"THE ROLE OF CHINA IN AFRICA", IN PARTICULAR CHINESE FOREIGN DIRECT INVESTMENT

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Introduction

China plays an active role in Africa. More Chinese trade, investments, development cooperation, people and construction activities can be noted. In this panel, organized with the EADI working group on Industrial development, all elements of China's presence in Africa will be discussed. China's role in digging up raw materials, in building roads and other infrastructure and in exporting products to the continent will be explored.[ii] This topic fits in nicely in the ECAS conference in July 2007 in Leiden in the Netherlands.[iii] A similar panel will be organized in 2008 during the EADI general conference in Geneva June 24-28, 2008, under the title "The role of China in Africa".[iv] The main question is each time what is the evidence about the impact of the increasing presence of the Chinese (Indians) in Africa?

The idea behind that workshop was to deal with the threat of the rapid industrialisation of China and India for developing countries in general and for Africa in particular (also Winters and Yusuf, eds, 2007). China's and India's emergence as world players in the global economy has important implications for them. Through globalization all kinds of products appear in the African markets, which were never there. In an increasing degree they come from China and India.

The issue is quite relevant. While Europe and the United States (US) are protecting their textile and leather sector for Chinese imports in 2005 and 2006, African and Latin American countries suffer from this competition even more. Some of the case studies in Antwerpen dealt with this competition issue, like the paper presented on the leather industry in Ethiopia (Tegegne Gebre Egziabher, 2006) and the case study how does China's growth affect poverty reduction in Asia and Latin America? (Jenkins, 2006). In this paper I will focus on China, but the framework could be used for India as well (see Pedersen, 2006).

Short history of China's involvement in Africa

The Chinese were present in Africa already in the fifties, when chairman Mao Zedong supported socialist regimes in the post-colonial era. The constructions of TAZARA (Tanzania Zambia Railway Authority) railway line from Zambia to Tanzania by the Chinese and their support for independency movement in Angola are just two examples.[v]

The focus of China's presence now is on trade and investments. Examples are the Chinese involvement in the oil sector in Angola, Nigerian and Sudan (since 1995) and its activities in the mining sector in Congo and Zimbabwe (copper, cobalt, platinum, etc.). It is also expected that China is looking for cheap food and the Chinese State Farmers Agribusiness group has invested for example heavily in Zambia, where they lease more than 3000 hectares (producing chicken and pigs and with an annual turnover of 3 million US$; Internationale Samenwerking, September 2006: 37; also the contribution of Anders Bastholm to this panel). In the same country China buys copper and cobalt. It buys timber in Congo Brazaville and iron ore from South Africa. In the latter country the president Thabo Mbeki raised, during president Hu's visit to Africa in 2006, the question whether China would develop a colonial relationship with Africa. This had a lot to do with the negative experience in the South African (and other country's) textile industries (box 1).

Box 1 China's role in Africa's textile sector decline

January 2005 the Multi fibre agreement (MFA) ended. It had limited exports of textile and garments from developing countries to developed countries by imposing quota (Van Dijk and Sideri, eds, 1996). We knew for 12 years the MFA would run out, but China was one of the few countries anticipating this event by investing in its local production capacity.

The Chinese investments paid off in 2005. As a result the export of cotton T-shirts from China to the US increased 1573 percent (almost 16 times: The Economist 28-5-2005). However, it was not broadly known that even before a lot of these Chinese T-shirts came from Chinese factories located in African countries and benefiting from the quota of these countries or the duty free exports to Europe under the Lome agreement. This was one o f the bizarre consequences of the MFA.

The Chinese invested in several African countries, like Vietnam en Thailand had invested in Cambodia and Laos, which did not use up their quota. By 1-1-2005 these factories were no longer needed and China produced and exported as much textile and garments as it could produce itself.

The US and Europe started April 2005 that something needed to be done. Interestingly the US and Europe did not emphasize the impact on their own textile industry (the US had lost since world war II a million jobs in this sector; The Economist, 25-5-2005), as well as stating that other developing countries in Latin America (the US) and in Africa or in Eastern-Europe and the Mediterranean sea area (Europe) suffered under the Chinese exports.

The Dutch journal NRC (4-6-2005) provides an overview of the thousands of jobs that were lost in countries such as Kenya, Lesotho, Swaziland, South Africa and Mauritius due to the flood of Chinese textile and garments. In particular South Africa suffered tremendously. The newspaper also noted however, that the consumers benefited greatly of these developments.

Source: Van Dijk (2005a).

During the Forum on China-Africa cooperation, a conference of heads of states from Africa in Beijing in November 2006, it became clear that China seeks deeper ties with Africa. The meeting was attended by almost all of the heads of states of the 48 (out of a total of 53) African countries that have diplomatic relations with China. It resulted in a plan pledging that China will double its aid to Africa and set up a China-Africa development fund to encourage Chinese companies to invest in Africa. China has also hosted the annual meeting of the African Development Bank in 2007 in Shanghai.

The Ethiopian Prime Minister Meles Zenawi returned from the summit in Beijing with praise for his hosts. More agricultural products would be allowed into China duty-free and the Chinese had pledged some US$ 500 million for various development projects in Ethiopia. In Ethiopia the Chinese are very active in construction activities, ranging from houses to the ring road in the capital Addis Ababa. Chinese construction companies have proliferated across Africa, winning more than 50 percent of market share according to the OECD (Financial Times 17-5-2007). In Ethiopia buses are often imported from India or they were bought second hand in China.

Different ways to measure the presents and the impact of China in Africa

There are different ways to measure the presents and the impact of China in Africa in terms of:

1. The number of Chinese people living and working in Africa
2. The goods and services rendered to African countries and
3. The role of Chinese foreign direct investment in Africa
4. Other financial flows between China and Africa (loans, development assistance, etc.)

These will now be discussed briefly, using whatever sketchy evidence is available.

1. The number of Chinese people living and working in Africa

There are no data for the number of Chinese people currently working in Africa. However, for individual countries figures are sometimes mentioned. When I lived in Senegal (1973-77) the country counted 20,000 inhabitants of 'Lebanese' descent and also a large number of people from Mauritanian descent (the Moors). Zambia, with a somewhat similar population as Senegal, counted 80,000 Chinese in 2006 to be compared with 300 in 1992 according to Internationale Samenwerking (September 2006: 37). If this would be a representative figure the total figure for Africa (for 53 countries) would be that several millions of Chinese have settled there recently, which does not seem very likely.

2. The goods and services rendered to African countries

The Netherlands mainly exports used papers and scrap to China, using the empty containers used for exporting Chinese products to the EU (NRC July 2007). China and India are centres of manufacturing activities requiring raw materials and exporting an important part of their production to other countries, being part of all kinds of global value chains (Sassen, 1999).

Broadman (2006) shows that China and India's south-south commerce with Africa is about far more than natural resources. He is optimistic that this opens the way for Africa to become a processor of commodities and a competitive supplier of goods and services to these countries. This would be a major departure form Africa's long-established relations with the North, but the question is how much evidence Broadman has for these predictions. Some African economists complain that China want to extract raw materials for industry and then sell manufactured products back to Africa (IHT, 3-11-2006).

The fact are that Chinese trade with Africa has risen more than tenfold in a decade to US$ 55 billion (Financial Times, 17-5-2007) and is supposed to grow further. The composition is somewhat one sided. Mainly raw materials to China and industrial products coming back.

Countries like Tanzania will find it difficult to compete in an international or global context, while their markets are flooded with cheap Chinese products. For example informal tailors no longer compete with modern textile and garment industries in Tanzania. They have to produce at lower prices than Chinese textile and garment industries and have to come up with more attractive products than the second clothing from Europe, which are almost everywhere available nowadays. Another example concerns plastic bottles. It is important that there will be a plastic recycling plant in Tanzania soon (probably with help of UNIDO). Scrap metal has already become valuable in Tanzania for exports, and the hope is that people will recover plastic in the future. Currently most of the plastic bottles are compressed and exported to China!

When a close look is taken on the trade statistics, it turns out that the real dynamics for Tanzania is in the trade with India and China. Their shares in Tanzania's trade are increasing rapidly over the last years. It is difficult for Tanzania to compete with the top league, for example South Africa, which is considered as very advanced.

Trade figures show trade between China and Africa has increased fourfold in the first five years of this century (Internationale Samenwerking, September 2006: 38). The impact of China's rapidly increased textile exports after the termination of the Multi Fiber Agreement (MFA) has been devastating in a number of African countries. In Tanzania it is very limited, because the textile sector had already problems for a long time and is still in a restructuring process. Textiles from Southeast Asia have hit Tanzanian textiles and garments, already before the end of the MFA. It started in the nineties when the country opened up its economy. All shops in Dar es Salaam are filled up with Southeast Asian textiles and Tanzania is mainly producing specific types of textile and clothing for the local market.

The impression exists that a lot of these textile products and garments in Tanzania are dumped by China and Dubai, but the government doesn't want to follow up on this information. Good shirts are sold for less than 1500 T Sh. Some trade experts think that Tanzania should ask the World Trade Organization (WTO) to set up a joint committee to investigate the dumping. Subsequently the country can then try to revive its own textile and garments sector.

3. The role of Chinese foreign direct investment in Africa

This subject is the topic of a research project discussed below and came up because of my research in Tanzania (Van Dijk, 2006a). Tanzania woes Chinese investors and more joint ventures with US and Chinese companies are promoted. Although the Chinese are mainly interested in selling their products and buying raw material in Africa, a Chinese mission visiting the country in August 2006 made some promises to invest. According to the Guardian (24-8-2006) the Tanzanian vice president has pledged government support to investors trying to realize their goals. The Chinese answered that they seek investments in industry, minerals, agriculture and irrigation and China has helped Tanzania with the development of an Export Processing Zone (EPZ).

It is not so clear why China would invest in Tanzania other than for raw materials. You can not expect the Chinese to play the role that Japan has played for many East Asian tigers, where they promoted industrial development by subcontracting to local firms. Technical education has also been neglected in Tanzania, meaning that companies have to train their own people. This is one of the factors increasing the costs of production in Tanzania.

Examples of planned Chinese investments in Africa are a 2.5 billion US$ commitment in Egypt together with the promise to increase trade from 2 to 5 billion US$ per year (Jeune Afrique 24-3-2007). Similar promises were made in other countries visited by prime minister Wen and president Hu during their missions to Africa in 2006.

4. Other financial flows between China and Africa: loans, development assistance

It is estimated that Chinese loans to Africa in recent years to be in the region of US$ 10 billion per year and that they focus on building energy infrastructure (Financial Times 6-2-2007). In 2005 China announced in the General Assembly of the UN that it would mobilise an additional 10 billion US$ in three years for concessional loans. In December 2006 in Beijing during the conference of heads of states from Africa China announced it would probably be Africa’s biggest donor by 2010 (La lettre des economistes No. 15, Janvier 2007). Some Western interests say generous aid programs, low-interest loans and other gifts undermine their efforts to foster good governance in Africa (IHT 3-11-2006). The Financial Times (23-4-2007) warns that some African leaders can try to use Chinese loans to avoid having to hold elections. Also the donor-constructed notion of accountability could be threatened.

The Forum on China-Africa Cooperation resulted in a three year action plan. Besides doubling aid by 2009 (to about 1 billion US$), China has also cancelled 1billion euro of African debt and announced it would cancel another 1 billion euro (Financial Times, 17-5-2007). It has set up a 5 billion US$ development fund for Africa and promised to reduce tariffs on selected African imports. The Africa aid package will be tied to Chinese projects, however (Financial Times, 26-6-2007).[vi] Finally it promised to train 15.000

African professionals and to build 30 hospitals, 30 malaria treatment centres and 100 rural schools!

What is new, an opportunity and threatening?

Another way of looking at the effect of China's presence in Africa is in terms of: what is new, what is an opportunity for Africa and what it threatening the continent? After such an assessment we will present our research project and formulate some recommendations and some conclusions.

What is new?

China's physical presence is through hard working Chinese labour and it is noticed when buying cheap industrial products like shoes, textiles and watches. China's success provides Africans another example to look at if countries are looking at successful development experiences elsewhere. Finally China has become a source of finance for a number of developing countries. However, is easy finance undermining good governance or does it help to create the necessary infrastructure?

It has provoked debate whether China is the latest in a line of exploiters of Africa's rich natural resources, or does China's engagement enable African countries "to free themselves from the tyranny of the neo-liberal policies"? (Manji and Marks, 2007).

What are opportunities?

For most African countries getting trade finance, loans on soft terms and buying industrial products at a low price provides an opportunity which is greatly appreciated. China also provides development assistance and gives the example of what hard working and strict discipline can achieve. In fact the Chinese are in favour of the market and private sector development and show how a country can benefit from globalisation.[vii]

Rising prices for raw material is helpful for most African countries and the increased prices have stimulated growth rates of a number of African countries (for example Tanzania, Van Dijk, 2006a). The Chinese contributed and contribute to the development of a good infrastructure in many African countries. This may be one of the preconditions for successful economic development.

Most of the points mentioned are positive. There are however also a number of threats, although not all countries see these phenomena as such.

What it threatening?

1. Chinese labour replaces local labour and the Chinese companies compete with local companies and traditional European contractors and suppliers.
2. China provides support to and sometimes gives legitimation to African regimes which are not generally supported by the West.
3. The country puts no conditions to its loan in a part of the world where many countries have just overcome the debt crisis. In this way it does not support the Washington consensus achieved by the World Bank, IMF and a number of donors and may undermine their efforts. The two Breton Woods organizations have

raised concerns that China's unrestricted lending undermines years of painstaking efforts to arrange conditional debt relief (IHT, 3-11-2006).

4. The European Investment Bank (EIB) also complains that it is losing out to Chinese banks (Financial Times, 28-6-2007). Like the World Bank and the IMF the EIB complains that the Chinese apply lower ethical and environmental standards, which could lead to poor governance and environmental deterioration. People also fear they lower credit standards.
5. Will African countries be able to compete with China and in particular with Chinese products in African and European markets?
6. President Hu presented the Chinese approach as an alternative: not democracy, but stable leadership would be important and this may provide an excuse to leaders in Uganda and Zimbabwe to seek re-election after serving two turns as a head of state.
7. Central government in Beijing may have good intentions with its relations with Africa, but the Financial Times (23-4-2007) notes that not all lending institutions in China are under Beijing's control. "A lot of the provincial Chinese governments are active in Africa and they basically just want to grab the minerals and go".

What is the impact of China's presence?

China has developed an active policy with respect to Africa. This policy has at least three pillars:

1. Assure the supply of raw materials for China
2. Create a market for Chinese products and services
3. Provide an alternative to the Western development model and gain diplomatic support from these countries, important in the United Nations and other international fora.

What is the impact of China's presence? In the first place one notes higher commodity prices. More importantly the Chinese provide an alternative for the Western model of development, often summarized as the Washington consensus. Moeletski Mbeki summarized it as: "China has offered Africa a new model that focuses on straight commercial relations and fair market prices without the ideological agenda" (IHT, 3-11-2006).

However, his brother, the president of South Africa talked about a neo colonising force and also in other countries president Hu visited at the beginning of 2006 critique has been heard. To what extent has China hold all its promises? There are even protests against China's role in Africa:

1. Touareg rebels: No China in Niger (Volkskrant, 28-6-2007)
2. US and China fall from global favor (Financial Times, 28-6-2007)
3. Concerns that cheap Chinese goods will swamp local manufacturing (Financial Times, 8-2-2007)
4. China mistreats and exploits local workers in Zambia (Financial Times, 8-2-2007)
5. In Ethiopia a number of Chinese workers in an oil exploration were abducted, but eventually liberated, although some died during the attack.

The role of Chinese foreign direct investment in Africa

We are working on a research project with the Maastricht School of Management (MSM) on the implications of private sector development for Africa. One element is the impact of Foreign Direct Investment (FDI), which is coming from China. FDI and development cooperation from China are increasing rapidly, while the country still receives a lot of capital itself. The west invested for example in China in 2005 about US$ 60 billion and now this country starts investing in other countries on a large scale. The main question of this research project is what is the impact on African economies and in particular its private sector of China's export and investments?

The theory of international trade predicts trade flows on the basis of comparative advantage. The theory is developed much further to include institutional factors (the efforts to create a level playing field), trade in services and capital flows. Major factors explaining capital flows are political stability and interests, liberalization of the financial sector, new investment opportunities, or a big market. A lot of the Chinese trade and investments cannot really be explained by these theories and requires a different approach, which will be elaborated in this research project. There exists no systematic overview of China's involvement in Africa. However, the picture can be drawn on the basis of different sources such as trade statistics (WTO), statistics on international investments (UNCTAD) and indicators of development cooperation (OECD). These data need to be complemented by a number of case studies. Latecomers in international markets have the choice of replacing existing supply or developing new markets (green fields).

The Chinese government has chosen of the last approach and it presents itself as a non-colonial power, which has been the victim of colonialism itself at the end of the 19th and the beginning of the 20th century. The following factors seem to explain their huge investments in Africa:

- China tries to gain political influence, playing the card of being itself a successful developing country
- It can provide an alternative development model, which puts stability as more important than democracy
- China wants to assure the supply of the necessary raw materials and wants to sell its products. It can do so by promoting product differentiation (supplying products especially for low-income consumers), low prices and a different market mechanism (a network of small traders is assuring sales in regions where western salesmen don't come

The following research questions are suggested:

1. What is the current presence of China in Africa?
2. Which countries, sector and activities are affected in particular?
3. What is the role of FDI among other instruments like trade and aid?
4. What is the impact of the current involvement of China in Africa?

Hypotheses:

1. There exists a coherent strategy behind China's involvement in Africa, which makes it effective
2. An authoritarian regime will find it easier to implement such a strategy
3. The effects are partially positive, partially negative, depending on the sector and activity
4. FDI plays a minor, but strategic role, in the overall relations with Africa

Research based on secondary data will be complemented by cases studies. The case studies will be undertaken in Ethiopia and Tanzania.

Recommendations

The book by Broadman (2006) is interesting since he suggests a number of recommendations to balance the trade between Africa and China:

1. At-the-border reforms, such as elimination of China and India's escalating tariffs on Africa's leading exports
2. Elimination of Africa's tariffs on certain inputs that make exports uncompetitive
3. Between-the-border improvements in trade facilitation mechanisms to decrease the transaction costs
4. Reforms that leverage linkages between investment and trade, to allow African businesses to participate in global production networks that investment by Chinese and Indian firms can generate.

These measures may work, but will also benefit China. Hence it is certainly necessary to closely monitor the developments and a series of panels and publications can help to assess the results of China's presence on this continent.

Conclusions

The conclusion must be that China has a highly political past in Africa, although at some stage China's political interests largely shrank to trying to persuade African governments not to recognize Taiwan as a separate country.

A lot can be learned from China, if only what a strategic vision and hard working can achieve. Somewhat unexpectedly, China promotes the role of the market and the private sector abroad and it shows developing countries that they can benefit from globalisation (Van Dijk, 2006b). From China we have also learned that development may start with educating the poor and providing the necessary health care and a basic infrastructure. We also learned that in China local governments can fruitfully compete with each other to attract foreign direct investments, or local investments, which would then contribute to employment, local revenues and development in general (in Van Dijk, 2006c, where it is analyzed as an example of good urban management).

However, the Chinese are mainly in Africa for acquiring raw materials and to sell their products. In the second place they try to mobilise political support emphasizing that China is also a Third world country. This would give their diplomats an advantage when pursuing Chinese interests in international organizations, where African countries can constitute a powerful voting block (IHT, 3-11-2006). Finally China has made choices (like supporting Sudan and Zimbabwe) which do not always please the west. Human rights groups say Chinese arms export to Sudan fuel the conflict in Darfur (IHT, 3-11-2006).

Hence there is another side to the coin. Since the fall of the wall in 1989 the old East West divide has disappeared in Africa. It is no more socialist versus capitalist inclined countries. There may still be something like a divide between countries with important Islamic activists (Somalia and Sudan) versus countries where religion does not play an important role or is currently suppressed. Now through China's activities in Africa a new divide may come in to existence, between countries relying on western support versus those favouring the Chinese approach to development. The latter would then be characterized by:

1. Less attention for democracy, and more for political 'stability'
2. Promoting an authoritarian type of leadership as for example in Uganda.
3. Providing an alternative for the Washington consensus by emphasizing an important role for the state in the economy, but with a role for the market and the private sector
4. Aid coming with no strings attached: China insists it will not interfere in other countries' domestic affairs, but we know China invaded other countries, for example India and Vietnam.

The real issue is to what extent Africa will be able to compete with China. Some of the papers in this panel deal in particular with that issue (for example Muradian, IVO Tilburg during this panel). This competition will take place in Africa, but also in other markets.

On the one hand, the positive side the Chinese have become aware of this critique and for example nominated a special envoy for Sudan and are reassuring developing countries that it looks for win-win situations and not for dominance. On the other hand, China is determined to become a global power. And like with no other global power we can not afford to neglect the question whether it will be a peaceful or a powerful actor in the global arena. There are many indications that China wants to be a powerful superpower (Van Dijk, 2005b)!

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Notes

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[ii] The panel is a follow-up to the Workshop "The rapid industrialization of China and India: Domestic and International Consequences" at the University of Antwerp, March, 31 - April, 1, 2006.

[iii] Given the large number of participants in Antwerp this topic seems to raise the interest of many researchers.

[iv] Abstracts can be sent to m.vandijk@unesco-ihe.org

[v] According to Internationale Samenwerking (September 2006: 38) the Chinese currently repair the Benguela railroad in Angola, which Mao helped to destroy in the 1970s.

[vi] In a letter to the Financial Times (28-6-2007) D. Brautigam argues that the Chinese do not tie aid but promote a different approach to economic cooperation. It is not aid, but rather something of mutual benefit that Chinese companies are promoted to invest in Africa. She concludes that investments in Africa could provide more jobs, tax revenues and economic pay-offs than the uncertain experiments that have characterized the foreign aid from the west.

[vii] According to the Financial Times (13-9-2005). One should be careful with the classification private or public in China. Different sources suggest that many enterprises are still under public control. Chinese sources suggest that 28,000 foreign funded enterprises produce 27% of China's total industrial output and 57% of its exports (China Daily, 16-1-2007). Van Dijk (2007) suggest that the private sector has become more important in China and is now responsible for three-quarters of economic output and employment.