

# OXFORD UNIVERSITY CHINA AFRICA NETWORK



The Oxford University China-Africa Network (OUCAN) with the support of the  
Economic & Social Research Council (ESRC) present



## The Conference on “Chinese Investment and African Agency”

hosted by the Department of Politics and International Relations, University of  
Oxford 11-12 March 2011

---

### Regulating China-Africa cooperation

By Sanou MBAYE<sup>i</sup>

The entry of fast-growing economies such as China, India, Korea, Malaysia, Turkey, Brazil and Malaysia into Africa in the early 1990s provided African countries with a platform for increased exports, and the inception of a cooperation model based on trade, investment, and technology transfer. This has broadened their options for economic growth, and presented real and significant opportunities for their progress.

Prior to this increasing engagement with emerging markets, African economies were closely integrated with the former colonial powers in Europe, and with North America and Japan. When they became independent in the late 1950s and early 1960s, African countries were deemed lost causes by western rating agencies and locked out of international capital markets. To finance their development, they had to rely on Official Development Assistance (ODA). Western policy towards Africa could be summed up as: “*Do as we say and not as we do*”, sticking to loan programmes granted by the Bretton Woods institutions: the International Monetary Fund (IMF) and the World Bank whose development strategy consisted on consolidating Africa’s economic infrastructure based on exporting commodities and importing manufactures.

As a result of this lending policy, African countries were confronted with a debt crisis as early as in the 1970s. Structural Adjustment Programmes (SAP) were imposed on them by the IMF and World Bank to obtain the repayment of foreign debts. These programmes always included the same set of measures: currency devaluation, decontrol of exchange rates, higher interest rates, financial deregulation, trade liberalisation, privatisation, wage cuts, reduction in the public service through budget cuts and massive retrenchments as well as labour market deregulation. Their implementation led to famine, environmental destruction and the dismantling of health, education, infrastructural and social welfare programmes.

Nothing illustrates better the harshness of the SAP meted out on African countries than the rescue packages, the financial stability facilities and the grand scale money printing in the form of quantitative easing, bank bailouts and nationalisation that are going hand in hand with the austerity programmes that the US and European countries such as Greece, Ireland and Portugal have to implement to scale their deficits and pay their debts.

Nonetheless, African countries’ macroeconomic performance has improved dramatically. Inflation has been halved since the 1990s. Foreign-exchange reserves have

increased by 30 per cent. Public finances showed a 2.8 per cent-of-GDP surplus in 2008, compared to a 1.4 per cent-of-GDP deficit in 2000-2005. Savings rates are between 10 per cent and 20 per cent, and external debt has decreased from 110 per cent of GDP in 2005 to 21 per cent in 2008. Since 2000, sub-Saharan African countries have achieved average economic growth of 5-7 per cent.

Furthermore, since African countries were locked out of international capital markets for most of the past five decades, they have largely been spared the twin woes of the 2008 financial turmoil and subsequent world economic downturn.

Africa's growing young population is another key asset. In the next decade, Africa will be the only continent where the working age percentage of the population will still be growing. By 2045, there will be 1.1bn Africans of working age, more than either China or India, and the combined GDP of the largest 11 African economies should reach more than \$13 trillion.

Annual flow of foreign direct investment rose from \$9 billion in 2000 to \$62 billion in 2008 – relative to GDP almost as large as the flow into China. And when oil and gas investments are stripped out, South Africa, the continent's industrial and financial centre, is now the largest investor in the rest of the continent, not China or the US.

The increasing economic assertion of emerging economies is yet another benefit for Africa which possibly holds more than 10 per cent of global oil reserves, 40 per cent of the world's gold, a third of world reserves of cobalt and base metals, and 60 per cent of the total global amount of uncultivated arable land. The long-term world demand for these assets is unlikely to diminish. This poses a new and substantive challenge to the continent — how can the continent's economies make the most of the opportunities offered by these new participants on the global economic stage, while minimising the potentially negative impact arising from their growing presence?

From the African perspective, the most important consequence of their entry into the region is their impact on the global terms of trade, investment and aid. Although African countries do not generally directly control inward foreign direct investment and trade flows, they hold the key levers that determine access to their economies. Each of the Governments needs to make a cool, informed assessment of its specific attractions to the emerging economies, and then to coordinate an integrated strategic response to offer access to emerging economies in a way that best meets the needs of their domestic economies.

Of all the emerging economies currently interested in Africa, China is the most active, both in terms of trade and investment, particularly in the oil and mineral sectors and in infrastructure. However, Chinese interests are expanding rapidly to other sectors such as health, education, small-scale businesses and low-to-medium-technology.

Since 1979, China developed at a compound growth rate of 9 per cent per year. By 2000, output had quadrupled and for much of the population living standards have improved dramatically. By 2010, China overtook Japan to become the second biggest economy behind the United States, and by 2025, China's GDP will probably surpass that of the United States. In order to fuel its breakneck economic expansion, China has struck infrastructure-for-resources bargains across Africa over the past decade. Five objectives underline China's comprehensive and coordinated engagement strategy in the region: consolidating security of energy and mineral supplies, capturing Africa's expanding markets – in the next decade, the

number of households with earnings over \$5,000 (considered a threshold for discretionary spending) will rise from 85 million to 128 million –, using African countries as bases to produce and export to the United States under the AGOA preferential treatment, curtailing Taiwan's diplomatic ties in the region, and increasing China's burgeoning influence around the globe.

## **Trade**

Sino-African trade grew by 700% during the 1990s. It increased from \$10 billion in 2000 to \$107 billion in 2008. In 2009, China's largest export destination within Africa was South Africa (20 per cent), followed by Egypt (12 per cent) and Nigeria (10 per cent).

Excluding oil, Africa has a negative trade balance with China. For most African countries, imports from China consist overwhelmingly of cheap Chinese products of appallingly poor quality.

## **Foreign Direct Investment (FDI)**

The level of Chinese investment flowing into Africa is staggering. China has invested billions of dollars in sectors such as oil production, mining, transportation, electricity production and transmission, telecommunications and other infrastructure. In Nigeria, China spent up to \$23 billion to build oil refineries and other petroleum infrastructures to secure 6 billion barrels of crude reserves.

Angola, which currently exports 25% of its oil production to China, was granted a 2 billion dollars loan in exchange for a contract to supply Beijing with 10 000 barrels of oil per day. The Tanzania railway was equally funded by China. Sudan, which now supplies 7% of China's total oil imports, has benefited from the largest Chinese investments. China National Petroleum Corporation (CNPC) holds a 40% shares in the Greater Nile Petroleum Company and has invested 3 billion dollars in refinery and pipeline construction in Sudan. China invested 5.5 billion in South Africa's Chartered Bank. Tourism, roads, railways, seaports and airports have also been Chinese investment targets.

While visiting China in 2010, Ghanaian President, John Atta Mills, signed a \$10.4 billion concessionary-loan agreement for various infrastructure projects, payable over 20 years, highlighting China's strong interest in resource-rich African countries. Ghana is preparing to tap massive oil fields that are expected to turn it into one of Africa's biggest energy producers.

## **Aid**

China cancelled \$10 billion in bilateral debts from African countries. Since the 1960s, over 15,000 Chinese doctors have worked in Africa. In addition, China hosts thousands of African students in Chinese universities and training centres. China is contributing peacekeepers to UN missions across Africa, including Liberia and the Democratic Republic of Congo.

## Imbalances

The striking feature about China-Africa cooperation is that if China has a strategy for Africa, Africa has not had any for China. Hence, four political and economic imbalances are undercutting most of the benefits that could derive from the burgeoning multi-faceted cooperation between China and Africa. The first imbalance stems from the chronic deficit of African leadership. There is a lack of vision and long term planning. Corruption and incompetence are rampant. So, China's credo of "non-interference in domestic affairs" and "separation of business and politics" is, not surprisingly, music to the ears of African leaders, who fall over each other to sing the praise of Chinese cooperation with their countries. No wonder then that the late Omar Bongo and Denis Sassou-Nguesso were among the best-received African leaders in China. The first plundered his country, Gabon, to become one of the richest men in the world while bankrolling French politicians, and was succeeded by his own son. The second has been spending a fortune out of Congo's public money to finance a lobbying exercise in the United States in order to redeem his notorious well-documented corruption.

Times are changing though and a new brand of leadership, keen to serve their countries, is taking over in many African states including Mauritius, Botswana, Cap Verde, Seychelles and Namibia. Moreover, since the beginning of this year, a wind of change is blowing over North Africa. It has to engulf sub-Saharan Africa for the potential offered by the increased demand in emerging markets for African resources to be translated into real opportunities for progress for the region and its people.

The second imbalance relates to the development model assigned to African countries as exporters of raw materials and importers of finished goods. China's share of Africa's unprocessed primary products is more than 80% of its total imports from Africa. African exports to China are even less technology-intensive than its exports to the world.

Nations develop their economies by moving up the value chain, away from churning out commodities and towards manufacturing. This is the development strategy adopted by China, the US, the European Union's member states, a few Latin American countries and the East Asian countries. All of these countries have subsidised and protected key sectors of their economies, including food production and security, and imposed capital controls to regulate inward foreign investment and curb speculative capital flows in the early stages of their economic development. Sub-Saharan Africa will be no different.

In order to set China-Africa's cooperation on a more balanced footing, the focus must, therefore, be put on diversifying African economies, and enhancing the productive capacity of domestic suppliers. This will mean designing future partnerships to ensure that local businesses benefit from technology transfer and training, thereby generating higher value-added in domestic production and exports.

The third imbalance relates to Africa's "balkanisation". From November 1884 to February 1885, the imperialist powers of Europe met in Berlin. The agenda of the meeting was what Leopold II, the monarch of Belgium, had then dubbed "the sharing of the African cake". The General Act of the Berlin Conference formalised the 'Scramble for Africa'. This had divided the continent into fifty irregular territories, whose boundaries have acquired a legacy of political fragmentation that could neither be eliminated nor made to operate satisfactorily when they gained independence in the late 1950s and the early 1960s. As a

result, the continent's infrastructure is still geared towards exports. Railways and roads very often lead to marine ports rather than linking countries over land to facilitate trade between them.

A recent study carried out by Rwanda's private sector business association found the cost of trucking a container from Mombasa on the Indian Ocean coast to Kigali, 1,500 km and three border crossings away, can be three times the price of shipping the same container from the US to Africa. Bribery at weigh-bridges and roadblocks add more than \$1,000 to shipping costs. The same story is repeated across Africa. The continent's division has become a source of income for corrupt members of the elite. What interest would they have in changing a system in which they thrive?

Presently, trade among African countries accounts for only about 10-12 per cent of the continent's exports and imports. By lowering trade barriers, Africa's regional groupings will deliver a real catalyst to economic growth, attract foreign direct investment, and encourage cross-investment between member-countries.

In the era of globalisation, economic integration and increased intra-regional trade are the best entry point into global markets for all countries. At this stage of their commodity export-driven economic development, the priority for African countries should be long-term economic integration.

Thankfully, the approach to integration is beginning to change. Trade statistics do not capture that vital bigger force, the informal economy. A large proportion of intra-regional trade is carried out by small and medium enterprises from the informal operators. They are exporting all sorts of goods and services around Africa. Their wares can be found everywhere from Kisangani in the Democratic Republic of the Congo to Dakar on the west coast. The integration which is happening has been driven less by bureaucrats, and politicians and more by business people – from suited executives to scrappy wheeler-dealers – who have spotted opportunities across borders and gone out to grab them.

Moreover, telecoms companies are harmonising their operations to benefit from economies of scale. Infrastructure projects fostering regional integration are given priority by regional institutions such as: the African Development Bank, the East African Community (EAC) the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA). In addition to bilateral cooperation, China holds regular meetings with regional African institutions. Both African countries and China should give to multilateral cooperation an overarching priority with the view of achieving a fully integrated African common market. This will entail China engaging not only with the best leaders, but also with the best institutions that the continent can offer.

The fourth imbalance relates to China's investment being bundled together with concessional loans. There is, therefore, much double-counting, with the same ventures being recorded both as aid flows and as inflows of FDI. Given the heavy volume of concessionary loans provided by China, concern about African countries' future debt burden is growing.

## **Conclusion**

Some western observers – and some Africans, too – have decried China's flourishing relationship with the continent as a new form of colonialism, based on the search for minerals.

Such criticism is largely misplaced. Western-led development strategies did not break the cycle of under-development in Africa. So, former colonial powers are in a weak position to lecture China and Africa. And, having preached the virtues of competition, the West cannot really grumble about being outbid by China in the race for natural resources in Africa.

Emerging economies are giving a breathing space and a new lease of life to African countries. With regard to China, we will be witnessing two interlinked dynamics regarding this cooperation. On one hand, as China's world economic weight increases, its labour costs will rise and its currency will appreciate as well. As a result, China's competitive manufacturing advantage can be reversed. To ward off competitors from other fast growing economies and the western countries, Chinese manufacturers could be looking at Africa as a base for production to keep their competitive edge. In this respect, the infrastructure that the Chinese are building would have positive spin-off effects outside of natural resources for African as well as Chinese industries. In that sense, Chinese economic interests in Africa might be tied to the continent's political and economic development.

Still, all is far from being rosy in China-Africa cooperation. A few pretty unpalatable things are going on. For example, there is a feeling of Chinese invasion. Chinese contractors have brought in Chinese manpower, including prisoners (according to popular belief), depriving Africans of much needed job creation. The informal sector was the preserve of the Africans until they were battered by competition from Chinese small-scale businesses such as trading, restaurants, beauty salons and Chinese medicine centres. In a matter of a few years there are more Chinese in Africa than there have ever been Europeans and their isolation from the bulk of the population is perceived as racist. Besides, in Chinese consulates, African visa seekers are vociferous about visa applications being turned down for no valid reasons. Chinese products for African markets are generally cheap but at the expense of quality. Their rate of replacement is such that one wonders if, in the end, their cheapness is not just a mere enticement.

Since the "reform and opening up" began, under Deng Xiaoping, in 1978, China's politics may be socialist within China's boundaries, but its economy is hard-nosed and capitalist-driven. It is through its multinationals that China strikes deals all over the world. The Bandung spirit is over. Cooperation between China and Africa can no longer be put into the historical context in which it had developed after the triumph of China's revolution in 1949, an era when many Africans viewed China as a brotherly oppressed nation, and thus supported efforts by the People's Republic to gain a permanent seat on the United Nations Security Council, to replace Taiwan. And, of course, China offered firm backing for Africa's anti-colonial struggles and efforts to end apartheid. Profits and geopolitical interest now dictate China's behavior. The Chinese government takes a long-term view of China's own development. Africa should apply the same long-term logic to its development, take measures to correct present imbalances, and implement the right environment for sustainable growth. This will depend on stable macro-economic policies focusing on economic integration, food security, low inflation, reduced debt, stable governments, an enhanced rule of law, as well as the improvement of basic levels of health and education, the spread of mobile telephony and internet use, and last but not least, eradication of corruption.

What the Africans ought to emulate from the Chinese is their uncompromising stand over China's unity, their fierce nationalism and their entrepreneurial spirit. If African countries spoke with one voice, traded more among each other, and strengthened regional co-operation (which includes keeping the peace), they would go a long way towards overcoming the political frailties and economic fragmentation associated with the borders inherited from colonialism. It is therefore of paramount importance that the Africans put the building of a

pan-African identity and their unity at the top of their agenda for progress. However important the amount of trade is with China, the bedrock of lasting peace and prosperity in the region remains in a steady increase in intra-trade among the countries of the region, along with the respect of human rights and the instauration of democratic rules.

---

<sup>i</sup> *Sanou Mbaye*, a London-based Senegalese Development Consultant, and a former African Development Bank officer, is the author of most recently published: "*L'Afrique au secours de l'Afrique*" (*Africa to the rescue of Africa*).