources extracted by the investment can be used to repay the initial investment cost. Tying aid, investment, and trade together results in the kind of "package deal" for which China is famous but which is frowned upon by most Western aid donors.

In 2009, China overtook the United States to become Africa's single biggest national partner in terms of total trade. As a rule of thumb, China runs a trade deficit with countries that sell natural resources, while running a surplus with countries that have few natural resources. Approximately 70 percent of China's imports from Africa are oil and other fuels, with another 15 percent being raw materials (e.g., minerals and timber). Only 15 percent of China's imports from Africa are manufactured goods. On the other hand, approximately 40 percent of China's exports to Africa are machinery and transportation equipment, with another 30 percent consumer goods. This imbalance in traded items, which could be termed complementarity, can be viewed as a steppingstone to help African nations gain financial resources to develop their economies, or as a millstone to keep them dependent on selling their natural resources.

China does not by any means dominate African trade. Across all product categories (in 2010), less than 14 percent of Africa's imports come from China and less than 5 percent of China's exports go to Africa.

Chinese foreign direct investment (FDI) in Africa has followed the same pattern as trade, which is hardly surprising considering that investment often is for the purpose of establishing a trading connection. And like the case of China's trade with Africa, exact statistics on investment are difficult to come by. The largest investments are made by China's state-owned enterprises, although China's provincial government-owned companies and private companies are active investors as well. And there are thousands of small Chinese businesses in Africa that immigrants have set up, many of which are not even legally registered in their host country, much less in China. In recent years, Africa's biggest Chinese investments have been made in natural resource extraction (especially oil and minerals), construction, telecommunications, and banking. Smaller Chinese businesses supply the African community with low-cost, low-quality goods imported from the homeland.

China is famous for its no-strings-attached approach to investment. Chinese companies care little about how the countries they invest in are governed, investing in oppressive dictatorships as well as democracies. The Chinese, however, have a very pragmatic business outlook. If they think they can earn a profit, they will invest; if they cannot negotiate a favorable contract, they will stay out. China's non-conditional investment policy gives its companies an edge over many Western companies. Chinese willingness to bribe also gives Chinese companies an edge over Western competitors

To put China's African investments in perspective, it should be noted that less than 5 percent of China's FDI has gone to Africa in recent years. Likewise, only about 5 percent of foreign investments to Africa come from China.

The Chinese began providing overseas development assistance (ODA) to Africa back in the 1950s while China was still a very poor country itself. In the last decade, Chinese aid to Africa and the world has increased substantially, but China is sometimes referred to as a "rogue donor" because Chinese aid is offered on a unilateral basis whereas most developed countries' ODA follows guidelines of the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC). Moreover, China's aid, like its trade and investment, lacks transparency. Perhaps most important, China has followed the principle of non-interference in its aid donations, which go to oppressive dictatorships as well as well-run democracies.

China is a major aid donor to Africa but not by any means the largest donor. In 2008 China provided a little over a billion dollars in aid to Africa, compared to more than \$7 billion from the United States, \$6 billion from the European Commission, \$4 billion from the World Bank, \$3 billion from France, more than \$2 billion from Germany and from the UK, and \$1.5 billion from Japan.

To try to calculate a net balance of China's engagement (trade, investment, and aid) in Africa based on the aforementioned considerations, it would be necessary to specify more carefully who benefits and who is injured. African elites and governments tend to be appreciative of the Chinese for the investment and aid they provide with no political or economic strings attached, because this money helps them stay in power. The African poor hold a mixed opinion: they resent the Chinese coming in to take their land (through the actions of African governments) and displacing them from their jobs (through the efficiency of Chinese business). On the other hand, they appreciate the chance to get jobs with Chinese companies and they like the low-priced products now available to them. To put these attitudes into some perspective, Africa's governments and its people are quite critical of the West's historical and contemporary engagement in their continent as well.

The American government and African and international NGOs tend to be critical of China's business policies and practices in Africa (and elsewhere), especially for Chinese disregard for the environment and the welfare of workers. The African and international media's investigative stories are critical as well. In fact, Chinese business practices are quite similar to the practices of the United States and other Western countries in a bygone era. From that perspective, the Chinese are simply behind the curve.

The Chinese government, especially in Beijing, is increasingly concerned about its international reputation and is aware of the harm to that reputation that many of China's foreign and domestic practices bring. The government is taking a more responsible position, but its influence is limited in the face of the activities of provincial governments and thousands of private Chinese citizens.

What can the West do to make China's growing engagement in Africa more beneficial for the African people? A confrontational approach with the Chinese government will not work, for China is too powerful. More leverage might come from international economic organizations that China belongs to. China values its membership in these organizations and does not want to be seen as a rogue member. There are also numerous NGOs present in Africa – some local and some international. They generally speak for the poor and oppressed and are more often than not critical of China's business practices. The NGO movement has relatively little influence in Africa, but it does make its views felt in the power centers of the Western world. These organizations can pressure individual African governments to negotiate better deals with the Chinese. Local and international media can also play a role in improving Africa's business environment.

As the African people find their voice, with the help of the media and NGOs, African governments may become more responsible stewards of their resources and more responsive to the needs of their people. Only if they can find irresponsible African governments to deal with can the Chinese take advantage of Africa.

INSTITUTE FOR DEFENSE ANALYSES

GLOBAL COVERAGE ANALYSES PROGRAM – AFRICA

ECONOMIC AND DEMOGRAPHIC ISSUES

CHINESE BUSINESS AND INVESTMENT IN AFRICA

CHINA'S TRAJECTORY IN AFRICA

KONGDAN OH HASSIG

NOVEMBER 20, 2012

Contents

Acknowledgments

I am not an African scholar: for the last 30 years my training and experience have been in Asian studies, and I have made only two brief visits to Africa. I was invited to join the Africa project because of my expertise in foreign networking, and when it came time to write a paper, I naturally chose the topic of China in Africa. I noticed that, although China's activities in Africa might appear to be at odds with the activities of the Western powers that have been in much longer contact with Africa, China's policies in Africa are wholly consistent with its policies in other countries – and within China itself.[1]

For that matter, China's business practices will look familiar to anyone who has studied the international business success of Japan and Asia's "four tigers" (Korea, Taiwan, Hong Kong, and Singapore). In all these cases, vigorous engagement with the guidance and backing of a strong government enabled businesses to expand across the world. China not only was able to learn by observing how its neighbors succeeded internationally, but also had first-hand experience as a major recipient of Japanese investment and aid.

China's sheer size and its relentless pursuit of economic development have attracted attention in almost every corner of the world. There are two major schools of thought about China in Africa. Some believe that China is interested only in its own economic development and, in pursuit of that will, take advantage of unsophisticated and poorly governed countries, while muscling aside competitors. If this is the case, China's policies constitute a form of neo-colonialism that will retard the modernization of Africa. The other viewpoint is that China offers a useful alternative, or at least a needed source of competition, to Western policies and practices that have had little success in relieving African poverty. Chinese goods are less expensive than Western goods (as Americans have discovered) and Chinese companies are willing to go into the difficult African environment to build roads, bridges, and railways at a better price and in less time than Western companies. True, some of these transportation corridors lead directly to Chinese investments, but others are built to improve the general infrastructure of the country.

This paper has been a journey of discovery for me. My principal conclusion is that China's activities in Africa can be usefully viewed in terms of China's political,

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1 For example, articles on China in Latin America describe similar policies; see *The China Quarterly*, Vol. 209 (2012): "From the Great Wall to the New World: China and Latin America in the 21st Century."

economic, and social evolution from a poor, powerless, embargoed state to one that is well on the way to becoming a global superpower. If this is the historical trajectory that China is following, then there is reason to expect that domestic and international pressures of a political, economic, and cultural nature will force China's policies and practices to gradually conform to those of other major powers who have gone through a similar evolution. At the same time, history never exactly repeats itself, so it is likely that the policies of the current Western powers will be influenced by the rise of China. Such change would be in the natural order of things and no great cause for alarm.

I could not have written this paper without consulting many books and articles, which are listed in the Reference Appendix, and by conducting interviews with the following China-Africa scholars: Mireille Affa's-Mindzie, Julius Agbor Agbor, Nicole Beardsworth, Deborah Brautigam, Tatiana Carayannis, Joshua Eisenman, Youssef Mahmoud, Stephanie Rupp, and David Shinn.

China's Trajectory in Africa

One might not expect China to have a close connection with the continent of Africa. China and Africa lie some distance apart. China has traditionally been seen as a continental regional power, not a sea-faring nation. Since the 1949 revolution, China has been firmly ruled by the Chinese Communist Party (CCP), thus diluting its claim to be be, along with African nations, a fellow member of the Third World. Africans have not historically populated China, nor the Chinese, Africa. Nor have the Chinese ever taken African colonies. China is not a developed country that considers itself to be in the position to offer advice to the developing world, of which it is still a part. Most importantly, the Chinese government and people have devoted most of their attention to economic self-improvement, not to internationalization. And yet, Chinese engagement in Africa has become a hot topic over the last decade.

The fact of the matter is that there is only so much a nation can do to develop itself without going out into the world. Today, economic, social, and political outreach is necessary for China's development. China's leaders gradually loosened controls on business contacts as far back as 1979; by the 1990s, the Chinese were gaining experience with foreign business; it was during this period that China "discovered" Africa as a potential economic partner. The government officially adopted a "going out" policy in 2001, and everyone from state-owned corporations to unemployed peasants began to look abroad. Africa is by no means the only region China has gone out to. In 2010, China's trade with the United States ($385 billion), Japan ($297 billion), Hong Kong ($230 billion), and South Korea ($207 billion) dwarfed its trade with the entire continent of Africa ($128 billion).[2] But Africa does offer China two important trade inducements: it has abundant natural resources, and its difficult business environment discourages many of China's competitors.

Whenever one nation or people "discover" another less developed nation or people, both peoples incur costs and benefits. The history of colonialism in Africa and the New World provides many examples of how indigenous peoples can be displaced and/or harmed by their discoverers, but also how those who survive can reap the benefits of a more advanced civilization. The 18th century colonial powers sought territory not only for itself but also for the natural resources that could be extracted; rarely did they try to

[2] The US-China Business Council Website, citing Chinese government figures. URL: https://www.uschina.org/statistics/tradetable.html

establish the same kind of economy that they enjoyed at home, which would have invited competition from lower-wage countries. An important question today is whether China's growing presence in Africa follows the pattern of earlier colonialists, who looked to Africa only for its raw materials, or whether China (as it claims) is seeking to establish long-term business relationships that will be mutually beneficial.

Communist China has been in Africa since its founding in 1949, but has mostly carried on a low-profile aid program. China's Africa activities did not catch the attention of Washington until Chinese premier Zhou Enlai made a tour of ten African countries in 1964.[3] Up until then, the United States had been vigilantly watching the Soviet Union as it tried to attract African nations to its side. China was often at odds with the Soviets and preferred to pursue "equal" relations with other states rather than be a junior partner in the USSR coalition. China was also in competition with the Soviets to demonstrate that the Chinese form of communism was a viable alternative to the Soviet model. So China made a diplomatic move into Africa.

Chairman Mao, who ruled China as the "Great Helmsman," extended ideological and diplomatic support to numerous African countries that had not yet gained their independence. At the 1955 Bandung Conference in Indonesia, which was instrumental in formalizing the non-aligned movement of nations, China formed a strong bond with African leaders and made a bid to be accepted as a legitimate (and influential) member of the Third World. China's period of political meddling ended when the CCP, headed by Deng Xiaoping, adopted a more liberal economic model in 1978.

China's domestic campaigns such as the Great Leap Forward and the Cultural Revolution piqued African interest but proved to be disappointing and did not serve as a model for African development. When China was forthcoming with practical aid and support, Africans were delighted, but when China devolved into internal chaos, Africans lost interest in China as a model. In a nutshell, African reaction to Chinese domestic developments illustrate that Africa has been interested in China only when China could do something to profit Africa: there has never been much political affinity, and China has not tried to convert African states to its brand of communism.

The one exception to this political disinterest is Taiwan. In 1971, when Beijing was voted in to replace Taiwan as the UN representative of the Chinese people, more than a third of the supporting votes came from African countries that had benefitted more from mainland China's aid and friendship than from Taiwan's. Since then, the only significant political condition China has imposed on its foreign aid is that it go to countries that do not have diplomatic relations with Taiwan.

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[3] Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press, 2009/2011, p. 32.

When they are not blinded by ideology, the Chinese are eminently pragmatic. If there is profit to be made, they will go to any corner of the world to seek it. Accustomed to a hard life, Chinese are even willing to go to what Asians call "three D" lands – dirty, dangerous, and difficult. And so China has found Africa.

Part of the West's concern over China is clearly the quickness with which the Chinese have moved into Africa: abrupt change usually catches people's attention and, more often than not, threatens them. Concern also comes because China often does not follow the same rules as most of the Western-dominated international community. The West has a deep conviction that its form of transparent market-driven business and its human rights policies based on respect for the individual should be the goal of all peoples. The Chinese do indeed seem to be moving in this direction as well, but they are not at the same stage of "development" as Western nations.

China is a latecomer to Africa and, in terms of investment, resource extraction, aid, and immigration, still lags behind the Western powers; in construction, however, China has already become a major competitor to Western construction companies. The basis of China's international policy is equality of relations, respect for the sovereignty of other governments (even very bad ones), and investment and lending with no political or economic strings attached (other than the insistence that its partners honor the one-China policy). African governments find these policies attractive. Whether China's success with this approach will lead to a big-power confrontation in Africa, whether the West will adopt some of China's policies, or whether the Chinese will ultimately become Westernized are interesting and important questions.

Trade

Much of Africa remains mired in poverty, beset by social ills including pervasive corruption, and ruled by corrupt, inefficient, and undemocratic governments. In short, African states and businesses are not ideal business partners. China is stepping into this risky and unappealing environment, willing to do business where other nations are cautious or discouraged.

One of the difficulties in evaluating China's impact on Africa is getting reliable statistics on its trade, investment, and aid. Like most authoritarian governments, China divulges no more information than it deems necessary. The Chinese people are in a poor position to demand information from their government, and until recently China has shied away from participating in international organizations that would require more information as a condition of membership. In Africa, government corruption, even in many of the democracies, prevents accurate information from surfacing, because corruption and misgovernment thrive on secrecy. Moreover, the less developed African nations, whose governments often do not even control all of their territory, generally have a limited ability to collect and analyze information about what goes on within their borders. The Chinese government's secrecy and widespread corruption in Chinese business and politics are compatible with Africa's secrecy and corruption: a "lock and key" situation. Yet even though China-Africa economic statistics are imperfect and unreliable, the general trends of China's engagement in Africa seem clear.

For China, aid, investment, and trade are intertwined. Beijing will extend an aid package to an African country for whatever use its government wants to put it. Having earned the good will of the government elites, China is then in a position to make advantageous investments, as long as there is something in it for the local elites. The investment, if it is a productive one such as oil fields or mines, creates the basis for continued trade between Africa and China, and the resources extracted by the investment can be used to repay the initial investment cost. Tying aid, investment, and trade together results in the kind of "package deal" for which China is famous but which is frowned upon by most Western aid donors.

For all of China's success in African trading, it is the European Union states collectively (including the former colonial powers in Africa) that are Africa's biggest customers, followed by China, the United States, the Asian region without China, and Japan (Figure 1). Africa's most important sources of goods are the European Union, Asian States, China, the United States, and Japan (Figure 2).

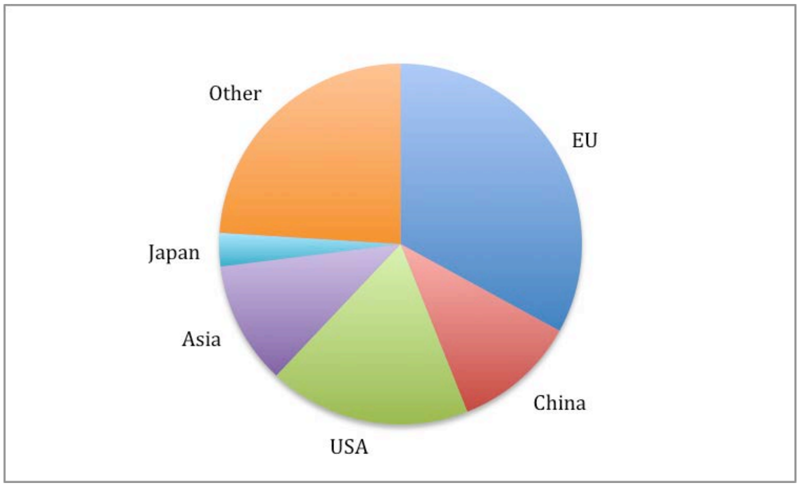

Figure 1. Distribution of African Exports to the Major Trading Blocs (2009)

Source: IMF and Dots statistics from African Development Bank Group, Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*. Policy Brief, Vol. 1, Issue 4, July 29, 2010, p. 2. PDF file.

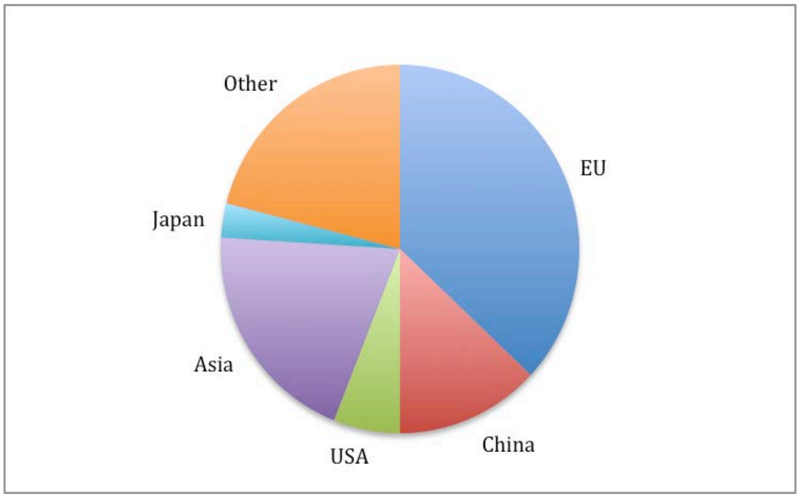

Figure 2. Distribution of African Imports from the Major Trading Blocs (2009)

Source: IMF and Dots statistics from African Development Bank Group, p. 3.

In 2009, China overtook the United States to become Africa's single biggest national partner in terms of total trade. In the future, these rankings could change as a result of global economic problems that have a differential impact on the major economic blocs, including China, but the trend is clear. Consider that in 2000, China's share of African exports and imports was only a few percentage points, even lower than Japan's. Since then, the rise in China's African trade has been steady, even as the amount of U.S. trade has leveled off and EU trade has declined. Given China's growing need for resources, and its strong economy, this rise is likely to continue.

Although China's trade with Africa is balanced (see Figure 3, in which the import (blue) and export (red) lines overlap), this is not the case for its trade with many individual countries on the continent. As a rule of thumb, China runs a trade deficit with countries that sell natural resources, while running a surplus with countries that have few natural resources. Approximately 70 percent of China's imports from Africa are oil and other fuels, with another 15 percent being raw materials (e.g., minerals and timber). Only 15 percent of China's imports from Africa are manufactured goods. On the other hand, approximately 40 percent of China's exports to Africa are machinery and transportation equipment, with another 30 percent consumer goods. This imbalance in traded items, which could be termed *complementarity*, can be viewed as a steppingstone to help African nations gain financial resources to develop their economies, or as a millstone to keep them dependent on selling their natural resources.

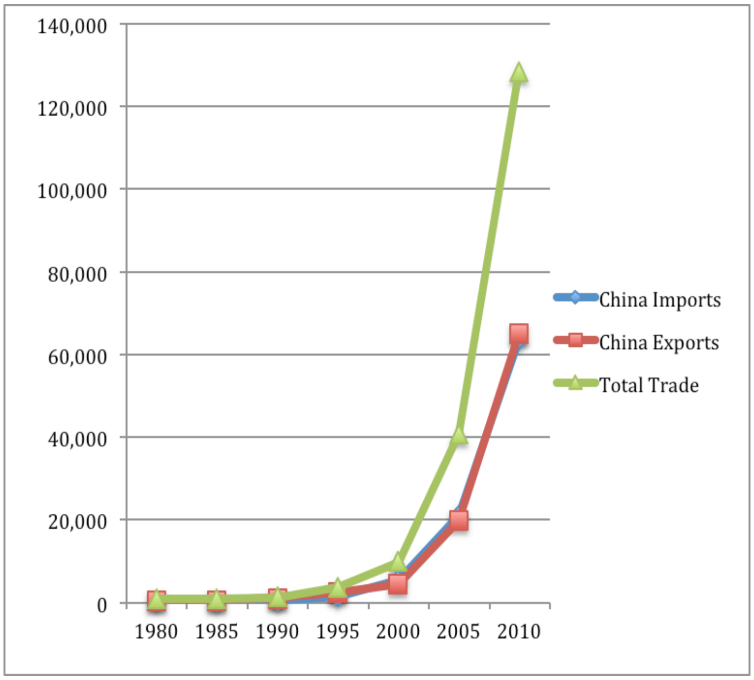

Figure 3. China-Africa Trade ($million)

Sources: IMF and Dots statistics from Shinn, David H. and Joshua Eisenman. *China and Africa*. Philadelphia: University of Pennsylvania Press, 2012, Appendix 2, pp. 381-382.

In a typical year (2007), approximately 60 percent of Chinese exports went to just five countries in Africa: South Africa, Egypt, Nigeria, Algeria, and Benin. Approximately 70 percent of Chinese imports from the continent came from Angola (34 percent), South Africa (20 percent), Sudan (11 percent), and the Republic of the Congo (8 percent).[4] From Angola, China purchases oil, natural gas, and diamonds; from South Africa, diamonds, iron ore, copper, and platinum and manufactured goods; from Sudan, oil; from the Congo, oil. Although China has quickly become an important buyer of African resources, it is not the largest buyer. China purchases less than 15 percent of Africa's oil, compared to the United States and Europe, which each purchase approximately a third of Africa's oil.[5]

China does not by any means dominate African trade. Across all product categories (in 2010), less than 14 percent of Africa's imports come from China and less than 5 percent of China's exports go to Africa (Figure 4). In only a few categories, such as Chinese construction services, oil exports, and very small business, has China made its mark on Africa.

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[4] Renard, Mary-Francoise. "China's Trade and FDI in Africa." African Development Bank Group: Working Paper Series, No. 126, May 2011, p. 15. PDF file.

[5] Shinn, David H. *China's Growing Role in Africa: Implications for U.S. Policy*. Remarks at a Hearing Held by the Senate Committee on Foreign Relations Subcommittee on African Affairs, 1 November 2011. Available in PDF.

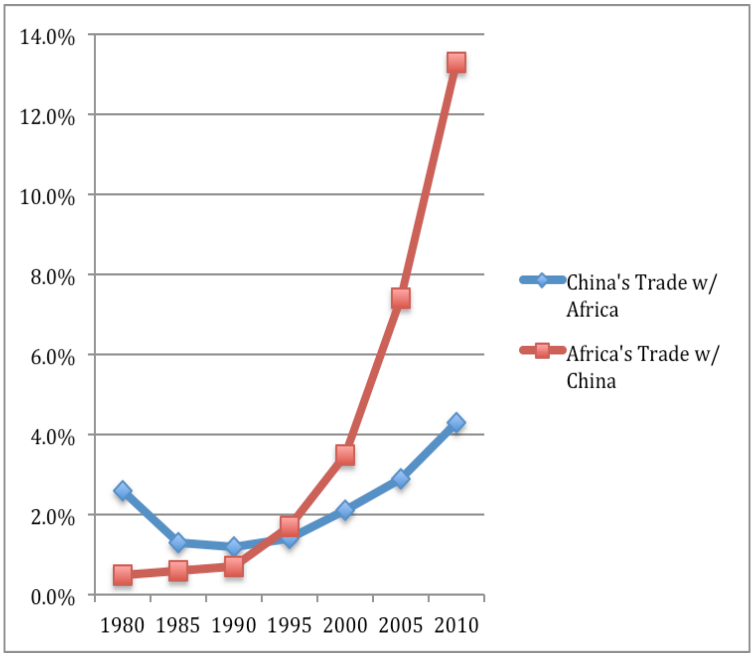

Figure 4. Africa as a Percent of all China Trade; China as a Percent of All Africa Trade

Sources: IMF and Dots statistics from Shinn, David H. and Joshua Eisenman, Appendix 2, pp. 381-382.

Investment

Chinese investment in Africa has followed the same pattern as trade, which is hardly surprising considering that investment often is for the purpose of establishing a trading connection. And as in the case of China's trade with Africa, exact statistics on investment are difficult to come by. Most Chinese companies are cautious about publicizing their investments; some Chinese investments come by way of offshore companies, e.g., in Hong Kong or Singapore, and it is becoming more usual for investments to come from private or government-run companies in local Chinese jurisdictions, which often do not share information with Beijing.

The largest investments are made by China's state-owned enterprises. In recent years, Africa's big Chinese investors (whose names indicate their industries) have included China National Offshore Oil Corporation (CNOOC, in Nigeria), China Petroleum and Chemical Corporation (Sinopec, in Angola), China Railways Construction (in Nigeria), China National Machinery Industry Corporation (Sinomach, in Gabon), China International Trust and Investment Corporation (CITIC, in Egypt) and Aluminum Corporation of China Limited (Chalco, in Egypt), China Non-ferrous (in Zambia), Industrial and Commercial Bank of China (ICBC, in South Africa), SinoSteel (in

Zimbabwe), China National Petroleum Corporation (NPC, in Niger and Chad), and China Metallurgical and Sinohydro (in DRC).[6]

China's provincial government-owned companies and private companies are active investors as well. And there are thousands of small Chinese businesses in Africa that immigrants have set up, many of which are not even legally registered in their host country, much less in China. Although these companies do not invest heavily in Africa, they are on the front line in terms of contact with the African population, and, as a result, they have a big influence on African-Chinese relations. Many of these small investors and traders were initially brought to Africa by Chinese companies to work on large projects and simply decide to stay. Others are pulled to Africa by family or friends who are already there. These small business owners are very difficult to count because they tend to work on a cash-only basis to avoid paying taxes and registering with the host African government.[7]

The plight of Chinese small businessmen is difficult: they work long hours, make little money, and enjoy virtually no protection from their host government. Most of them speak only Chinese so they can't defend themselves if arrested or detained. In a survey of four African countries, Terence McNamee and his associates found that the major complaints traders have are crime, lack of language ability, corruption and discriminatory host country policies, and a low standard of living.[8] Chinese stand out in a crowd and since Chinese businessmen are known to do business on a cash basis, they are an easy mark for robbers and thieves. The Chinese fear the police and government officials as much as they fear the criminals, because the Chinese are a popular target for police shakedowns. African officialdom is riven with corruption, and the only way small Chinese traders can survive is to pay bribes and keep a low profile.

How many Chinese live in Africa is impossible to say. Estimates usually fall in the range of one million. For these men (rarely do Chinese women come to Africa), life is difficult. They are usually workers who have been displaced in the labor market in their home country, so Africa is their last chance. Few of them want to make Africa their home: they hope to return to China after earning some money, or at least move on to a more hospitable continent.

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[6] Kobylinski, Katarina. *Chinese Investment in Africa: Checking the Facts and Figures*. Association of International Affairs (Czech Republic), Briefing Paper 7/2012, July 2012, p. 7. URL: http://www.academia.edu/1798405/Chinese_Investment_in_Africa_Checking_the_Facts_and_Figures

[7] McNamee, Terence. Africa in Their Words: A Study of Chinese Traders in South Africa, Lesotho, Botswana, Zambia and Angola. The Brenthurst Foundation Discussion Paper 2012/03. PDF file.

[8] McNamee, Terence. Africa in Their Words: A Study of Chinese Traders in South Africa, Lesotho, Botswana, Zambia and Angola. The Brenthurst Foundation Discussion Paper 2012/03. PDF file.

Chinese businesses supply the African community with low-cost, low-quality goods imported from the homeland. True, the low quality is a source of frequent customer complaints, and the traders are so aggressive in their business practices – accepting thin profit margins – that they drive out local African businesses, although there is plenty of competition from other immigrant traders, including the Vietnamese and Somalis. Chinese traders complain that they receive no support from Chinese government officials stationed in Africa, so the traders are largely on their own. For poor African peasants, even the low prices they are paying for Chinese goods are expensive, leading them to believe that Chinese shop owners must be wealthy, when in fact the Chinese are often just scraping by themselves. Even to do this they must work long hours, seven days a week, and they cannot understand why Africans are not willing to do the same.

The magnitude of China's investment in Africa, including from these thousands of small businesses, is little more than a matter of conjecture, with estimates of 2009 investment stock totals ranging from $9 billion to $40 billion – both statistics coming out of China.[9] Whereas the exact investment figures are impossible to determine, it is clear that China's foreign investment activity has increased in recent years – both globally and in Africa. Chinese government figures for investment in Africa show an increase in investment stock from $491 million in 2003, at about the time that China's foreign direct investment (FDI) campaign was taking off, to $9.3 billion in 2009 (Figure 5). The peak annual flow of investment in 2008 is partly accounted for by a large Chinese investment in South Africa's Standard Bank Group, presumably preparing China to extend loans and other banking services to its businesses across Africa (Figure 6).

[9] Shinn, David H. and Joshua Eisenman. *China and Africa*. Philadelphia: University of Pennsylvania Press, 2012, pp. 131-2.

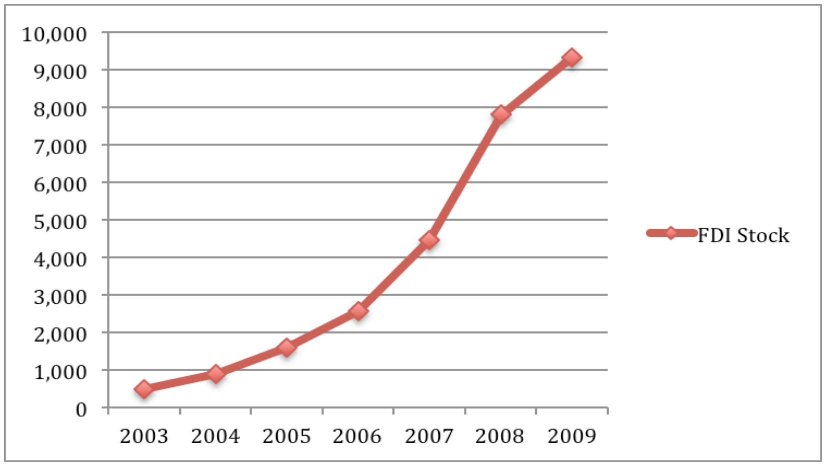

Figure 5. Chinese Official Figures for Cumulative Foreign Direct Investment Stock in Africa ($million)

Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment. From Appendix II, p. 32, of Salidjanova, Nargiza. *Going Out: An Overview of China's Outward Foreign Direct Investment*. U.S. – China Economic and Security Review Commission Staff Research Report, March 30, 2011. PDF file.

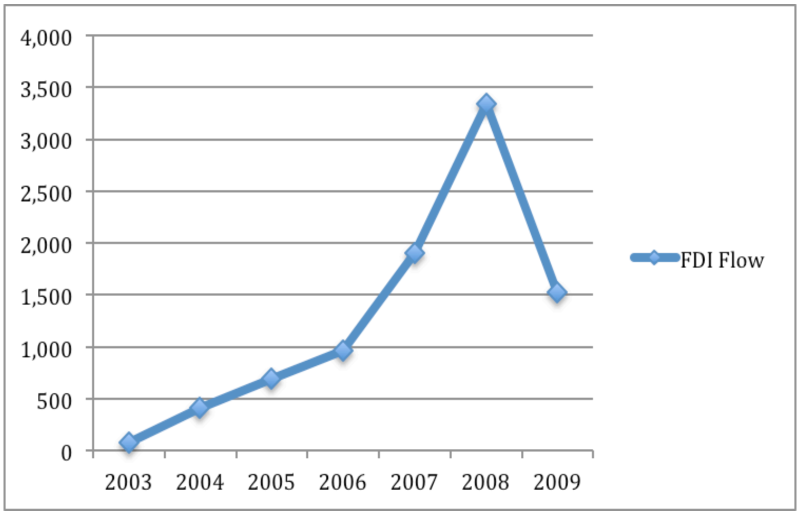

Figure 6. Chinese Official Figures for Annual Foreign Direct Investment Outflow to Africa ($million)

Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment. From Appendix II, p. 32, of Salidjanova, Nargiza.

To put China's African investments in perspective, it should be noted that less than 5 percent of China's FDI has gone to Africa in recent years.[10] The largest portion of Chinese investment flows to China's neighborhood, and most other regions of the world have seen an increase in Chinese investments as well. It appears that the bulk of Chinese investments goes to offshore havens: e.g., in 2009, Hong Kong claimed 67 percent of

10 Kobylinski, Katarina. Chinese Investment in Africa: Checking the Facts and Figures. Association of International Affairs (Czech Republic), Briefing Paper 7/2012, July 2012, p. 7. URL: http://www.academia.edu/1798405/Chinese_Investment_in_Africa_Checking_the_Facts_and_Figures

Chinese FDI, and the Cayman Islands and British Virgin Islands each 12 percent.[11] Some of this money even flows back into China to take advantage of "foreign" investment tax breaks.[12] Likewise, only about 5 percent of foreign investments to Africa come from China.[13] That said, China's share of investment in Africa is likely to continue to rise in the future.

China is famous for its no-strings-attached approach to investment. Chinese companies care little about how the countries they invest in are governed, investing in oppressive dictatorships as well as democracies. The Chinese, however, have a very pragmatic business outlook. If they think they can earn a profit, they will invest; if they cannot negotiate a favorable contract, they will stay out. The Chinese government exercises influence over its state-owned enterprises, but does not by any means have absolute control over them; business rather than politics seems to guide most investment decisions.

China's non-conditional investment policy gives its companies an edge over many Western companies, which avoid investing in certain African countries for moral reasons or for fear of damaging the company's reputation, or because the country is under an international embargo, or simply because the investment is too risky (Chinese state-owned companies can accept more risk because they have the government's financial backing). Chinese companies are willing to resort to bribery to secure investment contracts, a practice that is widespread among corrupt African governments, and also a characteristic of China's domestic market. This willingness to bribe often gives Chinese companies an edge over Western competitors, who are constrained by their own anti-bribery laws and regulations.

For China, the problem with this free-wheeling investment approach is that once an investment has been made, countries run by corrupt governments are less likely to honor contracts and more likely sooner or later to experience civil unrest, which is bad for business. The Chinese have often been burned in their investments, and they seem to be exercising more discrimination in their business decisions investments than they did formerly.

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[11] Salidjanova, Nargiza. Going Out: An Overview of China's Outward Foreign Direct Investment. U.S. – China Economic and Security Review Commission Staff Research Report, March 30, 2011, p. 9. PDF file.

[12] Salidjanova, Nargiza. *Going Out: An Overview of China's Outward Foreign Direct Investment*. U.S. – China Economic and Security Review Commission Staff Research Report, March 30, 2011, p. 10. PDF file.

[13] African Development Bank Group, Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*. Policy Brief, Vol. 1, Issue 4, July 29, 2010, p. 7. PDF file.

An instructive case study of the complications of aid and investment in Africa is provided by Deborah Brautigam, based on her research and first-hand visits.[14] In the late 1970s, the Chinese built a large sugar plantation for the Sierra Leone government. Called the Magbass plantation, it was run by the Chinese government's Complant (China National Complete Plant Import/Export Corporation) until it was forced to suspend operations during the civil war that began in 1996. Magbass was a rebel stronghold, and the rebels tried to get the local people to run the plantation, but they were unable to do so. When the war ended in 2003, the Sierra Leone government unsuccessfully sought a buyer for the plantation. Complant agreed to return and renovate and run the plantation for a percentage of the profits. After two years of renovation, the plantation resumed operation, although it operated at a loss.

Part-time employment became available for 1,500 workers, and several hundred more found full-time jobs. The top jobs were held by three dozen Chinese. African part-time workers were paid $1.62 per day, compared to the $1.26 they could earn farming. Dissatisfied, they struck for higher pay and won a raise to $2.19. In 2007, the NGO Doctors without Borders charged that the plantation was polluting a nearby river with run-off. Local landowners demanded that Complant provide community services. The government had agreed to Complant's request to expand the plantation, but local farmers were unhappy with how little the government compensated them. Complant said that its contract with the government provided for the acquisition of more land, without which the plantation could not be profitable.

Politics became involved when two political parties sponsored separate landowners associations and the two could not agree on how to dispense payments to the farmers whose land had been taken, and the Magbass plantation became a national political issue in the 2007 election. Finally, Complant threw in the towel and sold the plantation to a private Chinese leather company.

Aid

The majority of sub-Saharan states are in great need of humanitarian and developmental assistance, and China is willing to help. In fact, the Chinese began providing overseas development assistance (ODA) to Africa back in the 1950s while China was still a very poor country itself. This aid was partly for political purposes – to wean African countries away from Taiwan and demonstrate solidarity with the Third World. In the last two decades, China's aid to Africa has increased, along with its trade and investment. Since much of the aid is tied to Chinese business investments, the aid

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[14] Brautigam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press, 2009/2011, pp. 259-265.

often serves a selfish economic as well as a humanitarian purpose, but this is often the case with aid from other countries as well.

One might not expect that the subject of foreign aid to poor nations would prove to be contentious. The words “rogue” and “donor” are rarely used together, but various commentators have applied them to China.[15] One problem is that Chinese aid is offered on a unilateral basis whereas most developed countries’ ODA follows guidelines of the Organization for Economic Co-operation and Development’s (OECD) Development Assistance Committee (DAC). Moreover, China’s aid, like its trade and investment, lacks transparency. Perhaps most important, China has followed the principle of non-interference in its aid donations, which go to oppressive dictatorships as well as well-run democracies. China has also extended loans to poor countries whose debt has recently been forgiven by the OECD countries, leaving China open to the charge that it is burdening these countries with new debt as soon as they have been bailed out by other countries. Furthermore, the structure of many Chinese loans requires the African countries to pledge their resources to pay back the loans, putting the Chinese first in line for future repayments.

It has been said that finding information on Chinese aid is like putting together a jigsaw puzzle.[16] Until recently, the Chinese government rarely revealed how much aid it was providing to individual countries. Part of the explanation for this secrecy might simply be the reluctance of authoritarian regimes to divulge any more information than they absolutely have to. Another possible explanation is China’s desire to deal with other nations on a footing of equality rather than as patron-client. It might also be that the Chinese government is reluctant to publicize its foreign aid while so many of its people are still poor. And there is certainly the consideration that the Chinese are often wary of joining international organizations or subscribing to their rules.[17] Since 2006, however, the Chinese government has released several white papers on aid, and along with information from aid recipients, it is possible to get a general idea of how much aid the Chinese are giving, what forms it takes, and where it is going.[18]

Since the Chinese government classifies aid differently from the way the OECD does, figures from these two sources are not directly comparable. For example, Chinese funds provided to build a presidential palace or a sports stadium in an African dictatorship would be classified as aid, along with military assistance and subsidized

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[15] The first use is generally attributed to Moises Naim’s 2007 op-piece in *The New York Times.*

[16] Grimm, Sven. Transparency of Chinese Aid: An analysis of the published information on Chinese external financial flows. Center for Chinese Studies, August 2011, p. 22. PDF file.

[17] Grimm, pp. 14, 23.

[18] Grimm, p. 6.

loans for joint ventures.[19] On the other hand, OECD donors include debt relief in their aid figures, which is considered a separate category by the Chinese. Deborah Brautigam has tried to tease out the aid amounts provided by China to Africa, and her statistics are used here. Figure 7 shows that in the last decade China's aid to Africa, along with its aid to other countries, has steadily increased. In 2009, China's aid to African countries was a bit less than $1.5 billion, with Chinese aid to all countries slightly above $3 billion. China's global distribution of aid is shown in Figure 8: about 45 percent went to Africa in 2009; this figure is typical of the distribution since 2001.

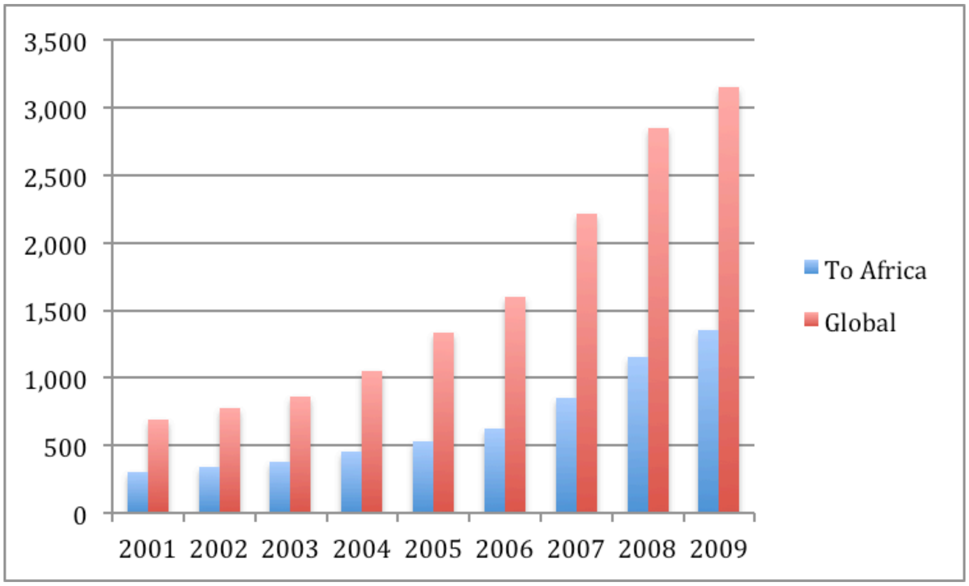

Figure 7. Chinese Aid to Africa and Total Chinese Aid ($million)

Various Chinese sources and estimates from Brautigam 2009/2011, Appendix 6, p. 317.

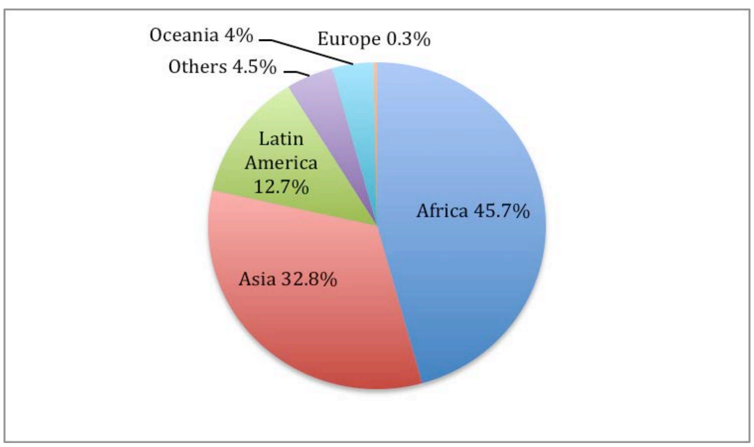

Figure 8. Geographical Distribution of China's Foreign Aid, 2009

Source: White Paper on Foreign Aid, China's State Council Information Office, April 21, 2011. From Grimm, 2011, p. 31.

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[19] Grimm, p. 7.

Although Chinese aid to Africa and the rest of the world has steadily increased, China is still not one of the top donor countries. Figure 9 shows that in 2008 China provided a little more than a billion dollars in aid to Africa, compared to more than $7 billion from the United States, $6 billion from the European Commission, and $4 billion from the World Bank.

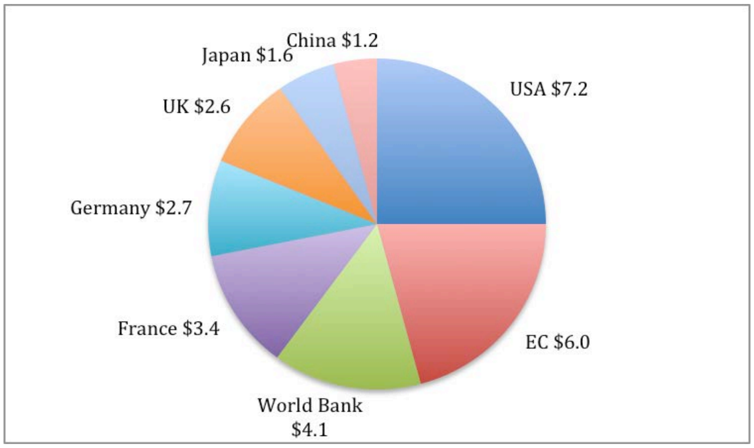

Figure 9. Major Aid Donors to Africa, 2008 ($billion)

Sources: OECD/DAC statistics; this figure and the China aid statistic from Brautigam, 2009/2011, p. 172.

Summary of China's Engagement in Africa

The following points provide a good overview of China in Africa:

- China's guiding policy for African engagement is pragmatism. If a country offers something valuable to China, China will assist that country with whatever the country's government says it needs.
- China has its own rules and guidelines and does not feel an obligation to follow rules and guidelines set forth by international financial institutions or other countries.
- Unconditional aid and non-intervention in the domestic affairs of other countries are long-established Chinese traditions, influenced by China's own history and the nature of China's own political situation as a nondemocratic state with a problematic human rights policy. African governments prefer these policies to the conditional policies of Western investors and aid programs.
- China's non-hegemonic and anti-hegemonic rhetoric is welcomed by Africans.
- China's long-term promotion of cordial diplomatic relations has won over many African governments.
- China's "developmental state" economic planning is similar to the planning that Japan and the Four Tigers successfully followed in the past. Whether this planning will work as well for China remains to be seen.

- For several centuries African trade and investment were dominated by Europe and the United States; African states appreciate the competition that China now provides. There is some debate as to whether this competition will help or hurt Africa in the long term, but in the meantime the added attention is good for Africa's self-esteem – and lucrative for the African elites.
- China has built good personal relations with Africa's political elite; now China is becoming more sensitive to its relations with the African common people, although improving these relations will be difficult considering China's lack of overseas experience and foreign language ability.
- Anti-Chinese rhetoric has been heard from some African governments, including Zambia, Kenya, Nigeria, and South Africa. Issues of dissatisfaction include exploitative investments, sale of counterfeit goods, and failure to hire a fair share of African workers. China might have to make some changes in its operations to meet local demands.
- China promotes social and cultural exchanges with Africa's elites, but working relations between local workers and Chinese companies and traders continue to be troublesome.
- Africans want China to be less aggressive in its business practices; however, other developing countries like Vietnam and Bangladesh will push the Chinese aside if they get soft. The problem may be more of a globalization issue than a China-Africa issue. Africa's best protection is to make its own governments and businesses strong.
- China is in Africa for the long term, even though some of its business practices are short-sighted.

Contentious Issues

In addition to trade, investment, and aid, China's engagement with Africa includes diplomatic relations (China has them with 50 of Africa's 54 states, and maintains more consulates in Africa than the United States does), high-profile visits by Chinese leaders to Africa (each year the first overseas visit by China's foreign minister is to an African country), visits of African leaders to China, the training of thousands of African students in China at government expense, Chinese immigration to Africa (probably at least a million Chinese living there), participation in UN and African Union peacekeeping missions (China contributes more personnel than any other permanent member of the UN, although its personnel are not in combat roles), and arms sales (but no military bases or alliances).

China’s growing role in Africa raises numerous issues for Africans and the global community, and has given rise to numerous complaints, many of which have been mentioned in the foregoing pages. These issues include the following:

- China is short-changing the African people and environment in its extraction and export of African resources.
- Some Chinese investment projects, lacking political conditions, support oppressive African dicatorships such as Sudan and Zimbabwe.
- Chinese industries in Africa treat African workers poorly, and employ too many Chinese. (Workers in China’s domestic industries are often treated badly as well.)
- Chinese business practices lack transparency, thus opening the door to corruption.
- Chinese investors resort to bribery and other corrupt practices to win contracts, thereby driving out investors who adhere to higher business standards.
- Chinese traders and small-business owners are displacing African businesses.
- Chinese traders are flooding the African market with low-quality goods.
- Chinese immigrants include gang members who spread crime – especially among the Chinese immigrant communty.
- Chinese low-interest loans with no economic conditions attached drive out loans that would force recipients to adhere to better economic policies.
- Chinese loans and aid are mostly tied to Chinese investments.
- Chinese aid to countries that have benefitted from OECD debt forgiveness put those countries back into debt.
- Chinese arms find their way into African conflict zones (although the Chinese government denies selling arms directly to conflict zones).

By this accounting, China is not being a responsible business partner for Africa. Although the Chinese are not colonizing African countries, they are extracting their resources and making them dependent upon Chinese money and products. Rather than pursuing policies that would help both China and Africa develop, China is pursuing policies that help it grow and keep Africa dependent. Of course, many of these complaints could and have been made against other countries that trade and invest in Africa. This is especially the case for complaints about extraction of resources, employment practices, transparency of business deals, and support for dictatorial regimes.

But there is another perspective on China’s engagement:

- China is helping Africa develop its natural resources.

- Chinese contractors build infrastructure projects quickly and at reasonable cost.
- Chinese traders supply inexpensive goods that Africans could not otherwise afford.
- China does not interfere with the sovereign affairs of African states.
- Chinese investment, trade, and aid provide African countries with an alternative to Western offers, and thereby force those offers to be more competitive.
- Chinese workers sent to Africa provide a model of hard work, and they are willing to endure a much lower standard of living than Western workers.
- China has no military designs on African states.

Constituent Interests

To try to calculate a net balance of China's engagement in Africa based on the aforementioned considerations, it would be necessary to specify more carefully who benefits and who is injured. Neither Africa nor China is a monolithic entity. On both sides are numerous consituencies and power centers with differing interests. Not everyone can be satisfied.

In Africa, these constituencies include governments (both democratically elected and authoritarian), the politically and economically elite classes (who have close connections with their governments), the poor and the rising middle class, and African NGOs that represent the interests of these poorer people. And needless to say, every country has its own political parties or groups that contend against the government, sometimes peacefully and sometimes in armed conflict.

In China, there is the government in Beijing, which guides large state-owned businesses and sets national business policies but often has difficulty determining if these policies are being followed; provincial governments, which also have their own businesses; private businesses; Chinese immigrants who have made their way to Africa and are trying to survive on their own without the support of their government; and the common masses, who often believe their government is not doing enough for them.

And then there are the voices that Americans are most likely to hear: those of their government and national and international NGOs that work for human and worker rights around the world, and the local and international media.

These constituencies hold different attitudes toward China. The Chinese government has targeted the African elites for the purpose of conducting its business. Beyond that, the Chinese generally do not mix with the common African people. Chinese managers live in their own enclaves, and even Chinese traders who have resided in Africa for many years have little to do with Africans. Owners manage their stores, but if they can afford to, hire African clerks and security guards to separate themselves from their African customers. African elites who are invited to visit China are wined and dined and shown the glamour of China's big cities, but they do not see the poor parts of China or get a chance to meet ordinary Chinese. As long as they both get something for themselves, the Chinese and African elites maintain a cordial working relationship.

The American government and African and international NGOs tend to be highly critical of China's business policies and practices in Africa (and elsewhere), especially for Chinese disregard for the environment and the welfare of workers. The media's investigative stories are critical as well. In fact, Chinese business practices are quite similar to the practices of the United States and other Western countries in a bygone era. From that perspective, the Chinese are simply behind the curve. The masses of Chinese people tend to be critical of their government for its authoritarian manner of governance; although they are becoming more vocal in their complaints, they have only a limited impact on their government's domestic and foreign policies.

African elites and governments tend to be appreciative of the Chinese for the investment and aid they provide with no political or economic strings attached, because this money helps them stay in power. The African poor hold a mixed opinion: they resent the Chinese coming in to take their land (through the actions of African governments) and displacing them from their jobs (through the efficiency of Chinese business). On the other hand, they appreciate the chance to get jobs with Chinese companies and they like the low-priced products now available to them.

The attitude of Africa's governments and people toward the West is far from positive. Memories of the colonial period have not died out (nor have they in China, whose "century of humiliation" at the hands of Western powers and Japan lasted from the Opium War of 1839 to the founding of the People's Republic in 1949). Large Western conglomerates in Africa are criticized for the same reasons that Chinese companies are criticized, although today the criticisms are usually not as well grounded. Western loans and aid with strings attached are resented by African governments as interference in their sovereign affairs. The West is often seen as a global hegemon, and the Chinese capitalize on this sentiment by presenting themselves as a force to combat Western hegemony in Africa.

The Chinese government, especially in Beijing, is increasingly concerned about its international reputation and is aware of the harm to that reputation that many of China's foreign and domestic practices bring. The government is taking a more responsible position, but its influence is limited in the face of the activities of provincial governments and thousands of private Chinese citizens, who are farther behind the responsibility curve. In addition, having been for years excluded from international organizations and "contained" by the United States, the Chinese are not eager to join an international community that they had little opportunity to shape or submit to its rules. When criticized for its aid practices, the Chinese government frequently points to the admitted failure that Western governments have had in making a substantial dent in Africa's poverty.

Influencing China's Behavior in Africa

The different attitudes held by the various players in the Africa-China business enterprise suggest ways to influence China's activities in Africa. A confrontational approach with the Chinese government will not work. That has been tried in the past, but China emerged after years of isolation to become a major power. As long as consumers in the United States and other developed nations continue to buy Chinese-made products at a record clip, and as long as deficit spending forces the developed countries to borrow money from China, China is not going to be easily pressured.

But China has its weak points. Just as the developed economies have found it necessary to move industries offshore to benefit from cheaper labor, the Chinese are now approaching that point. Chinese companies are losing business to their lower-wage neighbors in Southeast Asia. Being a newcomer in international business, China lacks experience, management skills, and cultural skills to work well with foreign governments and companies. China's authoritarian culture is a suitable basis for dealing with African elites, but not with a broader spectrum of constuencies. China has a political problem in terms of its authoritarian one-party communist system, which is viewed with suspicion by most foreigners and is increasingly unpopular with the Chinese people themselves, especially in terms of the corruption and repression that a one-party system breeds. China is only in the initial stages of becoming an international business presence. As it develops further in that direction, it will need the cooperation of many others in the international community.

More leverage might come from international economic organizations that China belongs to. China values its membership in these organizations and does not want to be seen as a rogue member. There are also numerous NGOs present in Africa – some local and some international. They generally speak for the poor and oppressed and are more often than not critical of China's business practices. The NGO movement has relatively little influence in Africa, but it does make its views felt in the power centers of the Western world. As they develop, these organizations can pressure individual African governments to negotiate better deals with the Chinese.

Local and international media can also play a role in improving Africa's business environment. In most African countries, the media are not as developed as they are in the West, but they are getting stronger. Media-driven campaigns against Chinese investment have appeared in several African countries. For example, in Zambia, a campaign against

Chinese business practices helped the opposition candidate win the presidency.[20] China's leaders are well aware of the importance of the media. In their own country, the media are well controlled, and one component of China's international campaign is to promote China-favorable media abroad. Billions of dollars are being spent on this effort, including a dramatic expansion of Xinhua, the official Chinese news agency.[21]

Can Africa take care of itself? If the governments of African nations were stronger – at least those with marketable resources – they could negotiate better deals with China. But most African nations are small, poor, and badly governed. An alternative is for them to band together. There is already the African Union, but it comprises such a diverse group of states that it is not reasonable to expect that it will be able to speak with one voice on economic issues. A handful of African economic communities are also not up to the task of dealing with China. After all, if the United States, the most powerful economic and political power in the world, is unable to influence China on such things as the valuation of Chinese currency, it is unlikely that a group of African states will have much success.

As the African people find their voice, with the help of the media and NGOs, African governments may become more responsible stewards of their resources and more responsive to the needs of their people. This kind of change will influence the Chinese. Only if they can find irresponsible African governments to deal with can the Chinese take advantage of Africa.

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14. ABSTRACT
From the year of its founding in 1949, the People's Republic of China has provided a modest amount of aid to African states, and consequently benefited from their support when applying for a seat at the UN. Beginning with the Chinese Communist Party's endorsement of a "going out" policy in 2001, China's aid, trade, and investment in Africa (and other countries) increased dramatically. In 2009 China overtook the United States to become Africa's largest national trading partner. Chinese investment is also on the rise, although total investment stock does not yet match Western investments. Half of all Chinese foreign aid is funneled to African states. The dramatic increase in China's involvement in Africa is criticized by the West for being offered with no political or economic strings attached: i.e., to economically corrupt dictatorships as well as to struggling democracies. Moreover, Chinese business practices, which include the use of bribery, challenge evolving Western business norms. However, the Chinese government is coming under increasing pressure from its citizens and from international media and human rights organizations to adopt more responsible policies toward Africa and other developing countries, and this pressure is beginning to shape Chinese policies.

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