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# China in Africa: Symbiosis or Exploitation?

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## INTRODUCTION

In recent years, China has significantly expanded its engagement in Africa. While China's interest in Africa is hardly new, the scope and scale of contemporary Chinese involvement on the continent is unprecedented. Since the early 1990s, China has broadened its relationship with Africa in numerous areas: finance, investment, trade, development assistance, technology transfer and training, tourism, and cultural exchange. In many ways, China and Africa are well-suited partners. Much of Africa is cash-hungry, infrastructure-deficient, and resource-rich. On the other hand, China is flush with cash,<sup>1</sup> seeks greater investment opportunities for its burgeoning private sector, and requires massive natural resource infusions to feed its booming economy. This combination of respective assets and liabilities has fostered a strong China-Africa interdependency, as each party uses the other to reconcile its own balance sheet.

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lacks a colonial legacy in the region. Moreover, as China views Africa as a business partner, many African governments see the Chinese presence as more likely to be sustained, not only out of goodwill, but also self interest.<sup>2</sup> In many quarters, this creates a perception that the China-Africa partnership lies on a more equal plane than does Africa's relationship with the West.

Given this context, is the China-Africa relationship a symbiotic one? Or, alternatively, has Africa struck a Faustian bargain with China, taking easy money for its natural resource wealth and jeopardizing its long term fiscal health? The truth lies between these polarized perspectives. While not without real risks for Africa, Chinese engagement is a net positive for the continent, particularly in the near term. At present, China needs Africa—for

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its oil and minerals, its huge consumer markets (the next billion buyers of Chinese manufactured goods), its untapped potential for private sector growth driven by Chinese firms and staffed by Chinese labor, and its political allegiances—as much as Africa needs China. China supports Africa in areas where the latter is resource-poor (e.g., infrastructure, technology, training, and access to capital) in return for Chinese access to areas in which Africa is resource-rich (e.g., oil, minerals, and consumer markets). At present, through this quid pro quo arrangement, Chinese engagement supports African development; however, in the longer term, the outcome is less clear. As the China-Africa relationship evolves, African countries must gain greater leverage to ensure that they benefit from it as much as China does. If managed effectively, Chinese aid and investment can complement the social sector focus of most Western aid by strengthening Africa's desperately deficient infrastructural capacity and untapped private sector. Conversely, if managed poorly, Africa risks Chinese exploitation and missing a prime opportunity to advance its political, economic, and social development.

## BACKGROUND

China has long had an interest in Africa. As more African nations gained their independence during the late 1950s and early 1960s, China heavily courted them for diplomatic recognition. Upon emerging from colonial rule, fourteen sub-Saharan African countries quickly forged

formal diplomatic ties with the People's Republic of China (PRC), while others either aligned with Taipei or remained neutral.<sup>3</sup> By the 1970s, the PRC was providing aid to thirty African countries.<sup>4</sup> In return for this assistance, many African countries supported the PRC's push for China's United Nations Security Council seat, which it gained in 1971. Following the death of Mao Zedong in 1976, China's modern engagement in Africa began to take form. In 1981, the first wave of Chinese joint commercial ventures in Africa was launched. Total Chinese investment in Africa increased rapidly from USD 660,000 in 1981 to USD 24 million in 1985.<sup>5</sup> After joining the World Bank in 1980 and the African Development Bank in 1985, China was also well positioned to bid on projects financed by these institutions, which further accelerated its economic engagement in Africa. As Chinese investment in Africa expanded—buoyed by the belief that African trade liberalization could yield lucrative opportunities for Chinese firms—many Western countries remained more cautious about Africa's long-term economic prospects. These countervailing movements enabled China to assume a more prominent role on the continent.

Concurrent with these economic trends, China ramped up its political courtship of Africa. In 1982, Chinese Premier Zhao Ziyang visited eleven African countries and articulated .....  
 the four principles that would guide Chinese economic relations with the developing world for the next decade: equality and mutual benefit, emphasis on practical results, diversity in form, and common progress.<sup>6</sup> In 1991, Chinese Foreign Minister Qian Qichen initiated the tradition (maintained to this day) of visiting Africa at the beginning of each year; by 1995, he had visited thirty-six African countries, and helped to lay the diplomatic foundation for an emergent China-Africa partnership.<sup>7</sup> While Chinese political overtures primarily sought African allegiance to .....  
 the PRC vis-à-vis Taiwan, they also reflected a sense of Chinese kinship with Africa. China believed that it once occupied a position similar to Africa's current one.<sup>8</sup> In other words, China felt that much as it had to become more self-reliant following the Sino-Soviet split in the early 1960s, Africa must do the same in order to develop itself economically, politically, and socially.

This is borne out in the statement of former Chinese Premier Zhou Enlai, who during his 1964 African trip said, “It is not our intention to make [Africa] dependent on us...they need to rely mainly on their own efforts.”<sup>9</sup>

## CHINA COURTS AFRICA

Globally, China uses its aid and investment to support three core priorities: strategic diplomacy, ideological values, and commercial benefit. Chinese engagement in Africa clearly reflects this trinity. First, China seeks

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Sao Tome and Principe—formally recognize Taiwan, and thereby do not receive Chinese development assistance.<sup>11</sup>

Second, with respect to ideological values, Chinese engagement in Africa is influenced by China’s own development experience. Between 1981 and 2005, China reduced the proportion of its citizens living in poverty (defined as living on less than USD 1.25 per day) from 84 percent to 15.9 percent.<sup>12</sup> Having successfully produced such a dramatic economic transformation, China sees its development model as offering the best blueprint for Africa’s own economic emergence. In this vein, Chinese engagement in Africa mirrors Japan’s relationship with China during the post-Mao years. In 1978, China and Japan signed a long-term trade agreement under which Japan pledged low-interest loans to finance export of USD 10 billion in industrial technology and materials to China in exchange for Chinese oil and coal.<sup>13</sup> The Chinese, in turn, used this financing to hire Japanese firms to build China’s main transport corridors, coal mines, and power grids. By the end of 1978, “Chinese officials had signed seventy-four contracts with Japan to finance turn-key projects that would form the backbone of China’s modernization.”<sup>14</sup> China has employed similar agreements to forge its economic ties with Africa. In part, this is due to China’s recognition that in order for African consumers to afford Chinese exports, and for African markets to produce prime investment opportunities for Chinese firms, Africa must get richer.

Third, China views its foreign assistance and investment as working in concert to promote both Chinese economic interests and Africa's development. While this symbiotic ideal is not always realized in practice, Chinese engagement does "reflect a fundamentally more optimistic view of Africa's future than Western engagement."<sup>15</sup> Yet, this does not mean that the Chinese are purely driven by benevolence; China wants Africa to develop, not only for Africa's benefit, but also because a modernized Africa can be good for China. From the Chinese perspective, the relationship should not be a zero-sum game.

The overall character of Chinese aid to and investment in Africa is significantly shaped by a series of structural reforms that China undertook in the early 1990s. In essence, these reforms partially separated many Chinese state-owned trading companies and economic cooperation corporations from their parent ministries.

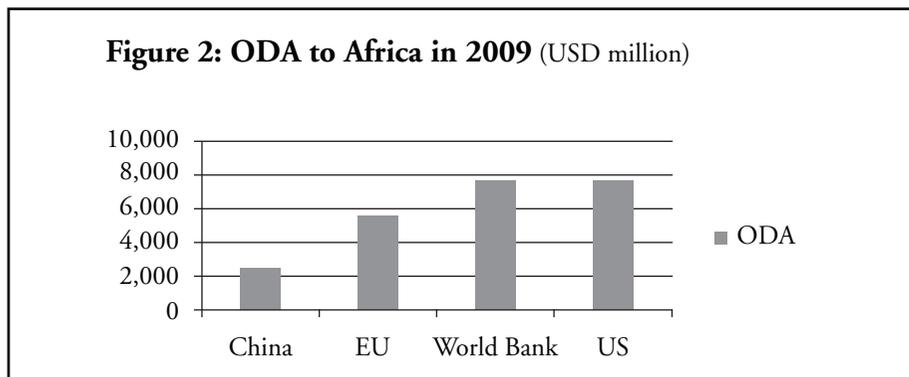
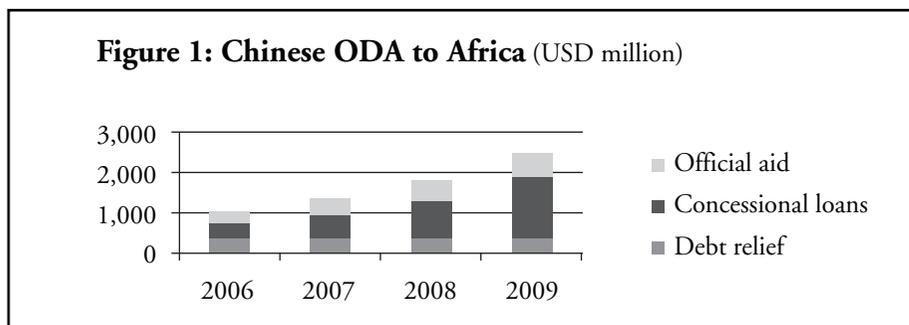
This meant that for the first time many Chinese state-owned enterprises (SOEs) were forced to operate as quasi-independent, for profit entities. In 1994, as it ramped up its financial sector, China launched three new policy banks—the China Development Bank, the China Export Import Bank (China Eximbank), and the China Agricultural Development Bank. While these policy banks remained under state control and financed by government funds, they were expected to make money. This important reorientation helped to usher in an era of aggressive domestic and international finance that further fed China's economic boom.

Working closely with the Ministry of Commerce and the Ministry of Foreign Affairs, China's Eximbank became the primary vehicle for extending seller's credits (preferential loans for Chinese companies operating abroad), export buyer's credits (issued at commercial rates to foreign buyers of Chinese goods), and concessional loans (offered to developing countries at subsidized interest rates, contingent on a certain percentage of Chinese goods and services being procured with the loan).<sup>16</sup> Although initially formed exclusively to provide market rate domestic finance, in 2007, the China Development Bank launched the first phase of the China-Africa Development Fund (CADF). As an equity fund, CADF was endowed with first phase funding of USD one billion—with the promise

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that funding will eventually reach USD five billion—to finance ventures launched by Chinese firms in Africa.<sup>17</sup>

Riding this wave of internal structural reform, the Chinese official development assistance (ODA) budget swelled. In 1996, China provided USD 410 million in ODA;<sup>18</sup> by 2007, it exceeded USD 3 billion.<sup>19</sup> Nearly half of all Chinese assistance is classified as official aid; the rest is comprised of concessional loans and debt relief.<sup>20</sup> Aid to Africa represents a large share of total Chinese ODA (see Figure 1)<sup>21</sup> and it continues to rise. Despite this expansion, Chinese assistance to Africa pales in comparison to that provided

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by the largest bilateral and multilateral donors (see Figure 2).<sup>22, 23</sup> While Chinese aid to Africa lags well behind the major Western donors, additional Chinese financial flows arrive through commercial investment rather than as ODA.<sup>24</sup> According to the World Bank, annual Chinese financing for African infrastructure projects rose from USD 1 billion in 2003 to USD 7 billion in 2006,<sup>25</sup> and has since hovered at USD 4.5-5 billion.<sup>26</sup>

So where does Chinese investment in Africa go? In terms of sectors, 28 percent of confirmed Chinese financing commitments are in the energy sector, 19 percent are in telecommunications, and 13 percent are in transport (mainly rail and road projects).<sup>27</sup> With respect to geography, according to the World Bank, China has made infrastructure finance commitments in thirty-five sub-Saharan African countries; however, four countries—Nigeria (34 percent), Angola (20 percent), Ethiopia (10 percent), and Sudan (8 percent)—account for nearly three-quarters of the total value of Chinese commitments.<sup>28</sup> This picture contrasts with that of Chinese ODA, which is more evenly distributed across the continent.

### WHO GAINS, WHO LOSES, AND WHY?

China and Africa each have much to gain from their relationship. However, the partnership also carries significant risks, especially for Africa. Unless Africa carefully manages this relationship, it risks becoming the victim of Chinese exploitation.

#### *What China Has to Gain*

China has five main interests that drive its engagement in Africa. First, China needs natural resources to feed its growing economy. In 1993, China became a net oil importer. Over the past two decades, China's appetite for crude oil has been insatiable. Preliminary data from the International Energy Agency (IEA) suggest that China is now the world's largest energy consumer, only a decade removed from having but half of U.S. energy demand.<sup>29</sup> Moreover, the IEA projects that China will account for 36 percent of the total global increase in primary energy use between 2008 and 2035,<sup>30</sup> and that China's primary oil demand will nearly double from 8.1 million barrels per day (mb/d) .....  
 in 2009 to 15.3 mb/d by 2035.<sup>31</sup> To satisfy its growing oil demand, China's net oil imports will have to jump from 2 percent of its GDP in 2009 to 3.1 percent in 2035.<sup>32</sup> At that level, net oil imports will account for 77 percent of Chinese domestic oil consumption.<sup>33</sup>

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While the majority of Chinese oil imports are from the Middle East, one-third now come from Africa, and this percentage is expected to increase in

the decades ahead.<sup>34</sup> Africa still exports the majority of its oil to Europe (33 percent) and the U.S. (32 percent); however, China's share of African oil exports (9 percent) is rising.<sup>35</sup> In addition, rapid growth in China's manufacturing sector has created huge domestic demand for precious metals, including aluminum, copper, nickel, and iron ore—natural resources that many African countries have in abundance.<sup>36</sup> As China's economy expands, it must find new sources to support its industrial needs. Given their vast natural resource wealth, African nations are ideal partners.

Second, China sees Africa as a largely untapped consumer market for Chinese manufactured goods. Africa boasts over a billion inhabitants, many of whom covet cheap consumer goods. As Chinese economic growth rests heavily on the success of its manufacturing sector, China needs new consumer markets to sustain its steep developmental trajectory. Once again, African nations provide an ideal match.

Third, as China further privatizes its economy, Chinese companies need new investment opportunities to complete their transformation from SOEs. Although China's modernization has created greater investment and employment opportunities at home, these cannot satisfy total demand. Therefore, China has sought to facilitate its companies' entry into new international markets. Africa provides fertile ground for such an expansion. It is estimated that Sub-Saharan Africa requires at least USD 20 billion in annual infrastructure investment over the next two decades in order to spur its development.<sup>37</sup> Chinese firms, financed by China Eximbank loans, have sought to claim their piece of the action. In 2008 alone, Chinese construction companies earned revenues of USD 20 billion and signed contracts worth USD 39.4 billion in Africa.<sup>38</sup> Chinese workers have also benefited from this expansion. As most Chinese infrastructural loans are at least partially tied to contracts with Chinese firms, they provide employment for tens of thousands of Chinese laborers. At the end of 2007, 114,000 Chinese nationals were officially working in Africa (including North Africa),<sup>39</sup> 67,000 of whom had arrived in the preceding 12 months.<sup>40</sup>

Fourth, by expanding its presence in Africa, China seeks to burnish its image as a global superpower. By venturing beyond its own backyard, China hopes to show that it can compete on the world stage with the likes of the United States and Europe. These forays enable China both to flex its muscles as a global power, and to temper Western concerns about its rise; by doling out aid and investment across Africa, China has sought to curry favor with African governments, and to bolster its credibility as a benevolent breed of superpower.

Lastly, Chinese engagement in Africa supports the One China Policy.<sup>41</sup> Since 1949, Taiwan has similarly courted African countries for diplomatic recognition. After years of competition, China has largely prevailed. While Chinese aid and investment certainly have helped to shift the allegiance of African governments to its side and away from Taipei, the main reason for this change is that most African nations have decided that their lot is best placed with the emergent superpower, and that undoubtedly is China.<sup>42</sup>

### *What Africa Has to Gain*

Africa also has much to gain from its burgeoning partnership with China. These opportunities (and associated risks) center around six core African interests. First, Africa desperately needs infrastructural development—of all types, and in massive quantity. Finding the USD 20 billion per annum<sup>43</sup> that Africa requires in infrastructure investment is no easy task, especially for a continent that lacks access to affordable financial capital. This makes China's desire to invest in African infrastructure a welcome wind-fall. While such investments clearly carry some risk for Africa, their net effect is positive. Since the 1960s, and particularly during the past decade, Chinese companies have built bridges, schools, hospitals, railroads, roads, dams, telecommunication networks, and other critical infrastructure across Africa. Although some projects have suffered from corruption, delays, or poor management, much of the infrastructure "built by Chinese firms are low cost, good quality, and completed in a fraction of the time such projects usually take in Africa."<sup>44</sup> Given Africa's sluggish path toward industrialization, as well as the West's general aversion (beyond the World Bank) to invest heavily in African infrastructure—driven, at least in part, by its skepticism that Africa can deliver a sufficient rate of return to offset the investment risks—Chinese engagement in this area is significant.

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Second, Africa must attract greater foreign direct investment (FDI). From 2002-09, Africa's average annual FDI intake was only USD 24 billion,<sup>45</sup> despite boasting the developing world's highest return on FDI.<sup>46</sup> According to official Chinese statistics, Chinese FDI in Africa grew more

than twenty-fold from USD 75 million in 2003 to USD 1.6 billion in 2007.<sup>47</sup> The continent-wide impact of Chinese investment, however, is less clear, as one-third of Chinese FDI in Africa goes to South Africa.<sup>48</sup> Nevertheless, given Africa's paucity of foreign exchange reserves, virtually any increase in FDI is meaningful.

Third, Africa gains from the more favorable loan terms often offered by Chinese banks. Chinese aid and investment is typically bundled as a mixture of grants as well as concessional and commercial rate loans. Since most African countries lack good credit ratings, they must pay large risk premiums to access commercial capital. Conversely, Chinese concessional loans are subsidized through its aid budget, permitting lower interest rates than those available from commercial lending houses. For instance, in Angola, Chinese financing was provided at rates 0.75-1.25 percent below those of Western commercial lenders such as Standard Chartered Bank (SCB).<sup>49</sup> In financial terms, this difference is substantial. Chinese loans to Angola also included generous grace periods and extended repayment terms. On the other hand, SCB offered no grace periods and required faster repayment.<sup>50</sup> In addition, according to the former Angolan Finance Minister, José Pedro de Morais, Angola used the lower Chinese interest rate benchmark to improve its commercial loan terms with Western banks.<sup>51</sup> Although not all Chinese loans carry such favorable terms, many of them beat or match what is available from other sources.

Fourth, Africa remains saddled with substantial debt. The West has helped to relieve this debt burden, contingent upon African governments imposing strict fiscal austerity measures. For its part, China was slow to embrace debt cancellation. However, at the First Ministerial Forum on China-Africa Cooperation (FOCAC) in 2000, China pledged to cancel USD 1.2 billion in debt owed by heavily indebted poor countries (HIPC) and least developed countries (LDCs) in Africa.<sup>52</sup> As of September 2009, Chinese Premier Wen Jiabao announced that China had cancelled USD 3.83 billion in debt globally, mainly for African countries.<sup>53</sup>

Fifth, in order to accelerate its economic development, Africa must sustain high growth rates and expand its trade volume, particularly in the export sector. Total trade between China and Africa has increased markedly from USD 18.5 billion in 2002-2003 to USD 107 billion in 2008, making Africa China's second-largest trade partner after the United States.<sup>54</sup> In 2007, buoyed in part by such trade expansion and increased Chinese investment, Africa registered a growth rate of 5.8 percent—its highest ever.<sup>55</sup> However, more recently, growth has slowed somewhat due to the global financial crisis. While the majority of African exports to China are

comprised of fuel (63 percent) and other crude materials (13 percent), China has begun to encourage a broader range of African exports.<sup>56</sup> As of July 2007, 440 African exports were exempted from Chinese tariffs.<sup>57</sup> Furthermore, at the 2009 FOCAC, China pledged to eliminate tariffs on 95 percent of exports from LDCs in Africa through a phased process.<sup>58</sup> Overall, according to an analysis conducted by the British Department for International Development, the value of African exports to China increased by an annual average of 110 percent from 2006 to 2008.<sup>59</sup>

Sixth, Africa needs new technology and professionalized training. China is a key resource for both. In 2005, machinery, electronic equipment, and high-tech products comprised nearly half of Chinese exports to Africa.<sup>60</sup> Although cheap consumer goods still represent a substantial share of Chinese exports to Africa, China appears increasingly inclined to support Africa's rise up the product value chain. For one, China has recently built more factories to process African raw materials in Africa, rather than predominately extracting low value-added African commodities for onward processing in China.<sup>61</sup> Additionally, China has fulfilled its commitment to help train Africa's emergent professional workforce. Between 2000 and 2006, 16,000 African professionals were trained in China, and another 15,000 received training from 2007 to 2009.<sup>62</sup> At the 2009 FOCAC, China pledged to train 20,000 more African professionals in various sectors from 2010 to 2012.<sup>63</sup> As one Nigerian official noted, "The Western world is never prepared to transfer technology—but the Chinese do, [and] while China's technology may not be as sophisticated as some Western governments', it is better to have Chinese technology than to have none at all."<sup>64</sup> While this overstates the case—as Western countries have historically transferred significant technology and know-how to African nations—such perceptions illustrate the powerful appeal of Chinese engagement.

Some African leaders also see China's engagement as a complement and a counter-balance to years of near wholesale dependence on Western aid. As Liberia's former Finance Minister Antoineete Sayeh noted, "In Africa

we have a lot to learn from China, beyond its financial capacity to assist, China has made the most progress over the past several decades in reducing poverty. That experience is of great interest to us."<sup>65</sup> A Nigerian diplomat in Beijing added: "the Chinese have an advantage [over the West] of not

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having a colonial hangover. Whatever the Chinese do for Africa is very credible in our eyes.”<sup>66</sup> Although some other African leaders are more suspicious of Chinese engagement, many closely echo the perspective of Senegalese president Abdoulaye Wade:

With direct aid, credit lines and reasonable contracts, China has helped African nations build infrastructure projects in record time—bridges, roads, schools, hospitals, dams, legislative buildings, stadiums and airports. It is a telling sign of the post-colonial mindset that some donor organizations in the West dismiss trade agreements between Chinese banks and African states that produce these vital improvements—as though Africa was naïve enough to just offload its precious natural resources at bargain prices to obtain a commitment for another stadium or state house.<sup>67</sup>

### *What Africa Has to Lose*

Africa has much to gain from its increased engagement with China, but what are the risks? Moreover, given the high stakes, what is the appropriate cost-benefit analysis that African governments should undertake in deciding whether to sign the next Chinese loan; to open their markets to competition from Chinese firms, workers, and goods; or to exchange their precious natural resources for the promise of infrastructure development and new technology?

Among these risks is that Chinese finance, even on concessionary terms, could trigger another African debt crisis. After years of reckless

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..... spending, costly conflict, and stagnant growth, Africa is finally emerging from mountains of financial debt. This is primarily the result of massive debt forgiveness by the so-called Paris Club countries.<sup>68</sup> Finally freed from the drag of this heavy anchor, African countries have a real opportunity to grow their economies, in part through new financing arrangements that support more responsible spending. China has wasted no time in staking its claims within this new fiscal space. The key question is: will China be a responsible lender?

At least in the short-run, the answer appears affirmative. As World Bank President Robert Zoellick noted in 2007, “at least from the statistics that I have seen, China has paid attention to debt sustainability and has

certainly a strong willingness to discuss this issue, because they want to get paid back too.”<sup>69</sup> Insofar as most large Chinese loans are backed by African natural resources (e.g., oil, precious metals, or agricultural yields), the available information suggests that many Chinese loans align with a country’s ability to pay.<sup>70</sup> Yet, because servicing these loans depends on sustained global market prices for these collateralized commodities, African countries are vulnerable to price shocks, natural disasters, poor harvests, and other variables beyond their control. While many Chinese loans allow for considerable price variability within their terms, as well as offer longer grace and payment periods, they are still susceptible to default.

Second, there is the danger that large infusions of Chinese finance will forestall meaningful African political and economic reform. While China provides aid and investment across Africa, the lion’s share of these resources flows to a select few countries—namely those with sufficient natural resources to collateralize large loans. As many of these countries (e.g., Angola, Congo, Nigeria, and Sudan) are either staunchly authoritarian or weakly democratic, there is a legitimate fear that the windfall produced by Chinese engagement will create complacency and arrest progress toward needed reform. As one critic notes: “revenues from trade (and taxes), development assistance and other means of support [from China] widen margins of maneuver for Africa’s autocrats, and help them to rein in domestic demands for democracy and the respect for human rights.”<sup>71</sup> This remains a clear area of concern.

China is unapologetic about the fact that its aid and investment are not tied to demands for African political or economic reform. As China’s special envoy for Africa Liu Guijin has argued, “We don’t attach political conditions.

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We have to realize the political and economic environments [in Africa] are not ideal. But we don’t have to wait for everything to be satisfactory or human rights to be perfect [before we engage with a country].”<sup>72</sup> This stance aligns with China’s long-standing policy of non-interference. However, China’s dismissive attitude toward the need for African political and economic reform is disconcerting, and is a matter to be watched as Chinese engagement on the continent continues.

Third, with a steady stream of cheap Chinese exports and migrant labor flowing into Africa, African producers and workers may strain under the weight of foreign competition. In 2008, Africans imported more than

USD 50 billion worth of Chinese goods, the majority of which were inexpensive manufactured products that could have been produced by African firms.<sup>73</sup> Continuous influxes of foreign goods create a disincentive for African firms to enter the market and start producing. On the one hand, imports from China threaten African producers, as many African firms cannot match Chinese economic efficiency. On the other hand, Chinese goods are usually cheaper than Western products or those sold by African producers, which benefits poor African consumers. As countries open up their markets to foreign competition, there are always winners and losers. The challenge for African governments is to manage the fallout from

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Chinese imports with well-designed policies (i.e., compensating the economic losers with a portion of the winners' proceeds) without resorting to protectionist tendencies.

Mozambican counterparts.<sup>75</sup> Understandably, many Africans are wary of Chinese migrant labor, particularly as Chinese infrastructural loans require hiring a certain percentage of Chinese workers. Yet, given the relatively small number of Chinese laborers in Africa, their overall impact on African employment should not be exaggerated.

Chinese labor migration presents a similar dilemma for African leaders. Chinese workers compete with Africans for jobs; however, as Cadot and Nasir have shown, Chinese workers are often more productive than Africans.<sup>74</sup> For example, Chinese garment workers in export processing zones produced nearly twice the daily output of their

Chinese-supported construction and manufacturing ventures also create jobs for Africans, which likely otherwise would not be available. In addition, Chinese workers in Africa live more like locals than do many other foreign workers, which not only reduces project costs but also the real and perceived economic disparity existing between imported and local staff.<sup>76</sup> For its part, China reflects on its own experience with modernization and the tough measures that were required to spur its rapid economic growth. As the Chinese ambassador to South Africa recalled, "We had to close down the small scale and technologically outdated factories. We had to channel redundant textile workers to other trades through training. It was a difficult and enormous job. But it has paid off."<sup>77</sup> China believes that

African countries must endure these growing pains if they are eventually to prosper.

Fourth, Africa risks relinquishing its natural resource wealth without having leveraged sufficient Chinese assets in return. In other words, while Africa clearly has gained from its engagement with China, has it gained enough to offset the risks? So far, the answer is mixed. China has provided critical inputs to Africa's development: modern infrastructure, FDI, favorable loan terms, a large market for African exports, affordable imports, technology transfers, and professional training. But should Africa be getting more? While China has helped to spur African economic growth, many African countries lack a strategic focus in their engagement with China—or a long-term vision that could ensure the partnership supports broader poverty alleviation on the continent. This raises at least two major concerns. First, even among resource-rich African nations, which have greater leverage in their dealings with the Chinese, “this advantage is [often] not converted into negotiating power.”<sup>78</sup> If this is true for Nigeria, Angola, and Congo, than what hope do Togo, Mali, and Burundi have to push back on China? Second, the African Union (AU) has largely failed to coordinate African engagement with China.<sup>79</sup> Whether this is primarily a function of broader AU dysfunction, or rather disinterest on the part of African countries that already have bilateral agreements with the Chinese to share in their spoils, it is a missed opportunity for Africa to capitalize fully on Chinese engagement for broader continental gain.

### *What China Has to Lose*

China faces risks in Africa, but of a decidedly different nature. Despite its need for African oil, minerals, consumers, investment opportunities, and allies, China is chiefly in the driver's seat in its engagement with Africa. China is an emerging global superpower, which boasts the second largest economy in the world and enormous foreign exchange reserves. This gives China great leverage despite the many areas in which it is dependent on Africa to deliver. As a result, the risks for China in Africa are present, but relatively minimized.

First among these risks is the well-known history of corruption and mismanagement among African governments. Graft remains a given across much of the continent, and is often considered merely an added cost of doing regular business. As China ramps up its engagement in Africa, it is increasingly exposed to these hazards. Yet, the structure of Chinese loans to Africa makes it difficult, if not impossible, for African governments to get

their hands directly on the money. Typically, Chinese financing is used to pay Chinese companies directly upon their completion of the contracted infrastructure project. An escrow account is filled by receipts from African natural resource exports as guarantees against the loan, and loan payments rarely, if ever, reach African governments in the form of cash transfers. Adding to this security is the physical nature of the final product (e.g., roads, dams) supported by most Chinese loans, which makes outright theft a less likely proposition.<sup>80</sup>

Second, beyond these corruption realities, China faces the panoply of investment risks associated with operating in less stable political and economic environments. The continent's abundant natural resources, the preponderance of authoritarian rulers (even in many ostensibly democratic countries), and the myriad ethnic, religious, and economic tensions that have repeatedly caused conflict make Africa a risky place to invest. Many of the largest Chinese investments are in countries that have recently emerged from—or remain in the midst of—prolonged conflict. This exposes China to the potential for disruption of natural resource flows; collapse of consumer markets; or African governments reneging on their commitments due to domestic unrest, local opposition to China's presence, or sudden shifts in political power. While these threats are not unique to Africa and affect Chinese investments in other developing regions, Africa's track record of instability and corruption makes them a serious concern.

Finally, China faces significant cultural barriers in Africa. Despite Chinese feelings of kinship toward Africa, there are few cultural, linguistic, or spiritual areas of commonality on which to base their emergent partnership.

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Nevertheless, economically, they speak the same language, which has helped to assuage cultural concerns and to provide a firm foundation for their relationship. Moreover, with more Africans traveling to China for education and training, and more Chinese migrating to Africa for jobs, cross-cultural understanding should improve and non-financial bonds strengthen. Conversely, if African

public opinion comes to see China as a neocolonial power bent on extracting Africa's natural resources, dumping cheap manufactured goods onto African markets, and leaving little of value behind, pent up frustrations could turn the tide against China. While a complete reversal of current trends is unlikely, China could trigger a backlash as it pushes deeper into Africa.

### CASE STUDY: CHINA IN ANGOLA

Angola boasts the second highest level of Chinese infrastructure investment in Africa behind Nigeria, and is the largest crude oil producer on the continent.<sup>81</sup> While Chinese engagement in Africa is hardly monolithic, the sheer scope and scale of China's involvement in Angola offers a revealing window into the true character of the modern China-Africa partnership.

In 1975, following its war for independence from Portugal, Angola descended into a conflict that claimed 500,000 lives and drew the country into a Cold War proxy battle between the United States and the Soviet Union. China's oscillating allegiance between the warring parties during the Angolan civil war kept Chinese-Angolan relations uneasy through the 1980s and early 1990s. However, by the late-1990s, China and Angola had begun to forge a burgeoning commercial partnership.<sup>82</sup> After 2002, when Angola finally emerged from civil war, this relationship only grew stronger.

In March 2004, China's Eximbank extended a USD 2 billion oil-backed loan to Angola to support its reconstruction.<sup>83</sup> Driven by its thirst for oil, China offered highly concessionary loan terms to Angola, which compared favorably with those provided by European banks.<sup>84</sup> In return for helping to build and rehabilitate Angolan infrastructure, China secured an initial commitment of 10,000 barrels of Angolan oil per day,<sup>85</sup> which would rise to 80,000-120,000 barrels per day over the life of the loan.<sup>86</sup> By the end of 2007, nearly USD 837 million of the initial USD 1 billion Chinese loan disbursement had been utilized,<sup>87</sup> triggering the second loan tranche to be released. In September 2007, Angola negotiated an additional USD 500 million Chinese loan to support projects associated with the first phase. Later that year, China and Angola signed a further USD 2 billion oil-backed loan at even better terms for Angola.<sup>88</sup> The new loan focused on rebuilding Angola's health and education infrastructure.<sup>89</sup>

The China-Angola loan agreements operate as follows: once priority infrastructure projects are identified by relevant Angolan ministries and tabled to a joint committee of the Angolan Ministry of Finance (MOF) and the Chinese Ministry of Foreign and Commercial Affairs (MOFCOM), they are put to tender. However, the tendering process is restricted, as 70 percent of the total value of all contracts is reserved for Chinese companies; the remainder goes to Angolan contractors.<sup>90</sup> Once tendered, a minimum of three Chinese companies bid on the project and a final selection is made. A third party not funded by the credit line is entrusted with inspecting all projects, and a multi-sector technical group consisting of Chinese and

Angolan officials oversees project implementation.<sup>91</sup> Angolan line ministries are responsible for securing adequate staff to manage these public works. Once the project contracts are signed, the loan functions like a current account. At the instruction of the Angolan MOF, Eximbank makes direct disbursements to the approved contractor(s). Loan repayment commences at the project's completion; in the interim, Angolan oil revenues, which are automatically deposited into an escrow account and deducted on an agreed schedule to service the debt, guarantee the loan.<sup>92</sup> Through this arrangement, Angola secures essential infrastructure, China obtains much-needed

*Chinese-Angolan annual bilateral trade has expanded from USD 1.8 billion in 2000 to USD 12 billion in 2006.<sup>95</sup> In early 2007, China became Angola's second-largest trading partner (behind Portugal).*

oil, and each party is protected against malfeasance through the loan's innovative structuring.

So is the Chinese-Angolan partnership a "win-win" proposition? On balance, it is. Angola exchanges oil (which it has in abundance) for infrastructure (which it sorely lacks). Or, as Angolan President Eduardo dos Santos stated: "China needs natural resources and Angola wants development."<sup>93</sup>

Moreover, the loan's structuring ensures that at least a portion of oil profits serve the Angolan public good.<sup>94</sup> The Chinese-Angolan partnership has yielded additional benefits. Chinese-Angolan annual bilateral trade has expanded from USD 1.8 billion in 2000 to USD 12 billion in 2006.<sup>95</sup> In early 2007, China became Angola's second-largest trading partner (behind Portugal).<sup>96</sup> While much of this trade expansion is due to increased Angolan oil exports to China, "there has also been a dramatic increase in non-oil Chinese FDI to Angola overall."<sup>97</sup> Moreover, Chinese investor confidence in the Angolan economy has also helped Angola to negotiate additional reconstruction loans with Western creditors, many of which were previously more wary of such deals.

Partially buoyed by Chinese support, Angola has sought to regain its global financial good standing. In late 2006 and early 2007, Angola used its oil revenues to settle the majority of its USD 2.5 billion debt principal with the Paris Club countries, and pledged to repay all overdue interest on this debt by 2010.<sup>98</sup> Subsequently, however, with oil prices declining and the onset of the global financial crisis, Angola's financial position quickly worsened. This impeded Angola's ability to reduce its debt and grow its economy simultaneously. Yet, despite these setbacks, the recent spike in oil

prices caused by unrest in the Middle East may once again affect Angola's financial prospects—this time in a positive direction.

Although the Chinese government's credit line currently underwrites most Chinese commercial activity in Angola, private Chinese investment is beginning to flow into the country. To date, such investment has largely focused on the extractive industries (principally oil) and telecommunications sectors. However, as the Angolan economy expands and Chinese private sector confidence in Angola grows, larger and more diversified Chinese investments should follow. Overall, it is projected that "in time, the [Chinese government] credit line that has spearheaded Chinese entry will inject an estimated 2 billion USD of [additional] private investment into the Angolan economy."<sup>99</sup>

The proliferation of Chinese oil-backed loans and China-Angola joint ventures offers hope for Angola's long-term economic recovery from decades of crippling conflict. Yet, at the same time, Angola's accumulation of new credit lines raises concerns about debt sustainability, particularly given oil price volatility. Moreover, key questions remain about whether Angola can maximize its return on Chinese investment. To date, Angola has driven a harder bargain than many other African countries.<sup>100</sup> Nevertheless, Angola has largely failed to take full advantage of the 30 percent local contractor threshold negotiated within its Chinese loan agreements, mostly due to the weakness of Angola's nascent private sector. However, as conditions improve in the country, Angola should be better positioned to leverage more favorable terms from the Chinese, and to better utilize existing Chinese investment.

## CONCLUSION

The scope and scale of China's engagement in Africa are substantial, but is this good for Africa's development? In the final analysis, it is. Some scholars dispute this, contending that much of Chinese aid is tied to or merely supports state elites, thereby minimizing its broader socioeconomic benefits.<sup>101</sup> While unconditioned Chinese aid and investment may allow some authoritarian leaders to delay swallowing the bitter pill of political and economic reform, it should be noted that Western aid, despite its more explicit political and economic conditions, has had but marginal success in producing meaningful African reform. This is not to lay blame on the West, but rather to argue that viewing Chinese engagement in Africa solely with suspicion is overly simplistic, and ignores the considerable synergy between these two partners. China unabashedly pursues its self-interest in

Africa, and Africa satisfies several of its pressing needs with Chinese assistance. While the relationship poses real risks for each party, and particularly Africa, it is far more symbiotic than exploitative.

The West is understandably wary of China's rise, and Chinese engagement in Africa easily feeds Western fears. Despite its concerns, the West would be wise to approach the China-Africa partnership with

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a more open mind. Just as China and Africa bring complementary assets to the table in their bilateral dealings, China, Europe, and the United States each have a constructive role to play in supporting Africa's development. For example, Chinese support for African infrastructure, technology transfers, and professional training complements Western assistance for Africa's social sector, as well as programs that promote good governance and economic growth. Moreover, China and Western investment both provide much needed financial capital to Africa, which helps to support greater private sector development on the continent. Africa has ample needs to be met, and it should

not be caught in the crossfire of East-West geopolitical positioning. If China, Europe, and the United States truly want to assist Africa, they should eschew bringing their broader battle for global supremacy to the continent. However, some degree of East-West competition is desirable, particularly in the economic realm, as it could improve the bargaining position of African states and enable them to exact better terms in their dealings with Chinese, European, and American firms.

For its part, Africa must redouble its efforts to leverage Chinese and Western engagement for maximum benefit. These dual streams of aid and investment offer African countries their best chance since independence to translate external support into overall welfare gains. To take full advantage of this opportunity, African governments must play their political hands well, not only as leaders of individual states but also through the collective mechanism of the AU. This requires that natural resource-rich countries (e.g., Angola, Nigeria, Congo, and Sudan) show a greater will-

ingness to share in the spoils of Chinese and Western investment, and that aid-rich countries (e.g., Ethiopia, Kenya, and Uganda) broker better deals with their donors, ensuring that Chinese and Western development assistance addresses core African needs. In the end, Africa must simultaneously leverage the world's strongest (United States) and most rapidly rising (China) superpowers. This will not be easy; however, if Africa can do so effectively, it has the potential to realize its long-term political, economic, and social development goals. ■

## ENDNOTES

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