

Major Research Paper

# **Understanding the Drivers of China's Economic Engagement in Africa**

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## **Abstract**

China's growing economic engagement in Africa, including trade, investment and aid, has captured the world's attention and has given rise to a heated debate and a large literature about this phenomenon. This paper seeks to shed light on the current debate about the nature of this relationship and impacts for both sides by looking into a more fundamental question: what are the driving forces behind this economic relationship? It looks to develop a better-rounded understanding of the multitude and complexity behind this economic relationship by examining the driving forces from three aspects: economic, institutional and political. It concludes that economic incentives, domestic and international institutions and political considerations have all played a role in contributing to the growing economic relationship between China and Africa in the period since the 1990s.

## **Abbreviations**

AU	African Union
CABC	China-Africa Business Council
CADF	China Africa Development Fund
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
DRC	Democratic Republic of Congo
FDI	foreign direct investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
IMF	International Monetary Fund
LDC	least development country
MOFCOM	ministry of commerce
NGO	non-governmental organization
ODA	official development assistance
PACCI	Pan-African Chamber of Commerce and Industry
PRC	People's Republic of China
SEZ	special economic zone
Sinopec	Chinese National Petrochemical Corporation
SME	small and medium enterprise
SOE	state-owned enterprise
SSA	Sub-Saharan Africa
SSI	Sinopec-Sonangol Internacional
UN ECA	United Nations Economic Commission for Africa
WTO	World Trade Organization

## **Introduction**

China's growing presence across the African continent has been one of the most phenomenal regional developments in the larger context of globalization, and has attracted the world's attention. Featuring trade, investment and assistance, the China-Africa economic engagement encompasses a wide range of sectors including energy, mining, construction, manufacturing, agriculture, transportation, telecommunication, technology, banking, public health and tourism, among others. Chinese businesses, be it large state-owned multinational corporations or street-corner grocery stores, are actively engaged in all parts of the continent. China and a number of African countries, to a large extent, owe their rapid and steady growth to each other over the past decade. Despite the allegation of "neo-colonialism" and criticisms against China, from both Africa and the West, on issues such as human rights, corruption, resource exploitation and environmental degradation, the economic ties between China and African countries have undeniably strengthened over the past decades. The China-Africa economic engagement has proved to be a relevant and ongoing subject for both academic research and policy analysis.

While the existing literature tends to center on the historical development of the China-Africa economic relationship, its nature and its positive and negative impacts on both sides, this paper will take an alternative route and ask a more fundamental question: what has been driving this economic relationship? Without disregarding the current debate about the economic, social and environmental consequences for Africa resulting from economic interactions with China, the paper will focus mainly on the driving forces behind the China-Africa economic engagement, namely, the various underlying factors that have accounted for and led to this growing relationship. In the current discourse, this relationship tends to be portrayed as a pure reflection and result of China's growing appetite for natural resources and markets, which is irrefutable but

oversimplified. Therefore, this paper looks to thoroughly investigate and analyze the drivers of China's economic engagement in Africa from different aspects, with a view to complementing the current debate. Without an objective understanding of what has made an economic relationship develop, one can hardly expect to make unbiased judgments about what the relationship has brought about and where it is going. This paper seeks to shed light on the current debate about the China-Africa economic engagement by conducting a more comprehensive analysis of its drivers, so as to provide the basis and starting-point for further discussions as well as evidence for effective policy-making to address issues that have arisen from this relationship.

As the contemporary China-Africa economic relationship did not begin to take off until the early 1990s, the paper will mainly focus its analysis on the period from the 1990s up until today. The first chapter will consist of two parts. The first part will begin with a brief overview of the modern-era China-Africa economic interactions from the early 1950s to the late 1980s and then China's accelerating economic engagement with Africa since the early 1990s, with an emphasis on the different nature of the two periods and relevant statistics to illustrate the growing ties between China and Africa during this latter period. The second part will address the current debate about the positive and negative impacts that China's economic activities have had on Africa. Special attention will then be given to the limited literature on the driving forces of this economic relationship so far.

In view of the inadequacy of analytical work on the drivers of the China-Africa economic engagement, the subsequent chapters will bring out the analyses, focusing on three aspects: economic, institutional and political, each of which constituting one chapter. The economic driver comprises the economic incentives that have triggered China's economic activities in Africa, which include Africa's rich natural resources and large potential markets, China's

increasing domestic demand, the unique characteristics of China's aid to Africa that are considered more attractive than those of the western donors, and China and Africa's growing economic interdependence. The institutional driver will be discussed at two levels: domestic and international. Domestically, China's economic liberalization, government policies as well as state capitalism have contributed to China's expanding economic activities in Africa. At the international level, the role of international institutions in facilitating the China-Africa cooperation will be analyzed, including the WTO, the Forum on China-Africa Cooperation (FOCAC), the Forum for Economic Cooperation and Trade between China and Portuguese-Speaking Countries and the China-Africa Business Council (CABC). Finally, to understand the political driver, it is necessary to see how domestic and international politics have had a role to play in pushing forward the economic relationship and whether economic instruments have been used to advance the political interests of the Chinese and African governments. This chapter will take a closer look at China's principle of non-interference, the 1989 Tiananmen Square protest, the One China Principle, China's international strategies and Africa's elitist political order, to see if these political factors have provided impetus for China's economic engagement in Africa in the period since the 1990s.

The concluding part will summarize the arguments about the driving forces of China's economic engagement in Africa since the 1990s and emphasize the importance of understanding these drivers in analyzing China's comparative edge over the West in engaging Africa. It will then explore the interconnectedness between the three drivers and look back to the current debate, to see how this paper has contributed to a better-informed understanding of this subject. Finally, policy implications will be drawn for Western countries, Africa countries as well as China.

## **Chapter I Overview of the modern-era China-Africa economic relationship**

### **Period from the 1950s to the 1980s**

Rather than being a new phenomenon, the modern-era China-Africa relations stretch back to the 1950s. Between the founding of the People's Republic of China (PRC) in 1949 and the end of the Cold War in 1989, China's engagement with Africa was characterized as primarily ideological and political in nature, as opposed to resource-oriented or profit-driven. On one hand, China supported African countries in the struggle for independence against colonial powers, and on the other, African countries played a crucial role in the international recognition of the Chinese communist government. By the time of the founding of the PRC, few African countries had gained independence, namely Ethiopia, Liberia, South Africa and Egypt. After a limited number of early-year contacts between the newly founded PRC and several African countries, the Bandung Conference in 1955 marked the turning point of Beijing's foreign policy towards Africa, during which China, self-positioned as the leader of the "Third World", showed public support for African countries' fight against colonialism. The famous "Five Principles of Peaceful Coexistence"<sup>1</sup> were incorporated into the "Ten Principles of Bandung", with the former still remaining as an essential part of China's foreign policy towards Africa. Chinese support for African countries' liberation movements began with rhetorical and material support for Algeria's Front de Libération Nationale in 1955 and lasted throughout the 1960s, which was considered to be publicly violating the principle of non-interference and peaceful dispute settlement stated in the "Five Principles of Peaceful Coexistence" (Shinn and Eisenman, 2012, p37). More than a one-way traffic, it is noted that African country leaders had also initiated contacts and sought

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<sup>1</sup> The "Five Principles of Peaceful Coexistence" were originally proposed by Chinese Premier Zhou Enlai in 1953 as the preamble for the Indian-Chinese Trading Treaty in Tibet. They include mutual respect for sovereignty and territorial integrity, mutual nonaggression, non-interference in each other's internal affairs, equality and mutual benefit and peaceful coexistence.

assistance from China in both pre- and post-independence periods (Obiorah, Kew and Tanko, in Rotberg, 2008, p273). Despite domestic chaos and a setback in its diplomatic and economic relations with Africa during the first few years of the Cultural Revolution (1966-1976), PRC gained a seat at the UN in 1971, taking over that of the then Republic of China (ROC), to be recognized as the only legitimate government of China. African countries played an important role: thirty-four percent of the votes came from twenty-six African countries. PRC's achievement at the UN with the support of Africa triggered improvements of the China-Africa relations. China significantly increased aid to Africa and began to attach an increasing importance to the Third World,<sup>2</sup> of which Africa was an important part. In terms of world politics, it is suggested that "the combination of the Cold War and the Sino-Soviet split essentially dictated the PRC's political/strategic approach to Africa until the mid-1980s" (Shinn and Eisenman, 2012, p30). Indeed, China took advantage of the declining relations between the Soviet Union and African countries and quickly repaired the damage it had done to its relations with Africa during the Cultural Revolution years. Therefore, Cold War calculus served as another momentum for the two powers to engage Africa in their rivalries before the fall of the Berlin Wall in 1989.

Between the 1950s and 1970s, economic interactions between China and Africa did not feature strongly in the China-Africa relations. However, several projects stood out during this period. The famous TanZam railway project is considered to be China's largest-ever foreign aid project (Raine, 2009, p56). At a time when a loan application was rejected by the World Bank and attempts by the Tanzanian and Zambian governments to lobby Western countries for help fell

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<sup>2</sup> The Three World Theory was developed by Chinese Communist leader Mao Zedong, positing that the superpowers, i.e. the US and the USSR, made up the First World; the Superpowers' allies, i.e. the developed countries, made up the Second World; and the developing countries in Africa, Asia and Latin America made up the Third World.

flat, China stepped up and committed itself to financing and constructing the railway in 1967. The project was completed in 1975, two years ahead of the schedule. In 1956, Egypt became the first African country to establish diplomatic relations with the PRC. In the same year, China purchased cotton from Egypt and offered Cairo a 5 million USD credit to back Egypt in the outbreak of the Suez Canal crisis. In 1963, China sent the first medical team to Algeria, and continued to send many more to a larger number of African countries in the years that followed. In terms of the nature of the economic engagement during this period, it is observed by Larkin in 1971 that “for the most part strategic minerals do not figure prominently in China’s quest for economic relations with Africa” (Larkin, 1973, p93). But rather, “it was driven by the combination of a desire to pursue prestigious aid work and geopolitical exigencies” (Alden, Large and Soares de Oliveira, 2008, p5).

Despite its “Reform and Opening-up” policy at the end of the 1970s, which marked a new era for China’s economic take-off, China showed declined interest in cultivating relations with African countries throughout the 1980s. In terms of economic engagement, China, prioritizing its own domestic reform and economic development, scaled back its overseas undertakings, including aid to and trade with Africa. This was partly because, after the destructive years of the Cultural Revolution and at the beginning of the economic reforms, China’s own “economic modernization left the country short of capital and unable to provide Africa the same level of economic assistance as before” (Shinn and Eisenman, 2012, p45). The downgrading in the China-Africa relations led Ian Taylor to label this period as a “decade of neglect” (Taylor, 1998, cited by Raine, 2009, p21) According to him, “Chinese policy in the 1970s, as has been seen, was driving largely by the desire to combat Superpower hegemony, and in this, Africans were seen as potential surrogates in the struggle against Moscow and Washington. With China now

attempting a reconciliation with the two, the importance of Africa to China became less and less” (Ian Taylor, 2006, p60). However, the 1980s was an important transition period in the history of China’s relations with Africa in the sense that, with the Cold War coming to an end, China gradually shifted its ideological and asymmetric engagement with Africa towards a more commerce-based and pragmatic one, which supposedly laid the foundation for a new page of China’s economic relationship with Africa in the decades that followed.

### **Period since the 1990s to present**

It is believed that “the 1990s established the base for phenomenal expansion of China-Africa relations in the twenty-first century” (Shinn and Eisenman, 2012, p47). The period since the late 1980s and early 1990s marked the revival of China’s engagement with Africa “in a more concerted manner under state direction from Beijing” (Alden, Large and Soares de Oliveira, 2008, p3). China began to strategically increase political cooperation and strengthen economic ties with African countries. Two exogenous factors played a vital role in catalyzing the China-Africa relations during this period. The end of the Cold War saw China take advantage of traditional donors’ relative disinterest in Africa and reinvigorate its interest in this continent, both politically and economically (Shinn and Eisenman 2012; Alden, Large and Soares de Oliveira 2008). Another more direct factor was the 1989 Tiananmen Square protest, which saw intense criticisms stemming from the West but indifferent attitudes and even support from African countries, largely shifting the dynamics of the China-Africa relations. The role of Tiananmen in steering the China-Africa economic relationship will be studied more in detail later in this paper. It is also to be noted that during the late 1980s and early 1990s, China underwent a foreign trade and aid reform, shifting from traditional aid to foreign investment based on development and production (Li, 2006, in Rotberg, 2008, p33).

Along with China's fast and steady growth comes China's growing domestic demand for energy and raw materials from Africa and other parts of the world. At the same time, China became the world manufacturing powerhouse, supplying affordable consumer and capital goods to African markets and the rest of the world. China started to run a trade balance surplus from the 1990s onward. Throughout the 1990s, under the newly established market-oriented economic regime, trade volumes between China and Africa grew rapidly, from approximately 1.4 billion USD in 1990 to approximately 10 billion USD in 2000 (Shinn and Eisenman, 2012, p114). Meanwhile, Chinese investment in Africa also started to take on an increasingly important role in this relationship. According to UNCTAD statistics, China's cumulative FDI to Africa went from 49 million USD in 1990 to 820 million USD by the end of the 1990s (Shinn and Eisenman, 2012, p132). China created various investment promotion institutions to support Chinese enterprises in their undertakings in Africa, the more important ones among which are the China Export-Import (Exim) Bank and China Development Bank (CDB) that channels the China-Africa Development Fund (CADF) funded. Both of these banks operate under state control. On the policy side, China's "Go Out" policy, initiated in 1999, aiming at promoting Chinese investment abroad, has encouraged Chinese companies to seek profitable opportunities and new markets in Africa and also other parts of the world. New cooperation mechanisms between China and Africa have also been set up. At the outset of the new millennium, the first conference of the Forum on China-Africa Cooperation (FOCAC) was held in Beijing, attended by more than eighty ministers from China and more than forty African countries. The ministerial conference of the FOCAC is held every three years, serving as the primary platform for nurturing relations and negotiating deals between China and African countries.

Ever since its economic liberalization in the late 1970s and early 1980s, China has maintained an average annual growth rate of nearly 10% up to 2012 (Morrison, 2013, p1), making China the world's biggest emerging economy and a major global economic power. International trade has played an indispensable role in China's economic development, currently representing 53.1% of China's total GDP.<sup>3</sup> China's total world trade went all the way from 29.4 billion USD in 1979 to 3,867 billion USD in 2012 (Morrison, 2013, p20, Table 4), an over 130-fold increase in more than three decades, making China overtake the US as the world's largest trading economy in goods.<sup>4</sup> From 1990 to 2012, China's exports grew at an average annual rate of 18.1% and imports 17.1% (Morrison, 2013, p20).

Economic engagement with Africa has been a weighty component of China's fast-growing economy. Trade volume between China and Africa is currently growing at an annual rate of 20-30% over the past decade (Figure 1). China has surpassed the US and the EU to become Africa's largest trading partner, with bilateral trade volume reaching nearly 200 billion USD in 2012.<sup>5</sup> Meanwhile, Africa is also expected to become China's largest trading partner in the years to come. According to official data, China's accumulative FDI in Africa reached 21.2 billion USD in 2012, straight from 9.3 billion USD in 2009.<sup>6</sup> It is reported that there are currently 4,600 Chinese companies operating in Africa, both private and state-owned (Shinn and Eisenman 2012, p129). Even during the global financial turmoil starting in 2007, China's interest in Africa did not signal to decline: for example, it is found that China's trade with Africa reached 100 billion

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<sup>3</sup> Trade to GDP ratio (2009-2011):

<http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN>

<sup>4</sup> "China Overtakes US in World Trade", *The Guardian*. Feb 11, 2013.

<http://www.guardian.co.uk/business/2013/feb/11/china-worlds-largest-trading-nation>

<sup>5</sup> White paper on "China-Africa Economic and Trade Cooperation" published by the Information Office of the State Council. August, 2013. Part I Promoting Sustainable Development of Trade.

[http://news.xinhuanet.com/english/china/2013-08/29/c\\_132673093\\_2.htm](http://news.xinhuanet.com/english/china/2013-08/29/c_132673093_2.htm)

<sup>6</sup> Ibid. Part II Improving the Level of Investment and Financing Cooperation

[http://news.xinhuanet.com/english/china/2013-08/29/c\\_132673093\\_3.htm](http://news.xinhuanet.com/english/china/2013-08/29/c_132673093_3.htm)

USD in 2008, from 73.6 billion USD in 2007. Chinese investment in Africa increased from 70 billion USD to 80 billion USD over a 9-month period in 2008 (Farooki, 2010, p16). Trade volume between China and Africa quickly picked up by 2010 after a brief setback in 2009, in the middle of the global economic and financial meltdown (Figure 1).

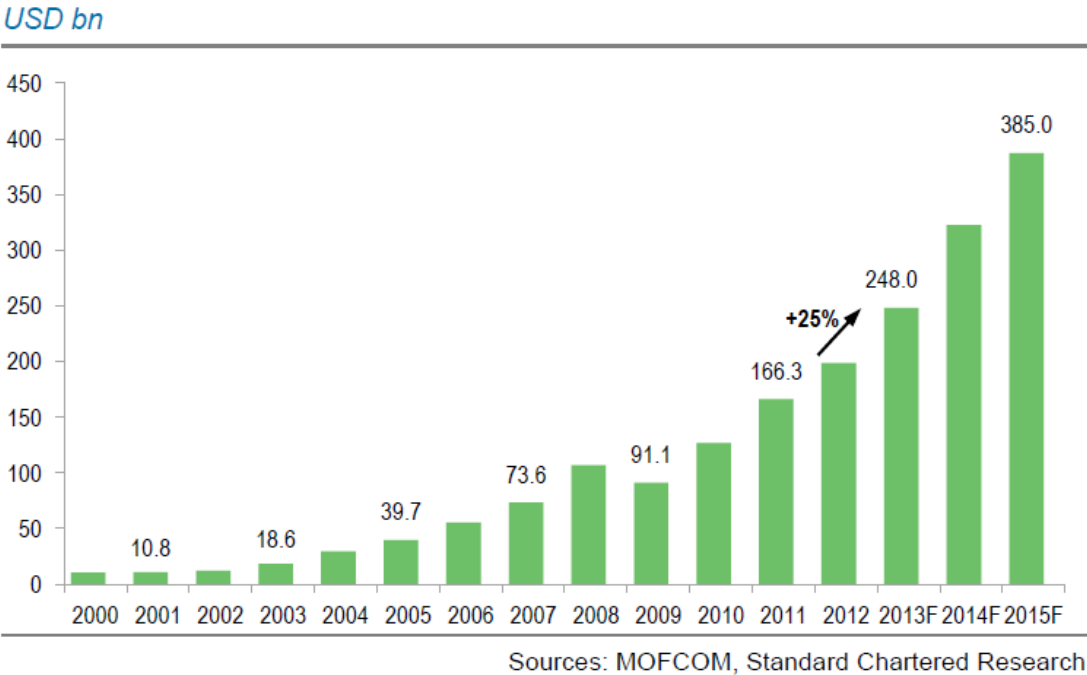


Figure 1: China-Africa growing trade (billion USD)<sup>7</sup>

The trade pattern between China and Africa is described by Wang as “China imports fuel and other commodities, Africa purchases investment and manufactured products from China” (Wang, 2007, p20). The vast potential market in Africa provides an important economic incentive for Chinese businesses to tap, given China’s comparative advantage in the manufacturing sector and Africa’s increasing demand for manufactured goods and foreign investment to develop its industries. While mineral products remain the largest component of China’s imports from Africa

<sup>7</sup> Baynton-Glen (2013).

(Figure 2), the latter exports a whole basket of more diversified goods to African countries, ranging from plastic products, machinery and transportation equipment, to footwear, textiles and clothing (Figure 3).

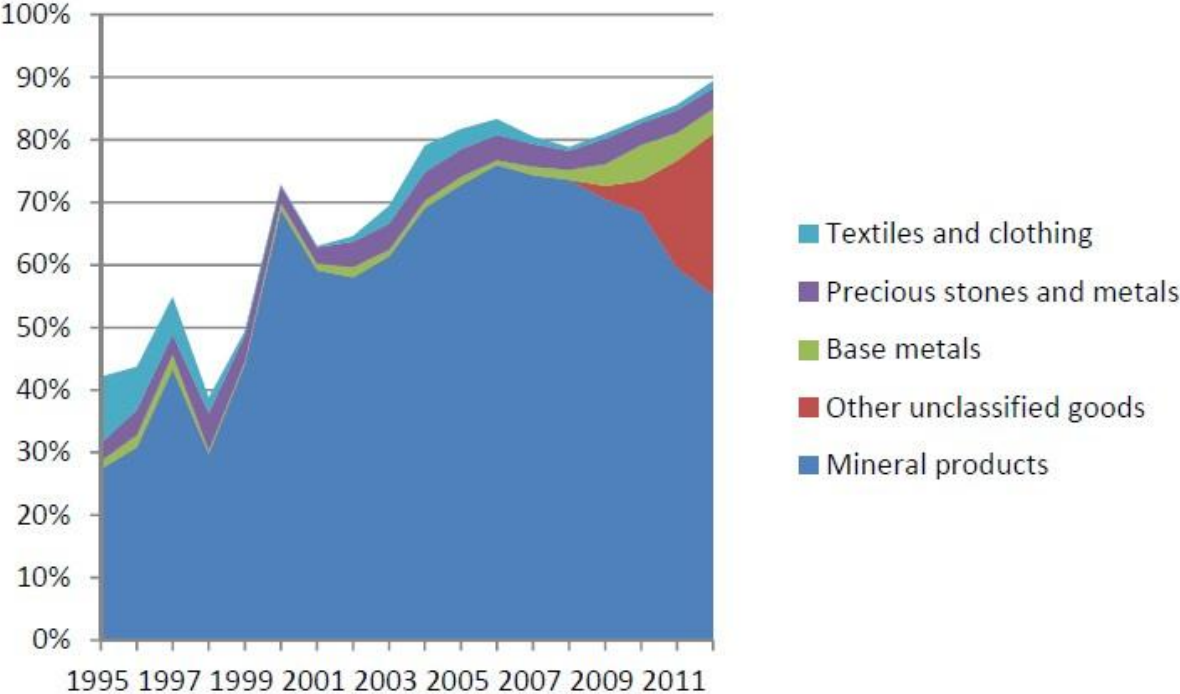


Figure 2: China's main import products from Africa<sup>8</sup>

<sup>8</sup> Global Trade Atlas, consolidated by Tralac. <http://www.tralac.org/files/2013/08/Africa-China-trading-relationship-Synopsis.pdf>. Tralac is a capacity-building organization, supported by the Swiss State Secretariat for Economic Affairs (SECO), engaged in research, training and policy dialogue. The China-Africa trade synopsis and statistics spreadsheet can be found and downloaded at <http://www.tralac.org/2013/08/14/africa-china-trading-relationship/>. According to tralac, all data are sourced from the Global Trade Atlas and the Chinese data of the Global Trade Atlas was sourced from Chinese customs authorities.

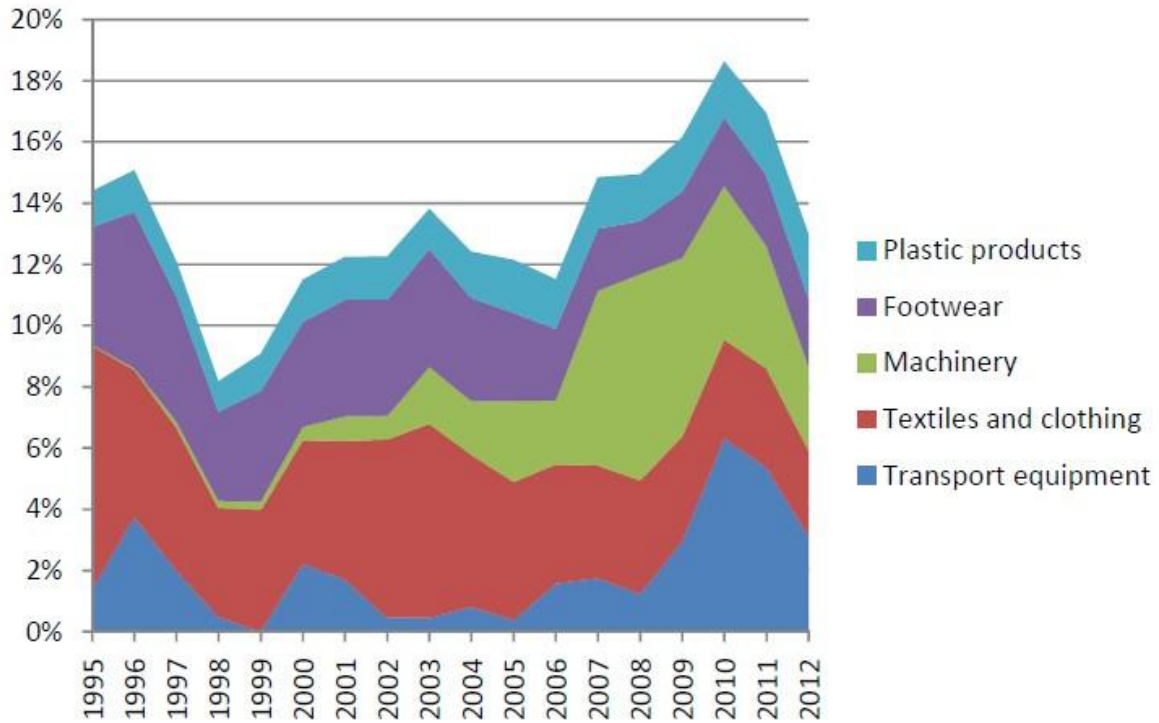


Figure 3: China's top export products to Africa<sup>9</sup>

As for Chinese investment in Africa, it is noted that “China invests in any country, even those considered as pariahs by the West” and that they are willing to take risks by operating in conflict-afflicted African regions (Shinn and Eisenman 2012, p130). In terms of geographical distribution, Chinese FDIs spread out across the continent, although unevenly (Figure 4).

<sup>9</sup> Global Trade Atlas, consolidated by Tralac. <http://www.tralac.org/files/2013/08/Africa-China-trading-relationship-Synopsis.pdf>

2004-10 cumulative FDI inflows from China and China's SEZs

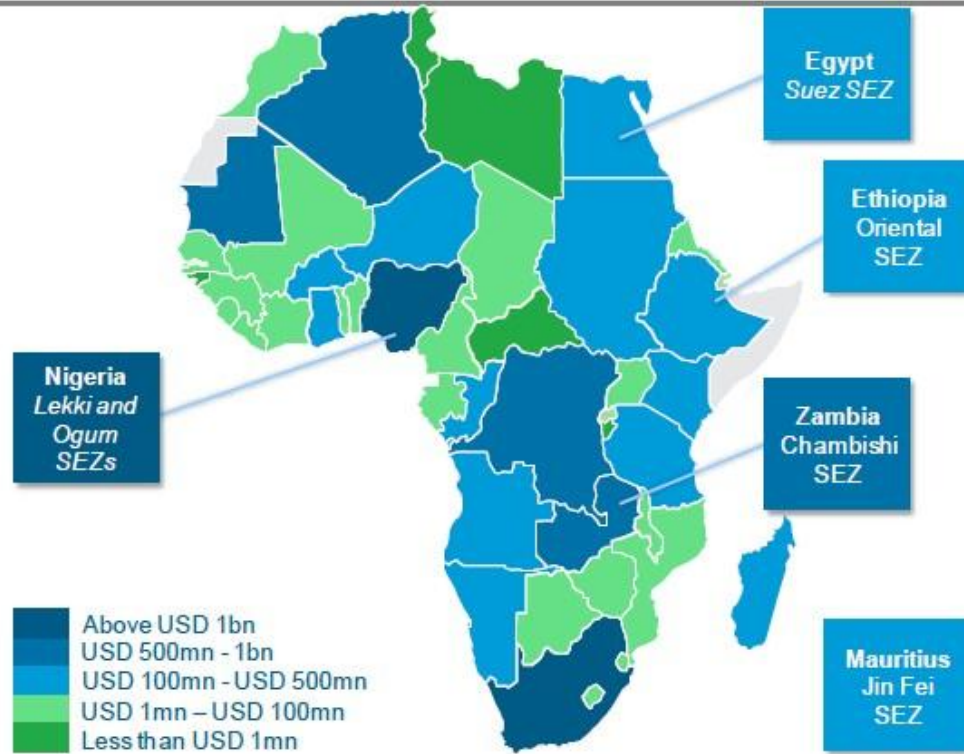


Figure 4: 2004-2010 cumulative FDI inflows from China and China's SEZs<sup>10</sup>

In terms of sectoral distribution, it is evident from the graph below that Chinese investments go to a wide range of sectors, with the largest shares in mining, finance and construction (Figure 5).

<sup>10</sup> Baynton-Glen (2012).

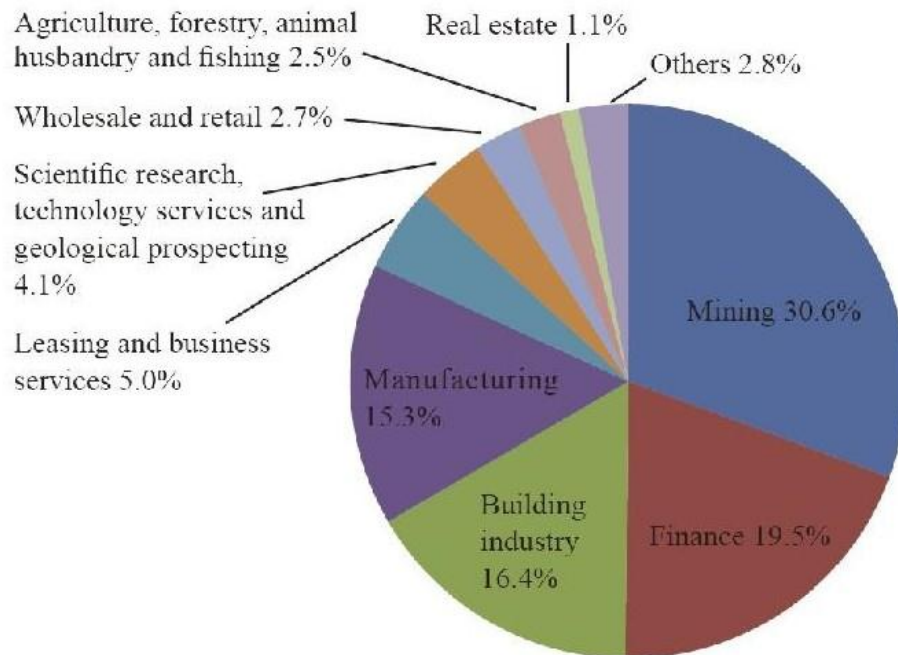


Figure 5: China's direct investment in Africa by the end of 2011 (Xinhua/Ma Yan)<sup>11</sup>

Despite the fact that it is an art to measure or even to define China's aid to Africa, as Chinese aid does not conform to the criteria of the "official development assistance" (ODA) set by the Western countries, and that the Chinese government discloses little information about the actual figures, there is no doubt that the Chinese are active in financing development projects in Africa. According to Brautigam, China's aid comes in three forms: grants; interest-free loans and low-interest "concessional" loans with subsidized interest rates (Brautigam, in Rotberg, 2008, p200). Currently, China's largest effort is put in infrastructure development. Infrastructure projects involve some of the most critical sectors including hydropower, transportation, information and telecommunication, to name a few.

<sup>11</sup> White paper on "China-Africa Economic and Trade Cooperation" published by the Information Office of the State Council. August, 2013. Part II Improving the Level of Investment and Financing Cooperation. [http://news.xinhuanet.com/english/china/2013-08/29/c\\_132673093\\_3.htm](http://news.xinhuanet.com/english/china/2013-08/29/c_132673093_3.htm)

### **Ongoing debate: what has China's economic engagement in Africa brought about?**

As the China-Africa economic engagement has taken on more weight in the global economic scenario and attracted the world's attention, it frequently finds itself a popular subject in academic research and policy debate. In the current literature, much effort has been spent in assessing China's role in Africa and its implications for the continent as well as other actors involved. Without a doubt, China's expanding economic engagement in Africa has had significant impacts on Africa: economic, social, political and environmental. Consequently, the following questions have been frequently asked and examined by scholars and policy-makers: who gains and who loses in this economic relationship?; if both sides gain, who gains more?; is China a threat or an opportunity to Africa? Some have argued in favour of China's economic engagement with Africa, considering it mutually beneficial, whereas others have even gone so far as to portray China's growing presence in Africa as neo-colonialism or imperialism, not different from the western domination during the colonial period. It is important to take a brief look at this ongoing debate so as to identify the questions that have been left out or under-explored, in order to better position our arguments herein.

Far more complicated than a clear-cut question of being good or bad, the changes that China's economic undertakings have brought to the continent are profound and multifaceted. Alden summarizes the current discourse on China's role in Africa into three stands of thought: China as a "development partner", "economic competitor" and "colonizer" (Alden, 2007, p5), arguing at the end of the book that "these characterizations oversimplify what are complex and overlapping interactions which are themselves nested within the diverse African political and economic landscape" (ibid. p125). On the positive side, it is largely acknowledged that China's economic engagement with Africa has brought economic prosperity and more opportunities to the

continent. Firstly, China's growing appetite for natural resources has driven up commodity prices, benefiting resource-rich African countries (Obiorah, Kew and Tanko, in Rotberg, 2008, p272). Secondly, cheaper consumer goods and capital goods have enabled Africans to enjoy a higher purchasing power, both of which combined resulting in a significantly improved terms of trade (Alden, Large and Soares de Oliveira, 2008, p35). Thirdly, the Chinese are (re)constructing stadia, bridges, hospitals, schools and roads in Africa; they are also active in building basic infrastructure for energy supply, water supply and telecommunication. China's efforts in infrastructure projects are essential to Africa's economic well-being. They have even tapped into the banking and public health sector. Lastly, in international terms, Raine argues that China's involvement in Africa has positively altered the environment in which other powers engage with Africa in many ways (Raine, 2009, p198-201): firstly, China's trade-focused approach has proved to be a more sustainable way for Africa's development. Secondly, China's heavy focus on infrastructure provided impetus for the West to vest more interest in this sector. Thirdly, China's own development approach has given rise to the "Beijing Consensus", offering a new recipe for Africa's development. Finally, China's timely assistance challenges that of the international financial institutions, which is often burdened with bureaucratic terms.

On the negative side, more critical analyses have been carried out by numbers of scholars and policy analysts regarding issues of economic losses, governance, environment, human rights etc. Raine points out seven charges in the current discourse that have been levelled against China's commercial concerns in Africa: an unreasonable preference for Chinese labour and materials; poor employment practices; bribery and lack of transparency; poor workmanship and the dumping of poor-quality products and fakes; lack of respect for the environment; unfair competition enabled by excessive state support; and finally, the problem of trade imbalances

(Raine, 2009, p104-129). Li also points out some of the criticisms against China's increasing role in Africa, including "new colonialism", human rights issues, Zimbabwe and Darfur, and finally, transparency in China's aid to Africa (Li, 2006, p36-39). It is also believed that China has brought in a corrupt business culture, which helps breed local elites, who have control over key resource sectors. Tull casts a pessimistic view of China's economic engagement with Africa, arguing that, contravening the "win-win" situation propagated by the Chinese, "to date, however, nothing indicates that Africa will be able to compete successfully with China, a result of which is that its exports to China are by and large limited to capital-intensive commodities. This imbalance has the effect of Africa creating jobs in China, while imports from China have undermined job markets in Africa" (Tull, 2006, p472).

A more moderate view towards China's role in Africa argues that while China's involvement in Africa does display certain characteristics of colonial relations, it diverges from colonialism in many respects: China and African states' mutual recognition and support in international fora; China's disinterest in seeking political or economic hegemony over African states; its interest in African people as consumers rather than labourers and its relentless effort to refurbish and extend infrastructure, all of which distinguish China from traditional colonial powers. Despite the economic imbalance, it is suggested that China and Africa are "engaging in post-colonial relations of interdependency", as opposed to the dependency typical of colonialism or neo-colonialism (Rupp, in Rotberg, 2008, p66).

Indeed, China's growing presence across the continent has aroused anxiety and deep concerns not only in the West, where China is perceived as a competitor, predator and rogue donor, but also among Africans themselves, fearful of China's "neo-colonialism". Also, numerous policy papers have examined the implications of China's rise in Africa for other external actors, i.e. the

US, the EU or international financial institutions such as the World Bank and the IMF. The current debate has also sparked a large literature contrasting the “Washington Consensus” with the so-called “Beijing Consensus”<sup>12</sup>, the former based on neo-classical theory of market forces and the latter involving incremental reforms, experimentation and heavy state intervention in economic affairs. For example, Gokcekus and Suzuki (2013) empirically prove valid the argument that, China, with the so-called “Beijing Consensus” and thus a lack of emphasis on good governance, has contributed to increased levels of corruption in Africa, whereas by trading with advanced economies, who advocate the “Washington Consensus” and thus good governance, African countries tend to experience a lower level of corruption. McKinnon argues that in terms of aid giving, the “Beijing Consensus” “at least fills niches that international agencies such as the World Bank don’t cover but still complements what they do” (McKinnon, 2010, pp505-506).

However, our aim here is not to repeat the same arguments in the current debate but to identify the gaps in their discussion. Centering mainly on the economic, social, political and environmental consequences of China’s economic undertakings in Africa, the current debate largely fails to ask a more fundamental but simple question: what has contributed to this thriving economic relationship? In other words: what are the driving forces behind this relationship? It is necessary and crucial to step back and take a thorough look at the endogenous and exogenous factors that have contributed to the China-Africa economic engagement, before moving on to further discussions about the impacts and the future path of this relationship.

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<sup>12</sup> “Washington Consensus” is a term put forth by John Williamson in 1990, detailing a model for developing countries containing rules such as fiscal policy discipline; redirection of public spending from subsidies; tax reform; market-determined interest rates, competitive exchange rates; trade liberalization; inward FDI liberalization; privatization of state enterprises; deregulation and legal security for property rights. The “Washington Consensus” stands in contrast with the “Beijing Consensus”, a term put forth by Joshua Ramo in 2004 drawing from China’s development experience. It centers on institutional innovation, equitable and sustainable development and self-determination.

Undoubtedly, one can find answers to this question in various literatures, but they tend to be hasty and oversimplified. Most of the literature holds that China's appetite for energy and overseas markets serves as the driving force behind China's modern-era engagement with Africa. For example, "the urgent need for oil has been a major impetus in the recent economic surge in Chinese activity in Africa" (Shinn and Eisenman, 2005, p7). A similar opinion is echoed by Vine: "Oil and high commodity prices are the key drivers of China's renewed activity" (Vine, 2007, p214). A more nuanced view states: "resource security is undoubtedly the biggest driving force behind China's increasing involvement in Africa" (Kopinski, Polus and Taylor, 2012, p4). Tull notes that the factors lying behind China-Africa trade boom include "China's large and cheap labour force", "acute poverty in vast parts of Africa", "Beijing's need to secure natural resources to sustain its economic boom at home" and Africa's rich natural resources (Tull, 2006, p464). Some see other dimensions to it, arguing that "the key factors propelling Chinese engagement in Africa can be summarized as a combination of domestic Chinese dynamics, desire to expand into new markets and international political factors" (Alden, Large and Soares de Oliveira, 2008, p6). For the international political factors, they argue that firstly, China, self-appointing as the leader of the global South, sees the significance in making efforts to work with and speak for Africa. Secondly, in terms of broader international politics, Africa plays an important role in China's rivalry with Japan. Lastly and most importantly, China needs African states' support for its One China principle, undermining the legitimacy of the Taiwan government. However, according to the Chinese official claim, China's interest in Africa is motivated by sympathy (Foreign Minister Li, March 2007, cited by Vines, 2007, p213). While not invalid, these answers are not fully convincing, as they fail to give a full account of the multitude behind this economic relationship and that their arguments tend to be under-elaborated.

The following three chapters will take a closer look at the driving forces of the China-Africa economic engagement from three perspectives: economic, institutional and political. Their respective contribution to the China-Africa economic engagement will be analyzed and the interconnectedness between them will be explored in the concluding part.

## **Chapter II Economic driver**

It has been discussed in the previous chapter that throughout the 1980s, China gradually shifted its ideological and political engagement with Africa to a pragmatic and mercantilist one. Since the 1990s, the China-Africa economic relationship has experienced unprecedented growth, largely characterized in the current discourse by China's growing appetite for Africa's natural resources and potential markets. Therefore, it would not be unreasonable to ask a basic question: what resources and markets does Africa have? Another question follows: what does China need from Africa? The "fit" between China's demand and Africa's supply provides the most fundamental economic incentives for the two sides to embark on an economic engagement. A third economic factor is China's aid to Africa, largely centering on infrastructure development and also featuring knowledge and skills transfer, essential for Africa's economic development. Over time, these factors have contributed to another dimension of the economic driver: the growing economic interdependence, which was manifest in the 2007 global economic and financial crisis. This chapter will take a thorough look at these economic factors that have driven the China-Africa economic relationship since the 1990s.

### **Africa: what exactly does it have?**

The African continent abounds in diverse natural resources, ranging from energy minerals such as oil, gas and uranium, metals such as copper, bauxite, cobalt and iron, mineral fuels such as coal to precious minerals such as silver, gold, platinum and diamonds.<sup>13</sup> It also boasts large quantities of cacao beans, woods and tropical fruits. Africa retains large shares of the world's natural resources. To put it into perspective, Africa's known reserves include more than 40% of

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<sup>13</sup> Mineral classification source: the United Nations Conference on Trade and Development (UNCTAD) in its World Investment Report 2007, p84.

minerals such as chromium and cobalt as well as more than 50% of the global diamond reserves. In addition, a major part of the world's precious metals is located in Africa: at least 15% of the global gold reserves and almost all global platinum and palladium reserves. Around 60% of the world's uncultivated arable land is found in Africa, and the continent holds large reserves of fuels – approximately 8% of the global oil and gas reserves.<sup>14</sup> The map below serves to better illustrate the types and the distribution of natural resources all over the continent:

### Africa's resource wealth

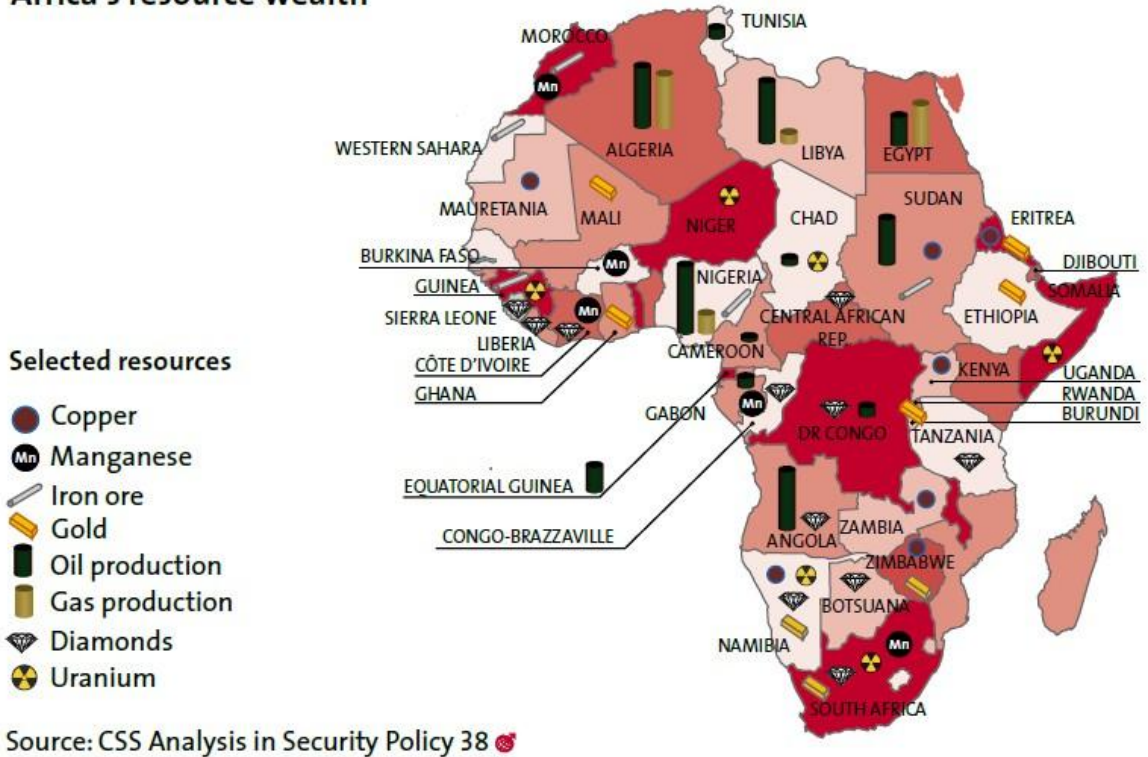


Figure 6: Africa's resource wealth<sup>15</sup>

<sup>14</sup> Waeber and Wassermann, "Will Africa's Natural Resources Lead to Prosperity?", *Credit Suisse*, May, 15, 2013. <https://www.credit-suisse.com/uk/en/news-and-expertise/news.article.html/article/pwp/news-and-expertise/2013/05/en/will-africa-s-natural-resources-lead-to-prosperity.html>

<sup>15</sup> "Strategic Trends 2010: Key Development in Global Affairs", Center for Security Studies, 2010, p22.

Nearly twenty African countries were classified by the IMF for the period of 2000-2005 as either hydrocarbon-rich or mineral-rich countries, including Algeria, Angola, Cameroon, Republic of Congo, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan (before the independence of South Sudan), Liberia, Botswana, Democratic Republic of Congo, Ghana, Guinea, Mauritania, Namibia, Sierra Leone, South Africa and Zambia.<sup>16</sup> The same countries have also been listed as resource-dependent countries by the IMF (Baunsgaard, et al., 2012, p23 Appendix I). Export of natural resources accounts for, on average, one third of Africa's total GDP.<sup>17</sup> It is important to note that Africa's average annual growth rate, fluctuating around 5%, outpaces that of most Asian countries, owing largely to its resource-rich countries, whose exports of natural resources make up a major part of their economic activities. For example, according to the latest data from the WTO database, exports of fuels and mining products make up 98.6% of Algeria's total world exports, 97.3% for Angola, 89.4% for Nigeria, and 78.2% for Zambia.<sup>18</sup> Diamond mining accounts for 70%-80% of Botswana's exports.<sup>19</sup> Exports of natural resources remain an important source of economic wealth. For example, the oil and gas sector accounts for 35% of the GDP of Algeria and Nigeria, 45% for Angola;<sup>20</sup> diamond mining accounts for nearly 1/3 of Botswana's GDP;<sup>21</sup> copper mining accounts for 80% of Zambia's foreign exchange earnings.<sup>22</sup> It is no coincidence that the same countries are also among the fastest growing economies in Africa.

Despite its resource richness, and high average growth rate largely driven by its resource-rich countries, Africa remains overall an underdeveloped continent. Shortages in skilled labour,

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<sup>16</sup> *Guide on Resource Revenue Transparency*, International Monetary Fund, 2007, Table 1 and 2.

<sup>17</sup> Leke, Acha et al. 2010. "What's Driving Africa's Growth?"

[http://www.mckinsey.com/insights/economic\\_studies/whats\\_driving\\_africas\\_growth](http://www.mckinsey.com/insights/economic_studies/whats_driving_africas_growth)

<sup>18</sup> WTO trade profiles.

<sup>19</sup> Index Mundi Factbook: Botswana. [http://www.indexmundi.com/botswana/economy\\_overview.html](http://www.indexmundi.com/botswana/economy_overview.html)

<sup>20</sup> OPEC member countries' facts and figures: [http://www.opec.org/opec\\_web/en/about\\_us/25.htm](http://www.opec.org/opec_web/en/about_us/25.htm)

<sup>21</sup> Index Mundi Factbook: Botswana. [http://www.indexmundi.com/botswana/economy\\_overview.html](http://www.indexmundi.com/botswana/economy_overview.html)

<sup>22</sup> African Development Bank, Zambia Economic Outlook: <http://www.afdb.org/en/countries/southern-africa/zambia/zambia-economic-outlook/>

capital and infrastructure have created barriers for Africa to transform its natural gift into value-added goods; undiversified export patterns have made it difficult for Africa to develop competitiveness in sectors other than resources. As a result, African countries rely heavily on imports of industrial products, machinery and transportation equipment, chemicals and consumer goods from other countries. African countries' trade patterns are explained by the endowment-based trade theory, which says that Africa, abundant in natural resources, has a comparative advantage in raw material and natural resource-based products, and suggests that it would be economically efficient for Africa to export resource products as opposed to manufactured products (Broadman in Rotberg, 2008, p102). With a population of more than 1 billion and the growing demand for manufactured products and infrastructure, Africa is widely perceived as a less developed and thus less saturated market where there is less competition than that of the developed and developing economies. To begin the story, Africa's rich resources and large potential market have provided a primary economic incentive for Chinese businesses to engage with Africa.

### **China: what does it need?**

Africa's rich natural resources and potential market would have little to do with China if China were self-sufficient in resource production and had a large untapped domestic market to be met. Supply serves to satisfy demand. An economic relationship must contain the two sides in order to grow. It is therefore crucial to take a look at what the Chinese need from Africa.

The process of modernization and industrialization since the "Reform and Opening-up" policy in the late 1970s has seen China's growing demand for energy and other primary commodities, which has become especially evident since the 1990s. Take copper for example. Copper is

considered to be one of the most important metals for the development of our modern society. It is largely used in infrastructure building, transportation, electrical appliances and communication devices, to name a few. China is by far the world’s largest copper consumer (Shinn and Eisenman, 2008, p118), accounting for almost 40% of world consumption in 2011.<sup>23</sup> Driven by China’s increasing spending on copper-intensive infrastructure construction and the growing population of Chinese consumers, China’s demand for copper has gone up rapidly, resulting in a widening gap between China’s copper consumption and its own production starting from 1995 (Figure 6), making China a net copper importer.

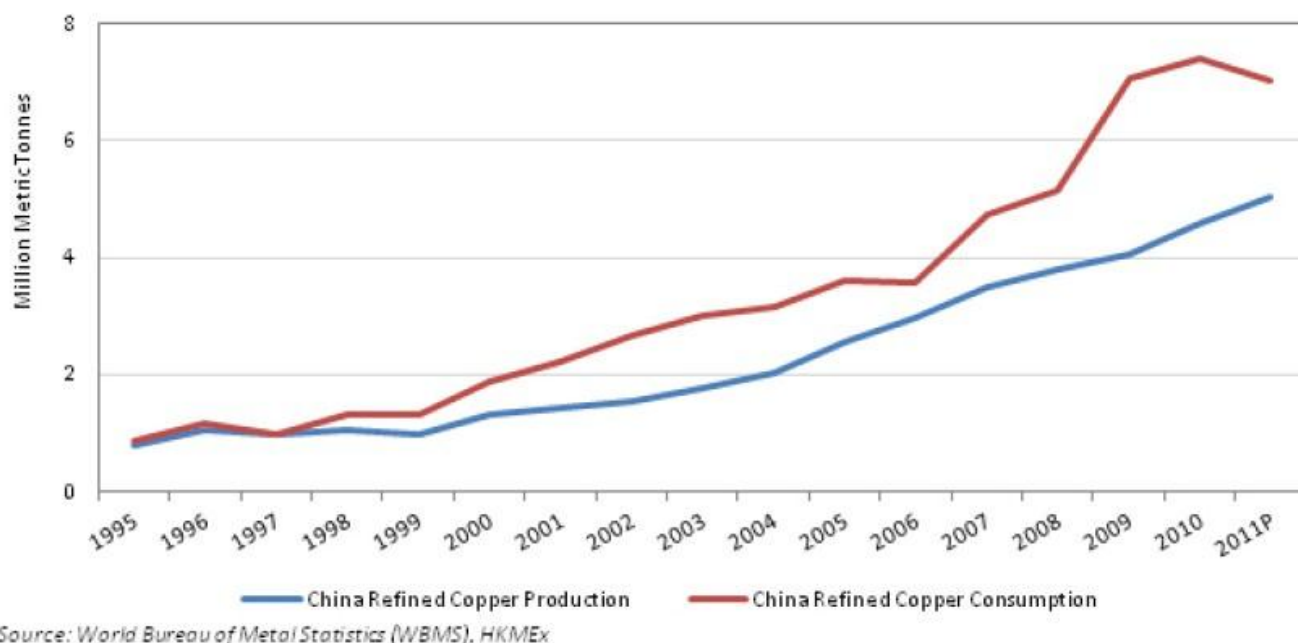


Figure 7: China’s refined copper production and consumption (million metric tonnes)<sup>24</sup>

<sup>23</sup> Oracle Mining Corps., Copper Overview. <http://www.oracleminingcorp.com/copper/> and “Copper Edges Lower after US Government Shutdown, China PMI” by Investing.com, 2013. <http://www.investing.com/news/commodities-news/copper-edges-lower-after-u.s.-government-shutdown,-china-pmi-253333>

<sup>24</sup> “Integration of International and Mainland China, Copper Future Trading”, *Swiss Derivatives Review*, June 2012.

Zambia and the Democratic Republic of Congo (DRC) are the two largest producers of refined copper in Africa, accounting for 53% and 37% of African refined copper production in 2011.<sup>25</sup> According to the China-Africa trade statistics put together by Tralac,<sup>26</sup> China started importing refined copper and alloys from Zambia in 1996, and the import value went all the way from 1 million USD in 1996 to 1.1 billion USD in 2012. China's refined copper imports from DRC started in 2006, jumping from 1 million USD to 1.2 billion USD in 2012.

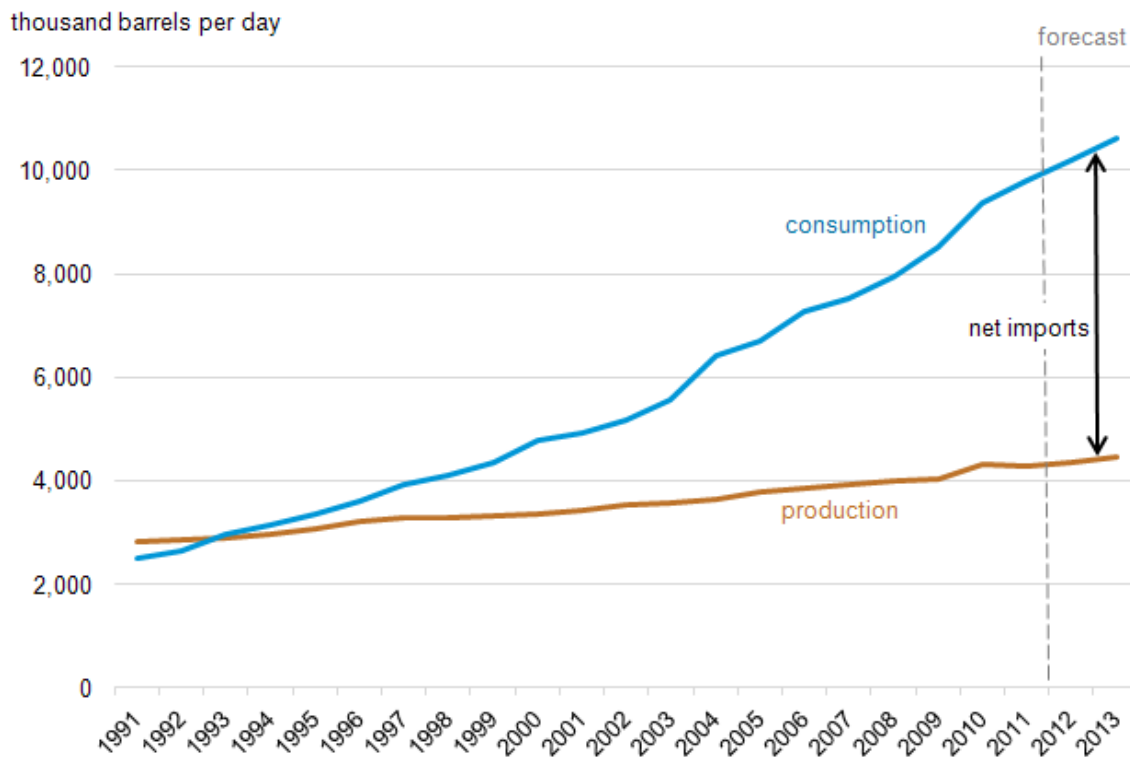
According to the 2012 WTO International Trade Statistics, China has overtaken Japan as the world's third largest importer of fuel, after the EU and the US (International Trade Statistics 2012, p55). China's imports of fuels went all the way from 1.3 billion USD in 1990 to 276 billion USD in 2011, an almost 220-fold increase (International Trade Statistics 2012, p82). A good example of China's growing appetite for energy is its rising demand for oil imports. It can be seen from Figure 7 that in 1993 China became a net oil importer. Its oil consumption began to exceed oil production and has been growing at a much higher rate, resulting in a widening oil gap.

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<sup>25</sup> 2011 Minerals Yearbook, USGS, 2013 Aug.

<sup>26</sup> The China-Africa trade synopsis and statistics spreadsheet can be found and downloaded at <http://www.tralac.org/2013/08/14/africa-china-trading-relationship/>

### China's oil production and consumption, 1990-2013



Source: U.S. Energy Information Administration *International Energy Statistics and Short-Term Energy Outlook (August 2012)*

Figure 8: China's oil production and consumption, 1990-2013 (thousand barrels per day)<sup>27</sup>

So who fills in this oil gap for China? While the Middle-East remains China's largest source of crude oil import, the share of Africa in oil supply for China has grown to over 30% in 2009 from the early 1990s, making Africa China's second largest oil supplier, while the share coming from Asia Pacific has significantly declined (Table 1). Angola is China's largest oil source in Africa, with crude oil import reaching a value of over 33 billion USD in 2012, all the way from 136 million USD in 1995 (Tralac, China-Africa trade data).

<sup>27</sup> Country analysis: China. US Energy Information Administration, Sep. 2012.

Year	Middle East	Africa	Europe, FSU, and Western Hemisphere	Asia Pacific
1990	4.8	0.0	0.0	7.4
1991	47.8	0.0	0.6	51.7
1992	35.5	4.4	1.0	59.1
1993	42.1	13.6	2.6	41.7
1994	39.7	4.1	0.8	55.4
1995	45.4	10.8	2.3	41.4
1996	52.9	8.5	2.3	36.3
1997	47.3	16.7	9.5	26.5
1998	61.0	8.0	11.0	20.0
1999	46.2	19.8	15.4	18.7
2000	53.6	24.1	7.2	15.1
2001	56.2	22.5	6.9	14.7
2002	49.6	22.8	10.6	17.1
2003	50.9	24.3	9.6	15.2
2004	45.4	28.7	14.3	11.5
2005	47.2	30.3	14.9	7.6
2006	45.2	31.5	19.7	3.6
2007	44.6	32.5	19.4	3.5
2008	50.1	30.2	16.9	2.8
2009	47.8	30.1	17.3	4.7

*Sources:* Compiled by authors from Tien, 1994, 1996, 2000, 2005, 2010.

Table 1: Chinese crude oil imports by world region, 1990-2009 (million tons)<sup>28</sup>

It is also illustrative to see how China's growing appetite for energy can be reflected in Chinese oil companies' expanding energy-tapping footprint on this continent, from only one country (Sudan) until 2000 to all across the continent by the year 2009 (Figure 8).

<sup>28</sup> Leung, Li and Low (2011).

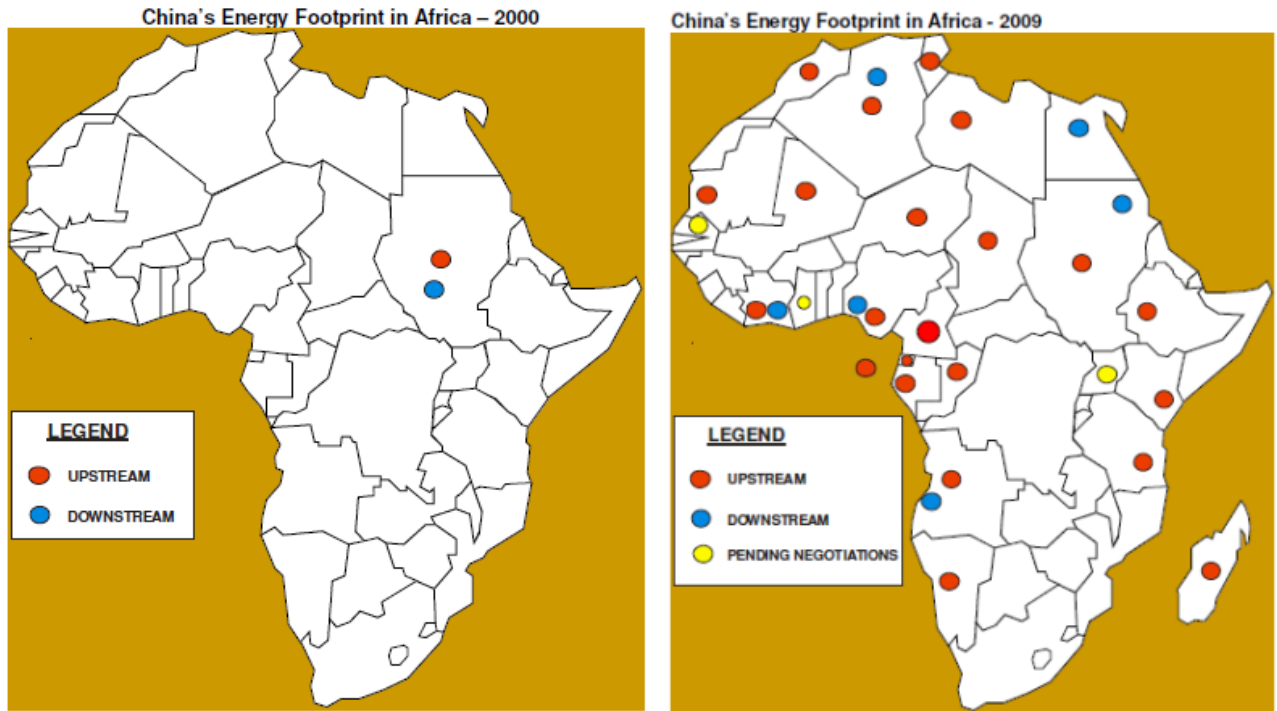


Figure 9: China's energy footprint in Africa, 2000 and 2009<sup>29</sup>

Another dimension to China's increasing energy demand is its energy security concerns. The growing demand for energy from the African continent, the sharply reduced demand from Asian countries and the stabilized demand from the Middle-East reflect China's energy-securing strategy, which is to diversify energy supply sources and reduce excessive import dependence on the Middle East. It is pointed out that "it is for this reason (energy security), inspired primarily by the American-led military intervention and occupation of Iraq in 2003 as well as the serious disputes over Iran's nuclear programme, that Africa is in the process of assuming greater prominence in China's global strategic calculus" (Alden, 2007, p12).

<sup>29</sup> "China in Africa: A Strategic Overview", 2009 Oct., pp31-34.

However, the fact that China is not only doing business with resource-rich countries in Africa, but engaging in economic activities with almost all African countries and that China's total exports to Africa have actually exceeded its imports from Africa prove simplistic the perception that China is only looking for resources in Africa. A booming resource consumer indeed, China is also the world's largest manufacturer, facing an increasingly saturated domestic market, fierce domestic and regional competition and surplus in production capacity (Reine, 2009, p44; Gamora and Mathews, 2010, p97). As previously mentioned, Africa, with a population of over 1 billion and low productivity, constitutes a large potential market that is less saturated for Chinese businesses, compared to that of other developed and developing countries. This reality explains why there are not only large Chinese oil companies and construction firms operating on the continent but also a whole range of small and medium businesses in the manufacturing and retail sectors, profit-driven, taking advantage of China's "comparative advantage relative to the African companies in terms of the production of basic manufactured goods like textiles and clothing, footwear, bicycles and simple electrical appliances" (Alden, 2007, p47). Indeed, Africa is the destination of large volumes of Chinese manufactured goods. South Africa is by far China's biggest export destination in Africa, with a total export value reaching 15.3 billion USD in 2012, representing nearly 18% of China's total exports to Africa of that year.<sup>30</sup> According to the WTO trade profile, China is currently the largest single country for both imports from and exports to South Africa, following the 27 EU countries. Ethiopia serves as a good example of China's engagement with non-resource-rich countries. Chinese exports to Ethiopia reached 1.5 billion USD in 2012, all the way from 31 million USD in 1995, while the volume of Chinese imports from Ethiopia in the same year represented a much smaller scale: 310 million USD. According to the WTO trade profile, 19.3% of Ethiopia's imports come from China, making

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<sup>30</sup> Calculated according to the China-Africa trade statistics spreadsheet by Tralac.

China the largest main origin for Ethiopia's imports, even larger than the 27 EU countries combined (14.7%). Among the top export items from China were transportation equipment and machinery (Tralac statistics).

Another important factor in the analysis of China's growing demand is the fact that China, determined to get rid of its stereotype of being the "world factory", is offshoring some of its manufacturing production to African countries. Lin argues that as China's labour productivity increases, wage rates have risen dramatically and that this trend will continue and erode China's competitive edge in labour-intensive products. As a consequence, China will have to relocate its labour-intensive industries to lower-income countries, such as Africa countries, and move up the value chain (Lin, 2011). A recent example of China's offshoring is the Chinese Huajian Group, a conglomerate of Chinese footwear and consumer goods producers. It opened up a shoe-making factory near Addis Ababa in early 2012 that currently employs 600 workers, producing 2,000 pairs of shoes each day. It is widely considered that Ethiopia has comparative advantages in wages and productivity.<sup>31</sup> Huajian Group is intending to expand to a larger scale, creating more jobs and skills development opportunities for locals, envisaging building a "shoe city" in Ethiopia.<sup>32</sup>

### **China's aid: what's so different about it?**

Besides trade and investment, China's aid to Africa is another important component of the China-Africa economic relationship, playing a strategic role in driving and sustaining this economic relationship. Africa is considered as the global priority for development by the

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<sup>31</sup> See interview with the Vice-President of Huajian Group in Ethiopia:  
<http://www.firstpost.com/topic/place/ethiopia-cnncom-huajian-group-chinese-shoe-maker-moved-to-ethiopi-video-rzD5yaiCSIA-769-1.html>

<sup>32</sup> Jobson, Elissa. "Chinese Firms Steps up Investment in Ethiopia with 'Shoe City'". *The Guardian*, April 30, 2013. <http://www.theguardian.com/global-development/2013/apr/30/chinese-investment-ethiopia-shoe-city>

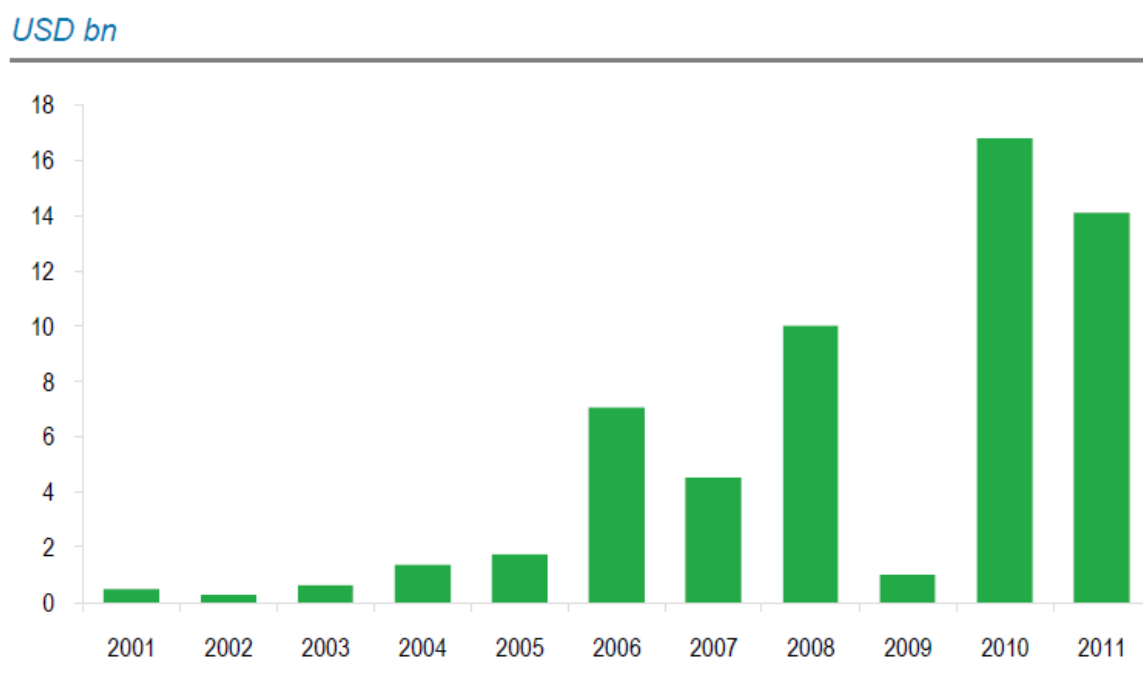
international community, given the massive development challenges faced by the continent: poverty, malnutrition, diseases and regional conflict, to name a few. While donor countries, international agencies such as the World Bank and the IMF as well as NGOs have spent decades of efforts in giving aid and ensuring the efficient use of aid, the role of traditional aid in fostering economic growth has been defied by academics and policy-makers. Without getting into the debate about aid effectiveness, there are several characteristics of China's aid that distinguish itself from traditional western aid. To begin with, it is to note that calculating how much the Chinese give is a difficult and tricky task, if not impossible, given that the Chinese government does not disclose the relevant information, and that there is not even an official definition of aid in the Chinese context.<sup>33</sup> Much of what the Chinese government gives cannot be qualified as official aid, according to the definition of Official Development Assistance (ODA), but has aid components. Without getting into the technical details in this debate about what qualifies as aid and how much the Chinese actually give to African countries, what we are looking at here is how important China's aid is to Africa. We do know that China does give a considerable amount of aid to Africa and that there are three types of aid: grants, interest-free loans, and concessional loans. Most of the grants and loans go to finance infrastructure development in Africa (Brautigam, in Rotberg, 2008, p200).

It is argued that “whilst traditional western donors have shifted their aid emphasis toward so-called ‘softer’ spending seeking to influence policy or to disseminate information to populations, China remains heavily focused on ‘hard’ spend especially on infrastructure” (Davies, 2010, p23). China's infrastructure building in Africa, especially in Sub-Saharan Africa (SSA), is crucial for

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<sup>33</sup> OECD countries have reached agreement on the definition of ODA: flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount), according to OECD website: <http://stats.oecd.org/glossary/detail.asp?ID=6043>

African countries' economic development and wellbeing, given that this continent lacks infrastructure capacity for efficient production and basic livelihood. Africa's shortages in key infrastructure areas, such as power supply, roads and telecommunications, constitute a main barrier for its growth potential, which is believed to be depressing Africa's productivity by as much as 40 percent (Kelley, 2012, p38). At the 12<sup>th</sup> African Union Summit in 2009, infrastructure development was identified as a priority for Africa. China has been playing an active role in infrastructure projects on the continent, committing around 5 billion USD per year from 2005-2009 (Schiere and Rugamba, 2011, p14). Over the past ten years, China's commitments to infrastructure in SSA rose significantly (Figure 10).



Sources: World Bank Report 2008, Standard Chartered Research

Figure 10: China's infrastructure commitment to Sub-Saharan Africa, 2001-2011 (billion USD)<sup>34</sup>

<sup>34</sup> Baynton-Glen (2012).

In terms of sectoral distribution of China's infrastructure projects in Africa, two largest beneficiary sectors are power and transportation, each of which accounts for about 1/3 of Chinese infrastructure development projects on the continent (Shinn and Eisenman, 2012, p153). It is found that in the power sector, China's activities have focused on the construction of large hydropower schemes, which will help increase the total available hydropower generation capacity in SSA by around 30%, and in the transportation sector, China mostly concentrates on railroad projects, including both rehabilitation and construction of railway lines. It is pointed out that China's involvement in Africa's infrastructure building and supply has reduced Africa's infrastructure deficit, which is costing the continent as much as one percentage point per year of per capita GDP growth (Foster, et al., 2008, p5).

Besides China's heavy focus on infrastructure development, which the West has largely failed to deliver (Brautigam, 2009, p77 and p133), the fundamental difference between China's aid and that of western donors lies in the conditionality attached to the loans. China provides large sums of loans and grants to African countries with interest rates significantly below market value and no political strings attached to it, while the West tends to condition its loans and grants on initiatives such as democracy promotion and corruption reduction (Condon, 2012, p2). While the negative social and political consequences of Chinese "sweeter deals" are not to be dismissed, it is undeniable that they have benefited African countries economically, and have served as an important economic incentive for African countries to continue to engage China in its economic development.

However, it should be acknowledged that China's aid to Africa is by no means philanthropic in nature: they serve China's commercial purposes, mostly driven by resources. Alden presents the case of Angola that shows how Chinese multinational companies manage to secure oil deals by

providing loans and undertaking infrastructure construction. In 2004, Angola made a last minute decision to sell 50% of Shell's<sup>35</sup> oil share of Angola's deep-water Block 18 to Sinopec, a Chinese state-owned oil corporation, instead of an Indian oil company, because the Chinese government was willing to provide a 2 billion USD-loan, freeing Angola from the obligation to satisfy the conditionalities attached to the loans from IMF sources (Alden, 2007, p44). According to a study done by the Centre of Chinese Studies, the Chinese provided and then further increased an oil-backed credit line to the Angolan government in 2005 for Angola's post-war reconstruction of vital infrastructure, in exchange for 10,000 barrels of oil per day. It is also pointed out that "Angola had, at the time of the agreement's conclusion, been experiencing difficulties in securing capital from international financial institutions such as the Paris Club and the IMF" (Corkin and Burke, 2006, p21). These infrastructure-for-oil agreements gave birth to the term "Angola Model", referring to "China Exim Bank's financing arrangement that ties a commodity off-take agreement with the provision of infrastructure in the contracting African country" (Davies, 2010, p14).

Besides infrastructure financing, China also has a vested interest in providing training and education programmes, from which western donors have turned away (Brautigam, 2009, p121). The transfer of knowledge and technology from China to Africa has been a growing part of China's aid to African countries since 2000. Africa's current economic growth mainly depends on its rich natural resources and infrastructure building, much of which is with Chinese support. However, the mere enlargement of capital stock and labour force does not suffice for long-term economic growth. Lacking in skilled labour force and R&D to improve productivity, African countries' high growth rates, largely coming from resource exports, cannot be sustainable. As

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<sup>35</sup> Shell is a group of energy and petrochemical companies. Its headquarter is based in Hague, the Netherlands.

China and other emerging economies are looking to Africa as an ideal offshoring destination, higher skills are increasingly required of Africans to perform jobs situated higher up the value chain. Therefore, the Chinese are engaged in equipping Africans with the latest technology and information about China's own development experience, through government scholarships, short-term training activities and education programmes, ranging from economics and trade, telecommunications, health, water pollution technology, agriculture and financial management, to name a few (Brautigam, 2009, p119). For example, it is reported that after the fourth FOCAC summit in Egypt, China provided training to 24,000 African professionals, 3,000 agricultural experts, and offered 5,700 scholarships in 2010 and 6,300 in 2011 to African students, hosted African research personnel for post-doctoral studies in China and international seminars for academic exchange.<sup>36</sup> At the fifth FOCAC summit 2012, China pledged to offer 18,000 government scholarships and build cultural and vocational skills training facilities in African countries.<sup>37</sup> In 2009, the Ethio-China Polytechnic College was established by the Chinese government in Addis Ababa, with support from Tianjin University of Technology and Education. As the first vocational college that the Chinese government has established in Ethiopia, it focuses on skills development in mechanics, electrics, electronics, automobile engineering, textile, garment and information technology.<sup>38</sup>

### **Result: growing economic interdependence**

As a result of Africa's abundant supply of natural resources and potential markets, China's growing domestic demand, and China's infrastructure-centered aid to Africa, China and Africa have grown economically interdependent. While supply and demand create the preconditions and

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<sup>36</sup> FOCAC website: <http://www.focac.org/eng/dwjbzjjhys/t952503.htm>

<sup>37</sup> FOCAC website: <http://www.focac.org/eng/lttda/ltjj/t933522.htm>

<sup>38</sup> Overview of the Ethio-China Polytechnic College on the website of Tianjin University of Technology and Education: [http://en.tute.edu.cn/text\\_sp.jsp?urltype=tree.TreeTempUrl&wbtreeid=1050](http://en.tute.edu.cn/text_sp.jsp?urltype=tree.TreeTempUrl&wbtreeid=1050)

incentives for the two parties to engage in an economic relationship, for this relationship to sustain, the same conditions and incentives have a continuous role to play, to a point where the two parties become interdependent or even indispensable for each other. Without disregarding the negative consequences resulting from China's economic engagement with Africa,<sup>39</sup> the mutual economic benefits over the years have served as a sustained economic incentive for China and Africa to sustain and expand their economic ties and have contributed to their growing interdependence in the following respects.

Firstly, as shown in the previous discussions in this chapter, China has greatly gained from its economic engagement in Africa. China is able to benefit from its comparative advantage in the manufacturing industry and tap into the vast African market to sell a variety of consumer and industrial goods, and at the same time, purchase natural resources necessary for its own economic development. Africa serves not only as a marketplace for trade, but also increasingly as an ideal low-cost offshoring destination for Chinese manufacturing companies as China moves towards the production of more sophisticated and higher value-added goods.

Secondly, on the African side, China's rise has resulted in an increasing demand for Africa's exports, dominated by natural resources and raw materials, largely exposing the less developed African countries to the international market, providing more trade and investment opportunities. It is argued that Africa is linked to China's demand for primary commodities via the international price of commodities (Goldstein, Pinaud and Reisen in Alden, Large and Soares de Oliveira, 2008, pp34-26): China has helped reverse the trend of price decline of primary products vis-à-vis manufactured products. And on the other hand, Africans are able to afford

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<sup>39</sup> See discussion in chapter 1, "Ongoing debate: what has China's economic engagement in Africa brought about?", pp19-24.

manufactured goods at cheaper prices because of China's comparative advantage in manufacturing, which has significantly brought down the prices of manufactured goods. Despite the fact that not all African countries are on an equal footing when it comes to reaping the benefits of higher commodity prices driven largely by China (and also India), Africa's overall terms of trade have improved as a result of higher export prices and volumes, driven by Chinese demand, as well as cheaper consumer goods and capital goods, previously unavailable on the continent. It is estimated that over the past 13 years, economic cooperation between China and Africa has contributed to more than 20% of African countries' growth.<sup>40</sup>

Thirdly, China's economic engagement in Africa is not limited to trade: investment constitutes another important component of the China-Africa economic relationship. As China's overseas investment has increased over time, Africa has taken up a still small but rapidly growing share. It is reported that from 2004 to 2011 Chinese FDI flows to Africa grew seven-fold, at an average of 115% per year (Baynton-Glen, 2012, p1). By the end of 2012, China's FDI in Africa approached 20 billion USD. It is also noteworthy that China's investments are spread out all across the continent, although unevenly. Among the largest recipients are South Africa, Nigeria, Angola, DRC, Algeria, Zambia and Ethiopia, to name a few. It is also found out that Chinese companies not only invest in extractive sectors but also the manufacturing industry, which helps African countries diversify their economies (Kelley, 2012, p39).

Last but not least, as has been discussed previously, Africa's vast unmet infrastructure need constitutes a main barrier for its growth potential, as production and logistics costs in African countries tend to be much higher without basic infrastructure such as power supply and roads.

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<sup>40</sup> Tang, Danlu. "China-Africa Cooperation Contributes to African Growth: FM Spokeswoman". *Xinhuanet*, April 19, 2013. [http://news.xinhuanet.com/english/china/2013-04/19/c\\_132323624.htm](http://news.xinhuanet.com/english/china/2013-04/19/c_132323624.htm)

Deficient infrastructure also impedes trade and FDI inflow. China's focus on addressing Africa's infrastructure deficit has improved Africa's infrastructure conditions and facilitated African countries' economic growth, especially at a time when the West has largely turned away from meeting Africa's infrastructure needs.

The growing economic interdependence between China and Africa was manifest during the 2007 global economic and financial crisis. While demand for African exports and investment from the US and EU countries significantly dropped, bringing down commodity prices, China showed relatively robust demand and financing power through a huge fiscal stimulus package (4 trillion RMB, about 590 billion USD) largely centering on infrastructure construction, despite its own decreased growth rate. The negative impact of the financial crisis on the China-Africa economic relationship was limited and short-lived. For example, it is found that China's trade with Africa reached 100 billion USD in 2008 and in the same year, Chinese investment in Africa increased from 70 billion USD to 80 billion USD over a 9-month period (Farooki, 2010, p16). After a brief setback in 2009 because of the crisis, China's trade with Africa, including both merchandise and commercial services, quickly picked up pace in 2010 (see Figure 9). According to a commentary by Nova Capital Partners, China-Africa trade surged 43.5% year-over-year in the first 11 months of 2010, and Chinese FDI in SSA grew by 17% in the same year, after a 12.3% decline in 2009 (Nova Capital Partners, 2011, p9).

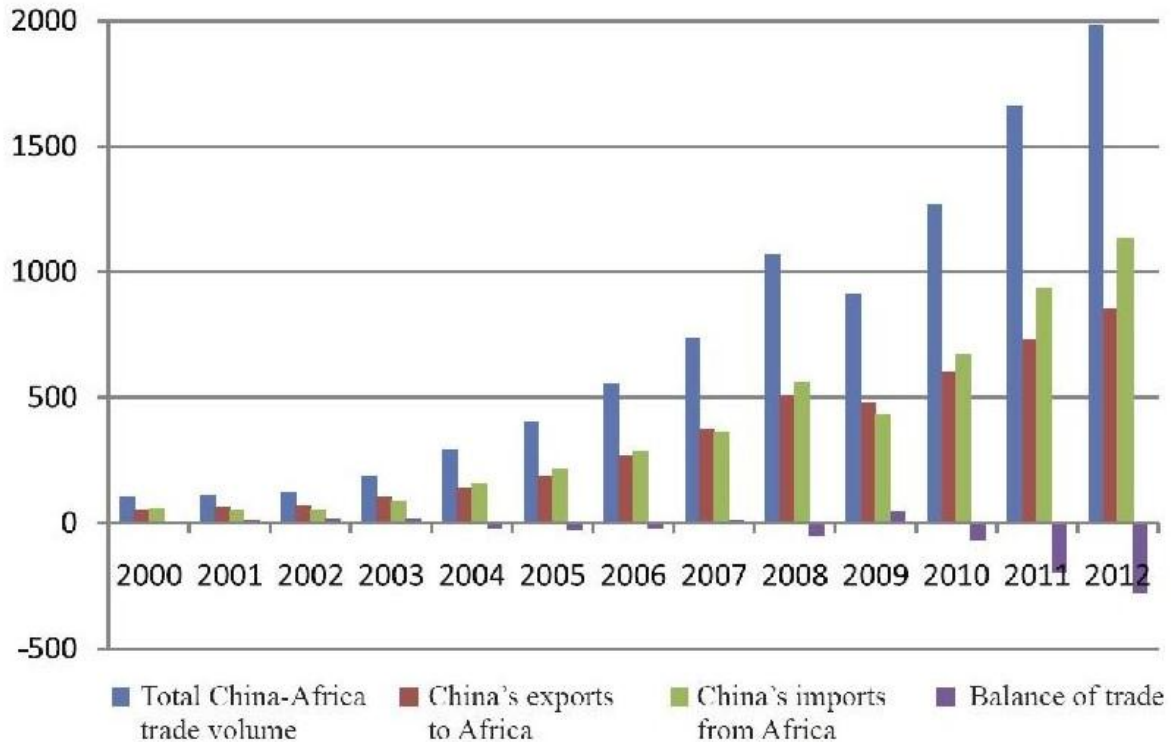


Figure 11: China-Africa trade volume, 2000-2012 (100 million USD)<sup>41</sup>

Moreover, at the 2006 FOCAC summit, China pledged to implement the China-Africa Development Fund (CADF), eventually reaching 5 billion USD, to assist Chinese firms in expanding their operations in Africa. By March 2009, an additional 2 billion USD had been made available on top of the 3 billion USD already put in place, bringing the total to 5 billion USD, to be invested in infrastructure, industrial and agricultural projects. It is also acknowledged that when the crisis led to a significant reduction in western FDI flows to Africa, making Africa's infrastructure financing difficult to secure, Chinese investments in Africa nevertheless expanded (Kelley, 2012, p37). Weisbrod and Whalley found that Chinese FDI contributed to

<sup>41</sup> White paper on "China-Africa Economic and Trade Cooperation" published by the Information Office of the State Council. August, 2013. Part I Promoting Sustainable Development of Trade. [http://news.xinhuanet.com/english/china/2013-08/29/c\\_132673093\\_2.htm](http://news.xinhuanet.com/english/china/2013-08/29/c_132673093_2.htm)

additional GDP growth in SSA in the years before the financial crisis and also in the years afterwards (Weisbrod and Whalley, 2011).

This chapter examines the economic factors that have driven the China-Africa economic relationship since the 1990s, including Africa's rich and diverse natural resources and potential markets for manufactured goods; China's growing domestic demand for energy, raw materials, overseas markets for its manufactured products and also low-cost offshoring destinations. Another important feature of the China-Africa economic engagement: aid, acts as another driving force in this relationship, largely centering on infrastructure development without strings attached, helping African countries reduce their infrastructure and also China itself to secure access to resources and markets. Over time, the supply, demand and economic benefits yielded by the China-Africa economic interactions have led to the growing interdependence of the two sides: China benefiting from natural resources imports and expanded overseas markets on one hand, and on the other, African countries benefiting from improved terms of trade, increased revenue and FDI inflows, and reduced infrastructure deficit, among others. The strong economic interdependence of this relationship was well demonstrated in the 2007 global economic and financial crisis. This chapter contributes to a better-rounded understanding of the claim that China's economic engagement in Africa is driven by its growing appetite for natural resources and markets,<sup>42</sup> by taking a closer look at what Africa has to offer and what China needs. The aid component should not be overlooked, as it also serves the economic interests of both sides. These economic factors are essential in the post-1990s China-Africa economic relationship, as

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<sup>42</sup> See discussion in chapter 1: "Ongoing debate: what has China's engagement in Africa Brought About?"

they provide fundamental economic incentives for the two sides to engage in a globalized context, in which trade and financial flows have become increasingly liberalized.

However, market and institutions go hand in hand. Institutions can support economic activities, provide incentives, shape expectations and reduce risks associated with economic undertakings.

The next chapter will look at the role some of the most important domestic and international institutions have played in driving China's economic engagement in Africa.

## **Chapter III Institutional driver**

The meaning of institutions differs for different purposes, ranging from language, systems of weights and measure, physical establishments to laws and norms.<sup>43</sup> There are also different types of institutions: economic institutions, political institutions and religious institutions, among others. For the mere purpose of the discussion in this chapter, institutions would refer to those established at the government and inter-government level, including economic regimes, policy instruments, domestic and international organizations, development models and cooperation mechanisms. Institutions play an indispensable role in facilitating an economic relationship as appropriate institutions can provide an enabling environment for cooperation, such as frameworks and rules for coordinated economic activities. This chapter seeks to understand the institutional driver of the China-Africa economic engagement at two levels: domestic and international.

### **In the domestic sphere – China’s economic liberalization and state capitalism**

In the late 1970s, the Chinese government under Deng Xiaoping adopted the famous “Reform and Opening-up” policy, marking a turning point in China’s own economic development approach. The destructive years of the Great Leap Forward (1958-1961), which killed millions of people because of famine, and the Cultural Revolution (1966-1976), which led to nationwide factional struggles, saw China mired in a stagnated economy. Following Mao Zedong’s death in 1976, the Chinese government decided to abandon the centrally planned economic regime and turned to market-oriented reforms that prioritized domestic economic modernization. During the 1980s, Chinese foreign trade began to grow slowly as the Chinese government relaxed its control over trade and foreign capital flows, and adopted more decentralized management of foreign

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<sup>43</sup> Hodgson, Geoffrey M., 2006. “What are Institutions?”, *Journal of Economic Issues*, vol. 40 No. 1, March, p2.

trade. In the 1990s, with broader trade reforms, including significant tariff reductions (Zhang, Wan and Zhang, 1998), this process accelerated (Figure 12):

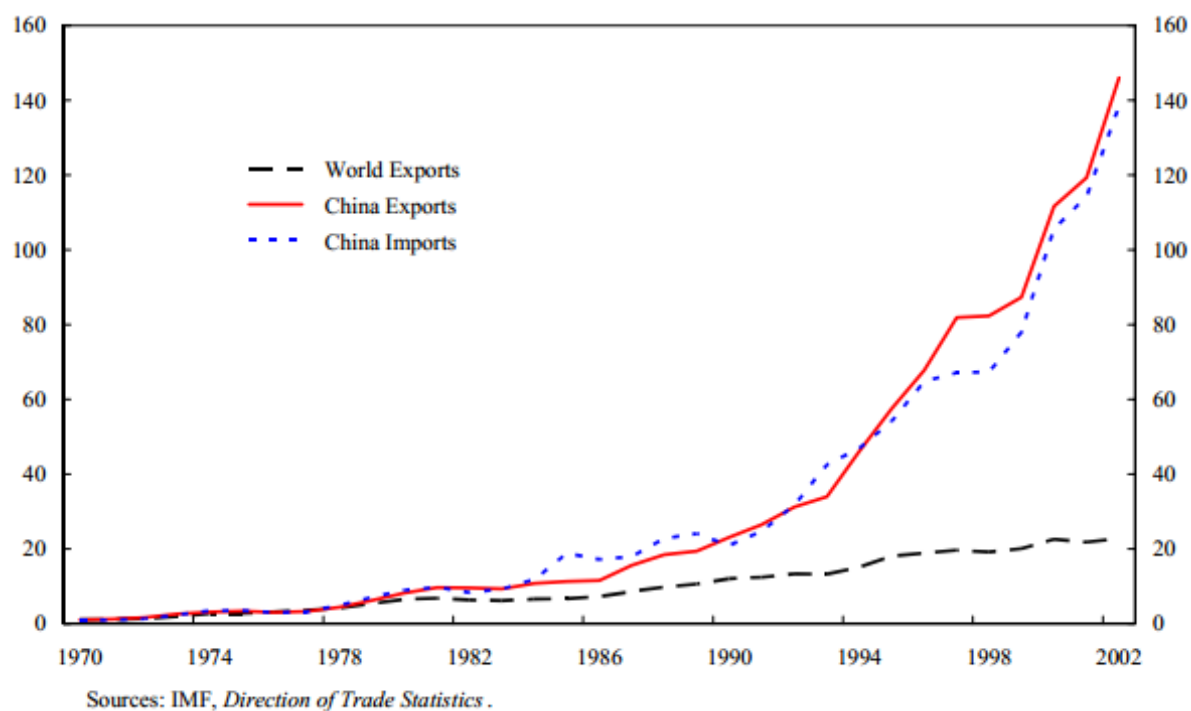


Figure 12: China's growth in world trade, 1970-2002 (index, 1970=1)<sup>44</sup>

Although China's economic engagement in Africa did not accelerate in the immediate aftermath of the introduction of the economic reforms, as China rather focused on its domestic economic modernization, this policy shift nevertheless opened the door and paved the way for future China-Africa engagement in a more commerce-based manner. Marching into the 1990s, China-Africa trade started to grow. However, China's economic liberalization did not follow the liberal free market principle of *laissez-faire*, where government intervention is refrained from economic

<sup>44</sup> Rumbaugh, Thomas and Nicolas Blancher (2004), p19.

affairs; on the contrary, government policy and state institutions played a strong role in the course of China's economic development following its economic reforms. The China-Africa economic relationship has been no exception.

The Chinese government took measures to boost its trade with Africa, for example, by adjusting its trade policies towards African commodities. In 2003, the then Chinese president Hu Jintao declared that China would grant tariff-free treatment to goods exported to China from least developed countries (LDCs) in Africa that had established diplomatic relations with China. This commitment came into effect in 2005, when the Chinese government started to administer the tariff-free policy to 190 items from 25 LDCs in Africa.<sup>45</sup> In 2006, China announced that it would increase the number of zero-tariff items to 440.<sup>46</sup> And once again in 2011 at the G20 Summit, President Hu promised to give zero-tariff treatment to 97 percent of the tariff items of exports to China from African LDCs.<sup>47</sup> According to China's official report, since January 2012, 30 LDCs in Africa that have established diplomatic relations with China have been granted zero-tariff treatment for 60% of their exported items to China. By the end of that year, 22 such items, valued at 1.5 billion USD had been exempted from 910 million CNY worth of tariffs.<sup>48</sup>

Another important milestone policy in the development of the China-Africa economic relationship was the "Go Out" policy (also referred to as the "Going Global Strategy"), officially adopted by the Chinese government in 1999 and outlined in its 10<sup>th</sup> Five-Year Plan (2001-05), to

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<sup>45</sup> "China Granting Tariff-Free Treatment to Some Goods Exported to China by the Least Developed Countries". Forum on China-Africa Cooperation website, August 1, 2005. <http://www.fmprc.gov.cn/zflt/eng/jmhzt/181106.htm>

<sup>46</sup> Forum on China-Africa Cooperation Beijing Action Plan (2007-2009). <http://www.focac.org/eng/ltada/dscbzjhy/DOC32009/t280369.htm>

<sup>47</sup> "Interview: Africa Hails China's Tariff Policy", *Xinhuanet*, Nov. 26, 2013. [http://news.xinhuanet.com/english2010/world/2011-11/26/c\\_122338466.htm](http://news.xinhuanet.com/english2010/world/2011-11/26/c_122338466.htm)

<sup>48</sup> 2013 white paper on "China-Africa Economic and Trade Cooperation" published by the Information Office of State Council. Part I Promoting Sustainable Development of Trade. [http://news.xinhuanet.com/english/china/2013-08/29/c\\_132673093\\_2.htm](http://news.xinhuanet.com/english/china/2013-08/29/c_132673093_2.htm)

secure access to natural resources and promote Chinese investment abroad. As a matter of fact, the formulation of this policy started in the early 1990s, after the period of domestic economic development during the 1980s. It is believed that “the new strategy represented a real turning point of China’s relations with the rest of the world, economically and politically” (Vendrayes, 2012, p5). Following this policy, Chinese businesses, including state-owned enterprises (SOEs), joint ventures and private businesses, grew increasingly interested in investing in overseas markets. Africa had been identified as one of China’s major targets, because of its rich natural resources, potential market, long-term profitable investment opportunities in several African countries and Africa’s interest in China’s mineral and construction projects and Chinese labour (Shinn and Eisenman, 2012, p128). The China-Africa trade and investment relationship experienced unprecedented growth during this period, as we saw in the previous chapter.

China serves as one of the main examples of “state capitalism”, described as “an economic system in which governments manipulate market outcomes for political purposes” (Bremmer, 2009, cited by Davies, 2010, p9). State institutions, such as government departments, state-owned banks and SOEs, act as the major economic players in economic affairs, controlling key industrial sectors of the country such as energy, construction and agriculture. It is estimated that approximately 50% of China’s GDP is owned and controlled by the state (Szamosszegi and Kyle, 2011, p1). Similarly, when it comes to driving China’s economic engagement with Africa, state institutions play a major role.

The principal channels through which China’s FDI and loans flow are state-owned banks, the most important among which being the China Exim Bank (China Export-Import Bank) and the China Development Bank (CDB). The China Exim Bank, established in 1994, focuses on “facilitating the export and import of Chinese mechanical and electronic products, complete sets

of equipment and new- and high-tech products, assisting Chinese companies with comparative advantages in their offshore project contracting and outbound investment, and promoting international economic cooperation and trade”.<sup>49</sup> It disposes a set of financial instruments such as import and export credits, loans for overseas investment and Chinese government concessional loans, focusing largely on infrastructure projects. The CDB facilitates the China-Africa cooperation through the China-Africa Development Fund (CADF), an FDI support fund. The CADF investments go directly to Chinese enterprises that are operating in Africa or planning to invest in Africa. According to the latest official news, the CADF has invested in over sixty projects across more than thirty African countries, worthy of over 2.4 billion USD.<sup>50</sup> These banks have backed Chinese economic activities in Africa and promoted the interests of Chinese companies, especially SOEs.

The Chinese SOEs remain at the frontline of Chinese businesses in Africa. The Top 10 companies operating in Africa are SOEs, namely Chinese National Petrochemical Corporation (Sinopec), China National Petroleum Corporation (CNPC), State Grid Corporation, Industrial and Commercial Bank of China, China Railway Construction, Sicofor (Sino Congo Forêt), China International Trust and Investment Corporation and China Railway Construction Corporation (CITIC-CRCC), China International Fund (CIF), China State Construction Engineering Corporation Limited (CSCEC), and Federated Steel. As their names indicate, these SOEs operate mostly in strategic sectors, namely, natural resources and infrastructure. They receive government grants or loans from state-owned banks, and are therefore less risk-averse. Against the traditional image of SOEs of being inefficient, unprofitable monopolies that distort market

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<sup>49</sup> Mission, Exim Bank of China website: <http://english.eximbank.gov.cn/profile/intro.shtml>

<sup>50</sup> “CAD Fund Invests over US\$2.4bn in Africa”. August 26, 2013 on China Development Bank website: <http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=4790>

forces, it is considered that Chinese SOEs have shown strengths in marshalling huge amounts of capital, labour and expertise, all of which are required to undertake large projects. In a commentary, Kwan (2006) argues that the SOEs' strong performance is more attributable to their monopoly position and preferential treatment by the government rather than being an outcome of the efforts and capabilities of their staff, as these SOEs can control prices, have access to low-cost resources, receive financial subsidies from the government and rarely pay dividends to the state, all of which help put SOEs at an advantageous position over non-SOEs. Although the Chinese government has taken steps over the past decade to privatize SOEs, substantive progress has only been made among small- and medium-size SOEs while large SOEs in key sectors remain intact. In discussing the strategies employed by Chinese multinational companies in Africa to compete with western ones that had been operating on the continent for much longer, Alden points out three distinctive features: competitive political advantage, comparative economic advantage and diplomacy and development assistance. He argues that the Chinese SOEs' willingness to work with any African state, regardless of regime type; their low-cost bidding strategy; their diplomatic efforts and their support for development projects give them a competitive edge over their western counterparts (Alden, 2007, p41-42).

Take China's state-owned oil companies in Africa, for example. There are three Chinese oil companies actively operating in oil-rich countries such as Angola, Nigeria and Sudan: the Chinese National Petrochemical Corporation (Sinopec), China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC). Angola is China's biggest supplier of oil in Africa. The Chinese not only purchase oil from the Angolans but also have a vested interest in exploring its own oil blocks that will secure its oil supply in the long run. Sinopec has been an active actor in Angola's oil exploration. In 2004, Sinopec and the Angolan

state-owned oil company Sonangol formed a joint venture called Sinopec-Sonangol Internacional (SSI) to explore the Angolan Block 18, a major deep-water exploration and production block offshore Angola. In 2006, with the funding of 1.4 billion USD from several Chinese banks, SSI bid 2.2 billion USD for three tracts of Angola's deep-water blocks, twenty times higher than other oil corporations, and was in the end awarded large shares of the blocks to be co-operated with Brazilian, French and Italian companies. The bids are believed to be "the highest ever offered for exploration acreage anywhere in the world" (Lee and Shalmon, in Rotberg, 2008, p120).

In the years after China's economic reforms, China started to establish a number of Special Economic Zones (SEZs) in its southeast coastal cities. Since then, over a hundred SEZs have been set up all across the country. These zones have become one of the principal means whereby the Chinese government, at local, provincial and national levels, provides preferential policies to foster the development of technology and industry (Brautigam and Tang, 2011, p70). As China started to explore overseas market, Chinese companies, especially SOEs, began to set up overseas industrial and trade zones as early as 1998. Encouraged by the "Going Global" policy, the Chinese Ministry of Commerce (MOFCOM) has approved seven African SEZs for special funding, located in six countries: Zambia, Mauritius, Egypt, Ethiopia, Nigeria (two SEZs) and Algeria. Davies (in Rotberg, 2008, pp140-141) identifies the following objectives behind China's establishment of SEZs overseas:

- Offset the risk of protectionist trade practices against "Made in China" products by moving production offshore to foreign economies;
- Assist Chinese enterprises to permeate untouched markets and regions in the international economy better;

- Minimize the extent of risk for Chinese firms when investing abroad by offering them a degree of state protection through government-to-government agreements, and
- Promote industrial competitiveness through clustering of enterprises within common industries.

The MOFCOM assists companies to develop SEZs in a number of ways: companies receive 200-300 million RMB in grants as well as long-term loans of up to 2 billion RMB; subsidies can cover up to 30% of specific costs of zone development; companies moving into the zones are eligible for reimbursement of up to 50% of their moving expenses; they receive export and income tax rebates or reductions on the cost of construction materials; they enjoy easier access to foreign exchange in China's strict capital control system; and they can also apply to a second MOFCOM fund to receive a rebate on up to 100% of the interest paid on Chinese bank loans. Moreover, Chinese embassies provide diplomatic support in negotiations with the host government over land, tax incentives or work permits, to name a few (Brautigam and Tang, 2011, p82). For example, China's first SEZ was established in 2007 in Chambishi, Zambia's copperbelt region, where investment credit was set up for Chinese firms and the firms located in the zone enjoyed exemption from import duties and value-added taxes by the Zambian government (Shinn and Eisenman, 2012, p327). The CDB has also set up a Zambian team to provide funding for the SEZ.

As can be seen, China's economic liberalization in the late 1970s did not fully relax state's grip on the economy. On the contrary, state capitalism played a strong and persistent role in promoting not only China's own economic modernization process but also China's economic engagement with Africa. China's move into the African continent is well envisioned and planned centrally to reflect the country's long-term strategic concerns, namely economic development,

trade competitiveness, overseas markets and resource security. Although small and medium enterprises (SMEs) and other small-scale private businesses have flooded into Africa in large number, in response to favourable policies of economic liberalization, seeking profitable opportunities, the scale and the prominence of the economic activities that state-owned institutions are running in Africa are incomparable. SOEs enjoy preferential access to large amounts of capital channelled through state-owned banks, namely, the China Exim Bank and the CDB; they benefit from government subsidies, tax reductions and other supportive policies; they are able to offer large package deals to African countries; they have not only economic but also political and diplomatic advantages over both Chinese private firms and western companies in their business operations in Africa, because of their state-owned nature. They are also the ones that attract most of the media and the public's attention. SOEs are the primary actors in China's economic undertakings in Africa: they operate in key sectors such as oil, mining and construction that are central to China's national interests. Government policies and state institutions are at the core of China's economic engagement in Africa, without which China's economic engagement in Africa could not have reached such a level and gained such publicity. Well established and implemented, they will continue to drive this relationship in the foreseeable future.

### **At the international level**

At the international level, international institutions play an important role in facilitating the China-Africa trade and investment. In the larger context of the unprecedented trend of globalization, the free flows of goods and services, labour, capital and social customs are ever-expanding. As a consequence, global governance institutions have emerged as a response to the increasing demand for a freer and more regulated global market. The GATT and subsequently

the WTO, are such organizations, tasked with international trade regulation and dispute settlement. China became a member of the WTO at the end of 2001, after 15 years of negotiations. Joining the WTO was in the interest of the Chinese and proved to be largely beneficial for China, as it facilitated the gradual elimination of trade barriers and expanded foreign market access. China's entry into the WTO reaffirmed China's status in the world as a market economy, signalled its deepened integration into the increasingly interdependent world economy and its willingness and efforts to embrace the liberal trading regime; it also facilitated China's engagement in global competition in a multilateral fashion. Immediately after the accession, the Chinese government actively took measures to comply with WTO regulations and went through some "radical reforms" to liberalize trade (Bhattasali, Li and Martin, in Bhattasali, Li and Martin, 2004, p2). China committed to reduce tariffs significantly within five years of accession and major tariff cuts occurred between 2002 and 2005. According to Cheng's calculation, 60% of the products' tariffs were reduced below their final bound tariff rates within one year of accession; 98% were bound by 2005 (Cheng, 2012, p5). Reduced tariffs and lowered trade barriers greatly encouraged the expansion of China's trade and investment. Since China's accession to the WTO, China's merchandise and commercial services trade volumes have surged:

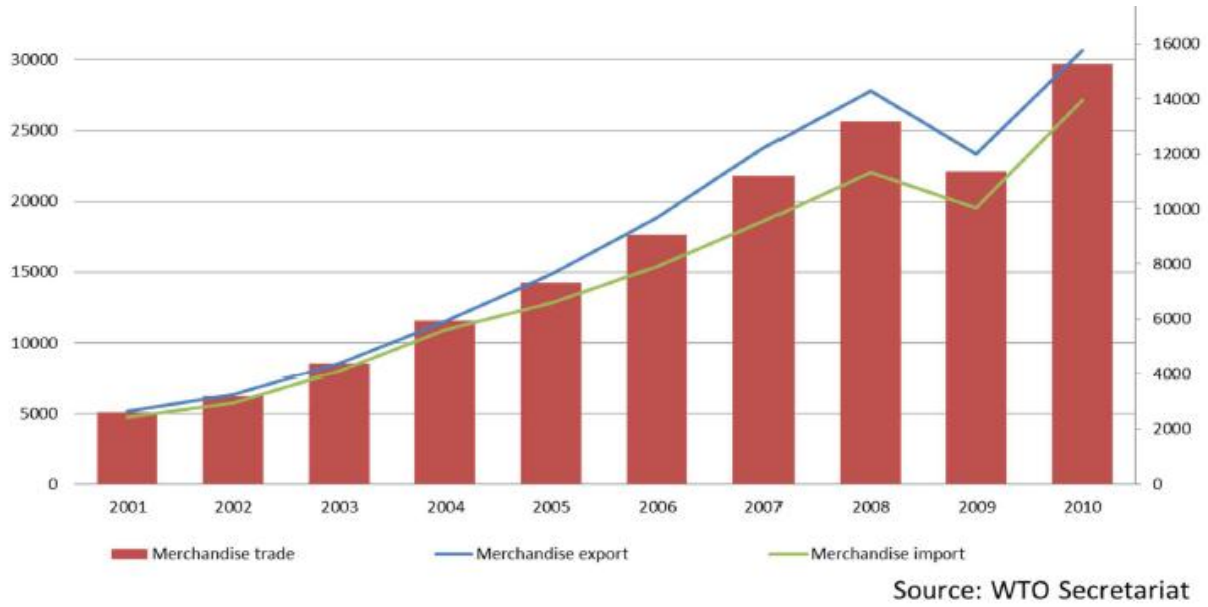


Figure 13: China's merchandise trade during 2001-2010 (billion USD)<sup>51</sup>

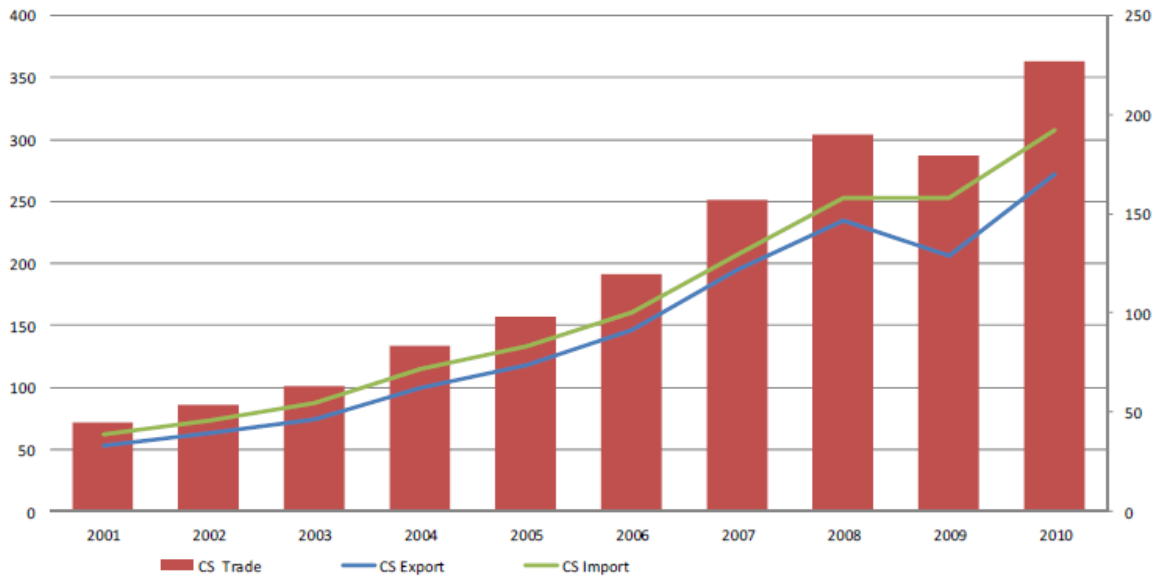


Figure 14: China's commercial services trade during 2001-2010 (billion USD)<sup>52</sup>

<sup>51</sup> "China in the WTO: Past, Present and Future". Prepared by the Permanent Mission of China to the WTO for the tenth anniversary of China's accession to the WTO. [http://www.wto.org/english/thewto\\_e/acc\\_e/s7lu\\_e.pdf](http://www.wto.org/english/thewto_e/acc_e/s7lu_e.pdf)

<sup>52</sup> Ibid.

It is believed that China's "Reform and Opening-up" policy and its accession to the WTO "have moved China much closer to a market economy where profits, not political agendas, drive most of the economic and trade activities" and that "in this process, China's relations with African and other developing countries have also been restructured from being anti-colonial brothers-in-arms to economic and trade partners based on market principles" (Jiang, in Rotberg, 2008, p51). Wang argues that China's accession to the WTO has contributed to the accelerating trade between China and Africa in two ways: first, it has helped China to lock in the gains from multilateral trade liberalization; second, it greatly reduced uncertainty about market access (Wang, 2007, p20). The WTO offered China and African countries a forum in which they could coordinate their negotiation positions and enhance consultations. Therefore, China's accession to the WTO not only had tremendous significance for China's own economic reforms and its future growth path, but also served as a direct impetus for the surge of China-Africa trade relations. In the years following China's accession to the WTO, both imports and exports between China and Africa skyrocketed (see Figure 10 in chapter 2).

Another institutional aspect that cannot be overlooked is the important role of China-Africa cooperation mechanisms in pushing forward this relationship. Parallel to China's accession to the WTO was the development of an important China-Africa multilateral cooperation mechanism: the Forum on China-Africa Cooperation (FOCAC), an official forum between China and fifty African states, formally established in 2000 at the ministerial conference (or "summit") of the FOCAC in Beijing. In addition to its triennial summit at ministerial level, preparatory and follow-up work and meetings at the senior official level, political consultation mechanisms and sub-forums in various policy areas have also been set up to support and expand the FOCAC processes. It is believed that China-Africa relations entered a new phase since the introduction of

the FOCAC (Qiang, in Harneit-Sievers, Marks and Naidu, 2010; Shinn and Eisenman, 2012). Its officially stated purposes are “of further strengthening friendly cooperation between China and African states under the new circumstances, jointly meeting the challenges of economic globalization and seeking common development”.<sup>53</sup> Many authors have discussed the role of the FOCAC. For example, Alden holds that “the FOCAC serves as a platform to display the benefits of regional cooperation and partnership between Chinese officials and their African counterparts” (Alden, 2007, p30). Davies points out that the FOCAC was established “to cement further the political, commercial and cultural relationship between China and Africa” and that it “was designed as a vehicle to conceptualize, strategize and project Chinese foreign policy interests into Africa” (Davies, in Rotberg, 2008, p142). Qiang considers it as “a platform for collective dialogue, consultation and coordination” (Qiang, in Harneit-Sievers, Marks and Naidu, 2010, p60), while Raine points out another dimension of the role of FOCAC, which is to “offer a mechanism for dealing with the challenges and difficulties that will inevitably arise as China’s relations with Africa mature” (Raine, 2009, p80). It is then necessary to take a look at some of the commitments and achievements made at the FOCAC in order to have a better idea of what role it has played in fostering the China-Africa economic relationship.

To date, there have been five ministerial conferences held in Beijing, Addis Ababa and Sharm el-Sheikh, attended by ministers from China and African countries, representatives of regional and international organizations and also some heads of state or government. These summits have covered issues of multiple policy areas such as trade and investment, environment, human rights, peace and security, poverty alleviation, technology, diplomatic and academic exchange, among many others. In the field of economic cooperation, strong commitments have been made and

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<sup>53</sup> “Date of Founding” on the FOCAC website: <http://www.focac.org/eng/ltda/ltjj/t933522.htm>

concrete actions have been taken by both the Chinese and African governments. For example, at the first ministerial conference in Beijing, member states adopted the Programme for China-Africa Cooperation in Economic and Social Development, addressing issues such as trade imbalances and double taxation, committing themselves to the harmonization of trade policies within the framework of the WTO. At this occasion, China announced the debt-cancellation of 10 billion RMB owed by heavily-indebted poor countries in Africa during the course of the following two years. By the second summit held in Addis Ababa in 2003, 10.5 billion RMB worth of debt had been reduced or cancelled. It was also then that China pledged to grant zero-tariff treatment to some commodities from LDCs in Africa. As of 2005, 190 items from twenty-five least developed African countries had been granted tariff-free treatment. The 2006 Beijing conference saw China promise to increase the number of tariff-free export items from African LDCs to China from 190 to 440. China pledged to provide 3 billion USD of preferential loans and 2 billion USD preferential export buyer's credit to African countries in the three years that followed; it also envisaged the establishment of three to five SEZs in African countries. The CADF was also announced, expected to eventually reach 5 billion USD,<sup>54</sup> with a view to supporting Chinese companies in their investment efforts in Africa. At the 2009 summit in Sharm el-Sheikh, China offered to increase the size of CADF to 3 billion USD, provide 10 billion USD of preferential loans to African countries in the following three years to support infrastructure and social development projects, and grant zero-tariff treatment to 95% of exports from African LDCs to China. The latest summit was held in Beijing in 2012, where China pledged to provide a credit line of 20 billion USD to African countries to support infrastructure,

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<sup>54</sup> In 2007, the Chinese government officially approved the establishment of the CADF, with initial funding of 1 billion USD, provided by the China Development Bank. More details about the CADF at <http://www.cdb.com.cn/english/Column.asp?ColumnId=176>

agriculture, manufacturing and SMEs in Africa. 18,000 government scholarships were also announced for the implementation of the “African Talents Program”, as described in chapter 1.<sup>55</sup>

From the few examples of the commitments and achievements emanating from the FOCAC in the field of economic cooperation between China and Africa, Beijing’s leading role in the FOCAC processes is obvious, in terms of both initiating and implementing policies. Indeed, immediately after the first ministerial conference in 2000, Beijing set up a FOCAC Follow-up Committee composed of 27 member departments and agencies of the Chinese government, charged with coordinating various Chinese departments’ relations in the implementation of the follow-up actions agreed at the conferences.

More than a diplomatic gathering and networking venue, the FOCAC serves as an important mechanism whereby Chinese and African leaders negotiate deals, seek common understanding on international affairs, and foster mutual trust among each other. It provides a formalized institutional framework for China and Africa to cooperate in multiple policy areas. It is recognized that “with the mechanism provided by FOCAC, China-Africa cooperation has reached new heights and yielded even greater results” (Qiang, in Harneit-Sievers, Marks and Naidu, 2010, p60) and that “almost every year since the FOCAC framework’s adoption, China-Africa trade, although relatively small, has grown” (Shinn and Eisenman, 2012, p114). This can be understood in two ways. On one hand, the commitments made by country leaders send out positive signals to the market and the concrete follow-up actions encourage Chinese and African governments and businesses to implement favourable policies and further their economic engagement with one another. On the other hand, positive economic results have been yielded from the FOCAC processes and acknowledged by member states, encouraging China and

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<sup>55</sup> Information synthesized from the FOCAC website: <http://www.focac.org/eng/>

African countries to seek further economic gains by deepening and expanding their economic relations.

In addition to the FOCAC, China has also sought to deepen its relations with specific groups of countries. A point in focus is the Forum for Economic Cooperation and Trade between China and Portuguese-Speaking Countries, established in 2003 and headquartered in Macau.<sup>56</sup> It is composed of China and seven Portuguese-speaking countries, including four African ones: Angola, Cape Verde, Guinea-Bissau and Mozambique. Through this institutional platform, China's economic ties with African Portuguese-speaking countries have significantly strengthened, which can be seen in the growing trade volume between China and the four African countries, increased FDI flow and financial assistance from China to these same countries (Alves, in Alden, Large and Soares de Oliveira, 2008, p78-79).

Non-governmental organizations (NGOs) and civil society organizations are also important actors in supporting and pushing forward the China-Africa economic relationship. The China-Africa Business Council (CABC) is an NGO jointly established in 2005 by the United Nations Development Programme (UNDP), the Chinese MOFCOM and the China Society of Promotion of the Guangcai Programme, which counts over 16,500 Chinese private companies. CABC's stated mission is to "actively guide and serve Chinese enterprises in their process of 'going abroad', through establishing close relationship with domestic and foreign partners, creating favourable environment for China-Africa economic and technical cooperation, and thus facilitate global exchange about the Guangcai Programme, to promote China-Africa and South-South

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<sup>56</sup> The Chinese central government supported Macau to host the forum, given Macau's Portuguese identity developed from its colonial history by the Portuguese before being handed over back to the PRC in 1999.

Cooperation”.<sup>57</sup> The CABC is considered to be the first public-private partnership between China and Africa under the “South-South” cooperation framework. Some of CABC’s services include providing information for Chinese businesses, organizing business trips to Africa and serving as a platform for enterprises to share knowledge and experience.

This chapter looks at the domestic and international institutions that have driven the China-Africa economic relationship. It can be concluded that, domestically, China’s economic liberalization is essential for unleashing China’s market forces and promoting China’s economic modernization and freer exchange with other nations. However, liberalization itself does not suffice to explain the whole picture of China’s growing economic engagement in Africa. China’s state capitalism played a major role throughout the process of the China-Africa economic engagement. Government policies, such as trade policy and the “Go Out” policy, showed the government’s deliberate efforts in encouraging trade with and financial flows to Africa. While the growing number of private businesses is not to be underestimated, state-owned banks, SOEs, SEZs remain the major forces driving China’s economic activities in Africa, benefiting from substantial state support. At the international level, China’s entry into the WTO significantly promoted China’s position in the world economy, encouraged China’s exchange with the rest of the world and also marked a new phase in China’s economic engagement with Africa driven by commercial interests as opposed to political agenda. At the same time, the FOCAC has served as an important institutionalized process in which China is able to show leadership in its relations with African countries, along with other cooperation mechanisms such as the Forum for Economic Cooperation and Trade between China and Portuguese-Speaking Countries and the

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<sup>57</sup> Mission statement on the CABC website: <http://www.cabc.org.cn/enindex/index.jhtml>

CABC. The success of these formalized cooperation institutions underpins the fact that because of state capitalism, the Chinese government is able to make strong pronouncements on behalf of its business sector and take effective measures to implement policies that encourage economic engagement with African countries. China's economic engagement in Africa is well institutionalized, at both domestic and international level. In this way, China is not only able to nurture diplomatic relations with African countries, shape the public's expectations, but also duly fulfill its commitments with concrete actions, which has helped push this economic relationship up to higher levels.

Economic incentives and domestic and international institutions have served to drive the China-Africa economic relationship since the 1990s. Distinct from the previous chapters of China's engagement in Africa, the role of politics has been significantly downplayed in the current discourse. However, since the Chinese and African states play an important role in the economic sphere, it is important to examine some of the most salient political considerations from both sides that have played a role in driving this economic relationship.

## **Chapter IV Political driver**

It has been discussed in the previous chapters that China's economic engagement in Africa since its economic reforms in the early 1980s differs from its previous one in that China switched from ideological and political engagement to mercantilist pragmatism; from the rhetoric of being the leader of the "Third World" in supporting African countries' struggle against colonial powers to an economic and development partner based on market principles. China's economic engagement with Africa began to take off in the early 1990s, largely driven by economic incentives and supportive domestic and international institution set-ups. Nevertheless, political interests still feature in the China-Africa economic relationship, despite the fact that it has been overshadowed by economic interests. In reality, politics and economy cannot go completely separate in the discussion about the China-Africa economic relationship, as both the Chinese and African states play a strong role in the economic sphere. Some of the times, economic instruments are used to advance political interests; strategic calculations result in strengthened economic ties; the specific nature of the political regimes provides incentives for expanding the economic cooperation.

But before moving on to the discussion about the political factors that have driven the economic relationship between China and Africa, the principle of "non-interference" upheld by the Chinese government in its foreign policy should be examined, so as to understand how politics comes into play despite the purported non-political nature of the economic relationship.

### **The principle of "non-interference"**

The important role of the principle of "non-interference" in serving China's economic interests in Africa cannot be under-appreciated. It has been guiding China's foreign policy towards the

developing world since the 1950s, deriving from the Five Principles of Peaceful Coexistence (see footnote 1 in Chapter 1). It states that China “respects African countries’ choice in political system and development path suited to their own national conditions, does not interfere in internal affairs of African countries, and supports them in their just struggles for safeguarding their independence, sovereignty and territorial integrity, and their efforts in maintaining their countries’ stability, unity and in promoting the development of society and the economy”.<sup>58</sup> China, being a strong guardian of the Westphalian norm of state sovereignty, condemns any action that interferes with China’s domestic affairs and violates the principle of state sovereignty. Given its undemocratic political regime, human rights violations and rampant corruption, China’s rise has been viewed by the West as a threat to the good governance practices that the West is trying to promote around the world, resulting in conflicting interests between China and the West on these matters. Arguably, China’s principle of non-interference as a guidance of its foreign policy towards other countries reflects, first and foremost, China’s safeguard of its own sovereignty and state interests.

To a large extent, the principle of non-interference also reflects China’s global position vis-à-vis Africa. First, China reasserts itself as the biggest developing country and sees Africa as the largest group of developing countries, which enables the two sides to engage in cooperation on an equal footing, seeking mutual interests and gains. Second, unlike Western countries, China does not have a colonial past in Africa, but supported African countries in their struggle against colonial powers during the 1950s and 1960s. In addition, China itself also has a long history of western domination, which reinforces the sense of shared historical experience with African

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<sup>58</sup> China’s African Policy on the FOAC website: <http://www.focac.org/eng/zt/zgdfzccwj/t230479.htm>

states. This is more than often reflected in diplomatic terms such as “friendship”, “sincerity”, “solidarity” and “sympathy” in China’s official statements concerning relations with Africa.

China’s contemporary economic engagement with Africa has benefited from the principle of non-interference in two ways. Firstly, because of this mercantilist, “politics-free” approach, China is able to economically cooperate with almost all African countries, regardless of regime type: from pariah regimes, illiberal regimes to liberal democracies (Alden, 2007). China claims that it does not intend to meddle with African countries’ internal politics but only seeks mutual economic gains, which largely appeals to most African states. Holstag examines China’s response to the coup d’états in five African countries and finds out that Beijing did not seek to intervene in the internal conflicts but “decided to adhere to its policy of separating business from politics” (Holstag, 2011, p370) and that Beijing “pursued a very conservative form of restraint. There were no condemnations, no sanctions” (ibid., p376). China’s pragmatic mercantilist approach helped it retain the bargaining power in negotiating deals with successive governments.

Secondly, based on this principle, China provides large sums of loans to African countries with no political conditionality attached,<sup>59</sup> whereas western donors tend to pursue a “good governance” agenda with aid-giving, seeking to promote democracy, human rights and transparency.<sup>60</sup> Regarded as a “rogue donor” by the West, China provides unconditional loans that nevertheless find favour with African governments, because complying with conditionalities implies both economic and political costs for these governments. Moreover, conditionalities are widely

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<sup>59</sup> Economic conditions such as the purchase of Chinese goods and services and the guaranteed access to African resources are always tied to Chinese aid, a practice that western donors also follow (Shinn and Eisenman, 2012, p155).

<sup>60</sup> However, this is not absolute. It is pointed out that many of the investment decisions by western banks and corporations are not affected by democracy and human rights promotion and that the World Bank also lends to dictators without imposing political conditions (Brautigam, 2009, p285). Nevertheless, compared to China, who never attaches political conditions to its aid to Africa, the West tends to place more emphasis on political reforms in African recipient countries.

considered to have failed in promoting Africa's development (Condon, 2012; Isaac, in Harneit-Sievers, Marks and Naidu, 2010, p165), making China's approach more attractive. To be sure, it is not to suggest that China's principle of non-interference is unproblematic, and to dismiss the fact that, as a result of the little attention paid to good governance and human rights, it has had negative impacts on the continent. However, it is to recognize that China's non-interference policy has very well served its commercial purposes over the decades and has greatly facilitated China's economic activities in Africa.

Does the principle of non-interference suggest that the China-Africa economic engagement is a pure economic game? As previously discussed, the principle of non-interference is itself political in nature: it serves both Chinese and African states' political interests in the sense that it is a way for both Chinese and African governments to safeguard their state sovereignty and avoid political costs in their economic interactions, given the fact that the Chinese and African states have been heavily criticized by the international community on issues of human rights, rule of law and good governance. It also reflects China's global strategy of "peaceful rise" as an economic superpower, in an effort to reassure the international community, especially other developing countries, of its non-aggressive intents. In addition, empirical evidence in the current literature suggests that some political factors have actually played an important role in the China-Africa economic engagement. From the Chinese perspective, there have been instances since the late 1980s where political considerations encouraged economic engagement; economic instruments were used to advance countries' political interests and strategic calculations in world politics. From an African perspective, the particular nature of Africa's political order, namely, elitism, determines its attitude towards China. The following sections will examine the political factors featuring in China's economic engagement with Africa from these two perspectives.

### **China: Tiananmen, Taiwan and strategic considerations**

From the Chinese perspective, two important domestic political factors have played a role in driving China's economic engagement with Africa since the late 1980s, namely, the 1989 Tiananmen Square protest and the One China Principle concerning Taiwan. This point of view is confirmed by Taylor, who believes that "China's interest in Africa was reignited by events surrounding the Tiananmen Square incident in June 1989, when African leaders were quick to support Beijing in the face of intense criticism by the West" and that "after Tiananmen Square, China remembered that Africa was a very useful of support...And also a site where Beijing could continue to marginalize the Taiwanese" (Taylor, 2006, p939).

The Chinese government's violent response to the Tiananmen Square protest on June 4, 1989 encountered sharp condemnation from the West, resulting in a crisis in China's relations with the West (Taylor, 2006, p62). However, African states either reacted with indifference or supported the Chinese communist government (Taylor, 2006, p62; Shinn and Eisenman, 2012, p45). While responding uncompromisingly to the post-Tiananmen criticisms from the West, China re-evaluated its foreign policy approach and rediscovered its ties with the Third World, of which African countries constituted a large part, and started to restore its previously neglected relations. Besides strengthening diplomatic relations, China also sought to use economic instruments as a means to "reward" (Taylor, 2006, p66) Africa's support at the "critical moment" (Cheng Ming, October 10, 1989, cited by Taylor, 2006, p63), referring to the 1989 Tiananmen crisis. Development assistance to and trade with the continent both increased in the immediate aftermath of the Tiananmen incident (Shinn and Eisenman, 2012, p46; Taylor, 2006, p63). Now we shall take a closer look at some country cases that show the direct influence of Tiananmen on China's economic engagement with African countries: Angola, Zimbabwe and Mozambique.

It is documented that Angola's foreign minister expressed "understanding and support for the resolute action" to "quell the counter-revolutionary rebellion" (Xinhua Domestic Service, August 7, 1989, cited by Taylor, 2006, p88). At the end of 1989, China and Angola signed three agreements, including a feasibility study for building a party school for the then MPLA government.<sup>61</sup> China also offered 121 million USD in credit for Angola to buy Chinese-made goods (Shinn and Eisenman, 2012, p340; Taylor, 2006, p88). In the case of Zimbabwe, President Robert Mugabe expressed strong support for China following the Tiananmen crackdown and refused to join the anti-China campaign led by Western countries. In his 1993 visit to Beijing, Mugabe publicly praised the Chinese political system and sought a "pay-off" for his support during the 1989 incident. As it turned out, a modest 9.4 million USD in assistance was offered by the Chinese government. In the same year, Beijing also signed a protocol of 180,000 USD for projects in higher education in Harare with a view to restoring its damaged educational links with Zimbabwe (Taylor, 2006, pp121-123). Finally, Mozambique was also among the many African countries that refused to criticize China after the Tiananmen crisis. Support for Beijing was expressed at the African tour of the then Chinese Foreign Minister Qian Qichen to Mozambique: "the measures adopted by the Chinese Government in quelling the riot received the foreign leaders understanding and support" (Xinhua, August 13, 1989, cited by Taylor, 2006, p103). At this occasion, China granted 12 million USD to Mozambique to build a new parliament and also signed two agricultural agreements (Taylor, 2006, p103).

Therefore, it can be seen from the cases above that increased economic contacts, primarily in the form of development assistance, though small in scale, was used by China to reward African countries' favourable support of Beijing's repressive actions during the 1989 Tiananmen crisis

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<sup>61</sup> MPLA is one of Angolan's political groups, short for "Movimento Poular de libertacao de Angola".

and to strengthen solidarity with the continent, an important ally of the Third World, in an effort to counter the massive human rights accusations stemming from the West. By and large, the post-Tiananmen period saw China take the lead in rebuilding ties with African countries through economic means. Although deals reached between China and certain African countries as a direct result of Tiananmen were rather modest compared to today's scale, the Tiananmen crisis served as a political impetus for China to reconsider its position vis-à-vis the rest of the world and reinvigorate interest in developing economic relationship with African countries, after a period of relative disinterest during the 1980s (as discussed in chapter 1). It marked the turning point in China's foreign policy towards Africa, with a lasting effect in the years that followed.

Another political factor that has driven the China-Africa economic relationship is the One China Principle concerning Taiwan. As a most reiterated and consistent principle in China's foreign relations, the One China Principle is considered "the political foundation for the establishment and development of China's relations with African countries and regional organizations".<sup>62</sup> It is not to suggest that China did/does not engage in economic activities with African countries that did/do not establish diplomatic relations with the PRC. As a matter of fact, Chinese businesses are rather visible even in the four African countries that still recognize the Taiwanese government, namely Burkina Faso, Gambia, São Tomé and Príncipe and Swaziland. For example, Burkina Faso's trade volume with the PRC far exceeded that of Taiwan during the period of 2004-2010 (Shinn and Eisenman, 2012, p248). However, the One China Principle has played an important role in the economic relationship between China and African countries in that the recognition of the Chinese government is followed by expanded economic ties between China and the African state, providing China with enough political incentive to engage economically.

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<sup>62</sup> China's African Policy on the FOCAC website: <http://www.focac.org/eng/zt/zgdfzccwj/t230479.htm>

This point shall be brought out in the cases of Liberia and Malawi as well as São Tomé and Príncipe as a counter-example.

Historically, Liberia switched recognition between Taipei and Beijing on multiple occasions. China suspended its diplomatic relations with Liberia twice, once in 1989 and another in 1997, when the latter attempted to establish diplomatic relations with Taipei while still recognizing Beijing. According to a case study on Liberia's "Look East" policy (2009, p3), it is noted that during periods of diplomatic recognition, China provided Liberia with infrastructure, construction, medical teams and scholarships. In 2003, when Liberia for the third time recognized Beijing, it is believed that "China promised up to 3 million USD (in) budgetary support" and also dispatched troops to assist with water-supply projects.<sup>63</sup> In December 2007, Malawi and China secretly established diplomatic relations, which led to Taiwan's termination of its aid and funding for the Malawian ruling party. However, China soon committed itself to strengthening this relationship by signing agreements with the Malawian government on trade, investment, technology cooperation and preferential tariff treatment. China also provided a 288 million USD worth of aid package, including large construction projects (Shinn and Eisenman, 2012, p359). While the previous two cases suggest that economic measures were used by the Chinese government to support African countries' recognition of Beijing, São Tomé and Príncipe presents a counter-example of how the One China Principle served as a bargaining chip for a small African country to seek economic gains. As one of the four African countries that currently recognize the Taiwan government, São Tomé and Príncipe broke diplomatic relations with China and turned to Taiwan in 1997. As a result, Beijing quickly terminated all agreements

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<sup>63</sup> Brookes, Peter and Ji Hye Shin. "China's Influence in Africa: Implications for the United States". The Heritage Foundation. Feb 22, 2006. <http://www.heritage.org/research/reports/2006/02/chinas-influence-in-africa-implications-for-the-united-states>

with São Tomé and Príncipe (Shinn and Eisenman, 2012, p320). The One China Principle was used by São Tomé and Príncipe as a bargaining chip to garner financial benefits at a time when Taiwan was seeking diplomatic recognition from the international society, and the latter used economic instruments to advance its political interests. It is believed that Taiwan has provided São Tomé and Príncipe “unprecedented material support to maintain ties with its allies” (Kim, 2012, p1). It is pointed out that “small countries with meagre budgets have the option to recognize states whose sovereignty is contested in the international arena in order to garner financial support either directly from the state seeking legitimacy or from a ‘patron’ state” (Martins, 2011, p1). In this case, São Tomé and Príncipe chose Taiwan over China.

In terms of strategic considerations behind China’s growing economic engagement in Africa, some stand out. China’s growing economic ties with Africa underline China’s vested interest in securing and promoting its position in regional affairs. Firstly, it is pointed out that China’s expanding economic engagement with some African countries is due to their strategic positions in the African Union (AU), the United Nations (UN) and other regional and international organizations. Ethiopia serves as a good example in this regard. Although not a resource-rich country, Ethiopia occupies a strategic position in Africa. In terms of geopolitical location, Ethiopia liaises Africa’s Muslim North with its Christian South. It is also the source of the Blue Nile, the vital water supply of Egypt, which has recently caused an intense dispute between these two countries over a dam being built by the Ethiopians with China’s financial support. In terms of regional importance, Ethiopia holds the headquarters of the African Union (AU), the United Nations Economic Commission for Africa (UN ECA), the Pan-African Chamber of Commerce and Industry (PACCI) and the African Standby Force, among others. Ethiopia presents itself to be at the heart of African affairs and the regional breakpoint for China to strengthen relations

with Africa as a whole. Therefore, it is largely in China's interest to nurture economic relation with Ethiopia.

Another factor relates to China's position in the international arena. Africa represents a quarter of UN member states, each of whom possesses a vote or a voice in international organizations. China sees Africa as a source of considerable diplomatic support in international affairs. As early as in 1971, the PRC gained a seat at the UN General Assembly largely owing to African countries' support. It is pointed out that African countries' votes play a role in Beijing's rivalry with Tokyo, especially in China's strong opposition against Japan's aspiration to permanent membership at the UN Security Council (Alden, Large and Soares de Oliveira, 2008, p8). However, Japan is only one of China's concerns. African countries are said to have supported China in anti-China resolutions by the West at the UN Human Rights Commission; they have backed China in its bids for the 2008 Olympics and the 2010 World Expo,<sup>64</sup> and their recognition of China as a market economy has "shielded it from accusations of dumping practices" (Alden, Large and Soares de Oliveira, 2008, p117). China's active economic engagement under the "win-win" cooperation strategy, seeking to benefit both sides, is also a result of China's wider ambition in world affairs with the support of its African allies.

### **Africa: when elitism meets the West's conditionality**

The growing economic ties between China and Africa are also driven by some African political factors. They have to do with the nature of Africa's political order. Chabal and Daloz provide an in-depth analysis on the political practices of SSA countries, arguing that, in large parts of the SSA, political elites are the ruling class, whose power depends heavily on their wealth and their

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<sup>64</sup> Interview with the then State Councilor Tang Jiaxuan conducted by the Xinhua News Agency on China-Africa Relationship and the Significance of the FOCAC Beijing Summit, 2006.  
<http://www.china.org.cn/english/report/189587.htm>

ability to garner resources to feed patrimonial systems (Chabal and Daloz, 1999, p34). It is also indicated that elitism has persisted even in the democratization process and that the loss of legitimacy of the ruling class does not result from the “method of government” but rather “a decline in the resources they have available for (re)distribution” (ibid., p43).

This is where the West comes to relate. In the post-colonial period, foreign aid constitutes a significant part of the available resources for African states, upon which their legitimacy and sovereignty rest. However, western donors, primarily the IMF and the World Bank, tied strict terms to their aid in the names of “Structural Adjustment Programmes (SAPs)”<sup>65</sup> in the 1980s and then democratization in the 1990s, which were deemed unacceptable by African elites. Failure to comply with these demands meant that foreign aid was simply cut off. Chabal and Daloz believe that “in practical terms, the two most significant changes which impinge today on the ability of African states to receive foreign aid are the constraints of structural adjustment and the new democratic political agenda” (ibid., p117). African leader’s political interests are closely linked with their economic interests; state sovereignty is damaged as a result of the decline in resources disposed by the ruling class.

Nevertheless, China has presented itself as an alternative source of income for African states in two ways. Firstly, China’s African policy is guided by the principle of “non-interference”, which is “based on unconditional respect for national sovereignty [and] makes any attempt to interfere into the domestic affairs of a state illegitimate” (Tull, in Alden, Large and Soares de Oliveira, 2008, p118). This principle translates into large sums of development assistance provided by the

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<sup>65</sup> Learn more about SAPs at the World Health Organization website:  
<http://www.who.int/trade/glossary/story084/en/>

Chinese government, with no political conditions attached,<sup>66</sup> which largely find favour in the eyes of the African ruling elites. Secondly, it is pointed out that because of China's state-centric principle, China is able and willing to directly approach the African state, in contrast with western donors, who view the African state as the problem and would rather channel their aid through NGOs. By financing prestigious construction projects, such as large stadiums and presidential palaces, the Chinese are able to directly help advance the political interests of the African ruling elites (ibid., p120). Clapham rightly points out that China's involvement has been largely welcomed by African states because it fits into the "familiar patterns of rentier statehood and politics with which Africa's rulers have been accustomed to maintain themselves" (Clapham, in Alden, Large and Soares de Oliveira, p364).

Angola is a case where the West's unwillingness to provide assistance and the imposition of economic and political reforms compelled Angola to look elsewhere and offered China the opportunity to step up as an alternative source of funding for this war-torn country. The end of the civil war in 2002 saw Angola mired in a devastating physical situation, in urgent need for national reconstruction. The Angolan government asked western donors to organize a conference to raise financial support for Angola. However, donors showed little interest and attached pre-conditions before they would even consider holding such an event, requiring that the Angolan government restart negotiations with the World Bank and the IMF to agree on multiple economic and political reforms. Negotiations finally broke down after two years, leaving the Angolan government with no other option but to look elsewhere. At this point, China joined Angola at the negotiating table and agreed to provide oil-backed loans at lower rates, with longer periods of repayment and without political strings attached, and undertake reconstruction work. Although

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<sup>66</sup> Except for the respect of the One China Principle.

information on the terms of the agreements and the exact amount of the loans is still being debated, China is said to have offered Angola over 9 billion USD to fund infrastructure projects.<sup>67</sup> It is also pointed out that while the citizens consider that the political leaders have sold Angola to the Chinese, the Angolan ruling elites “see it as an opportunity to obtain hard cash for the reconstruction of the devastated infrastructure for which payments are made with raw materials such as oil and fish” (Isaac, in Harneit-Sievers, Marks and Naidu, 2010, pp165-166). The underlying reason of this is explored by Chabal and Daloz: “although there never was a realistic option that, after independence, African countries could afford not to exploit to the full the export of such products, the question is whether African governments pursued policies likely to maximize the use of their resources for the purpose of sustained development. The short answer is that they did not. With very few exceptions, African governments simply exploited their economic assets for patrimonial (or prebendal) purposes, regardless of the consequences of such actions for the country’s future economic well-being” (Chabal and Daloz, 1999, p113). The political interests on the part of Angolan elites facilitated China’s economic involvement in Angola’s post-war period, which proved to be economically beneficial for both sides: the Angolan government was able to reconstruct the war-torn infrastructure with cheaper loans from the Chinese government and help from Chinese construction companies, and the Chinese enjoyed greater access to Angola’s oil to meet its growing oil demand. China’s oil exploitation in Angola quickly surged in Angola’s post-war era (Figure 14), making China Angola’s biggest trading partner in the world.

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<sup>67</sup> Escobar, Antonio and Ana Correia da Silva. “Three Decades of China-Angola Cooperation – Deep Mutual Trust Fostered”. *Macauhub*, April 26, 2013. <http://www.macauhub.com.mo/en/2013/04/26/three-decades-of-china-angola-cooperation-deep-mutual-trust-fostered/>

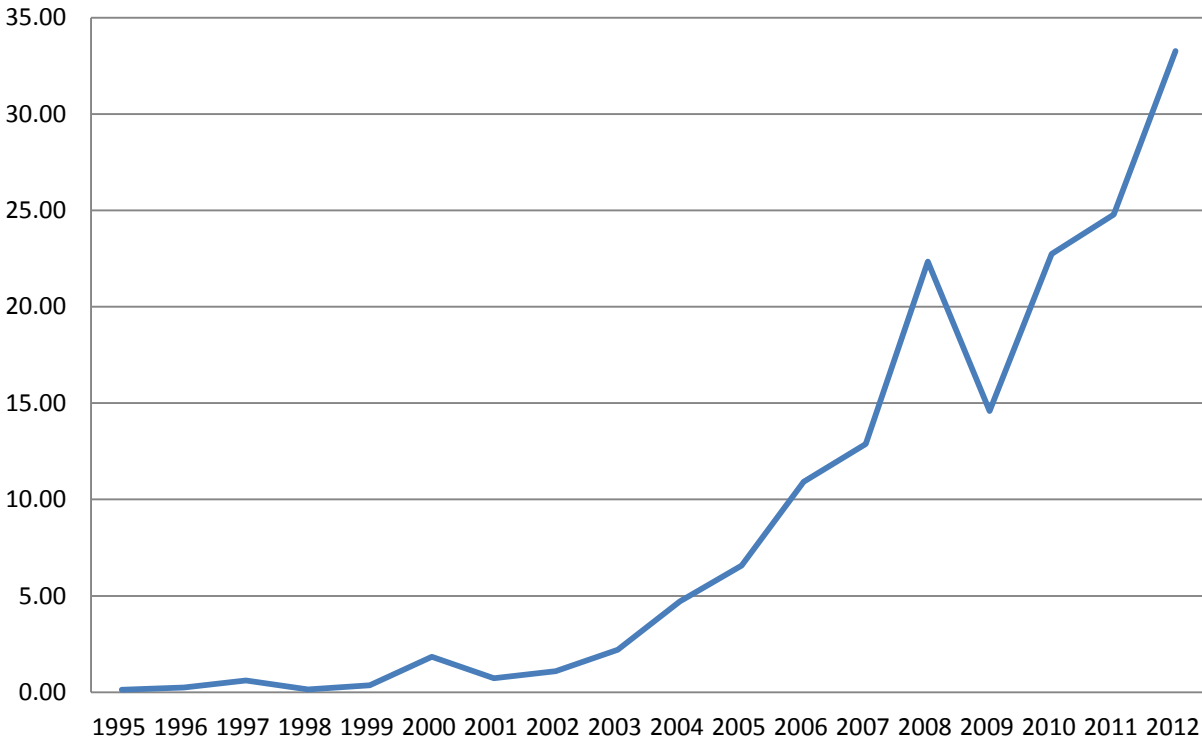


Figure 15: China's import of crude oil from Angola, 1995-2012 (billion USD)<sup>68</sup>

China has been accused of breeding African elites with financial benefits and keeping a closed eye on or even encouraging human rights abuses and corruption. However, the purpose of the discussion here is not to make judgements about the political consequences resulting from China's non-conditionality policy, but to understand how Africa's internal political dynamic, namely elitism, has encouraged China's growing presence in African countries. It is also not to generalize this argument as it does not necessarily apply to all African states. In the Angolan case, its urgent need for post-war reconstruction, the West's retreat and China's thirst for oil coincided. While China's motive of engaging in Angola's post-war reconstruction was mainly to seek oil, from the Angolan perspective, China proved to be a viable and desirable political way-

<sup>68</sup> Graph generated from the excel spreadsheets of China-Africa trade data consolidated by Tralac.

out for the Angolan elitist government, which was at the time faced with the pressure to comply with the strict conditionalities imposed by western donors. Engaging China was not only economically beneficial, as China was willing to provide cheaper loans and undertake large-scale reconstruction projects, but also politically advantageous, as the Angolan government was able to bypass the World Bank and the IMF, without having to bear the political costs of satisfying the terms imposed by these institutions. The ruling party was also reported to have taken credit in undertaking public projects in the run-up to the national elections (Corkin, in Kopinski, Polus and Taylor, 2012, p43 and footnote on p50). More essentially, the African elitism proved to be compatible with China's non-interference policy and its willingness and ability to directly deal with African elites. Therefore, Africa's elitist political order served as an important driving force in the economic engagement with China.

This chapter looks at some of the most important political factors that have contributed to the advancement of the China-Africa economic relationship. The principle of non-interference, reflecting the political interests of both the Chinese and African governments, has provided an incentive for the two sides to engage economically based on the officially claimed "solidarity" and "friendship". This principle has enabled China to engage with almost any African country, approach the ruling class directly and offer aid at little economic or political cost for the African state. On the Chinese side, the aftermath of the 1989 Tiananmen Square protest saw China increase its assistance and trade with African states in gratitude for their support for Beijing's repressive response. Economic instruments have been used by the Chinese government in safeguarding the One China Principle concerning the legitimacy of the Taiwanese government. Although the economic outcomes of Tiananmen and the Taiwan issue on China's economic

engagement with Africa tend to be sporadic and small in scale, their long-term effect, namely, improved diplomatic relations between China and African countries, is too important to ignore, which laid the foundation for further economic exchange between the two sides based on mutual understanding and support. Another incentive for China to engage with Africa economically is China's strategic ambition to assert influence in both regional and international affairs, as African countries constitute the largest international support for China in the international arena. On the African side, the particular nature of the African political order, namely, elitism, is another main driving force of the China-Africa economic relationship, as China has proved to be an alternative income source for the African ruling elites, who are thus able to bypass the conditions imposed by western donors. The concentration of power in the hands of a few has largely facilitated China's engagement in Africa, as it has proved to be compatible with China's approach of channelling funding via the state, which the West largely avoids.

## **Conclusion**

China's growing presence on the African continent has captured the world's attention, giving rise to an ongoing debate among academics and policy-makers, who have approached this subject from different angles. The current debate largely centers on the evolution and the nature of the China-Africa economic relationship and the economic, social, political and environmental impacts on both sides. Instead of following this ongoing debate, this paper takes a step back to explore the multifaceted drivers behind this relationship, with a view to developing a better-informed understanding of what has made this relationship possible.

The post-1990s period saw the accelerating pace of the development of the China-Africa economic relationship, in trade, investment as well as aid. This paper argues that this relationship is driven by multiple forces, more than a story of China's quest for resources and markets. From the economic perspective, Africa's rich natural resources and potential markets meet China's growing domestic demand, as China has been experiencing rapid economic growth and has become a world economic power. In addition, the specific characteristics of China's aid, namely, the focus on Africa's infrastructure needs and lack of conditionality, has given China an edge over western donors. Over time, the supply and demand relationship has contributed to China and Africa's growing economic interdependence, serving as an additional economic incentive for further engagement. In terms of institutional drivers, China's "Reform and Opening-up" policy at the end of the 1970s marked the starting point of China's economic liberalization and the shifting of China's African policy from supporting anti-colonial movements to mercantilist pragmatism. However, in China's case, state capitalism still plays an indispensable role in driving the country's economic engagement with Africa. Trade policies and the "Go Out" policy initiated by the Chinese government greatly encouraged trade and investment flows. Chinese state

institutions, including state-owned banks, SOEs and SEZs, are the major players in the economic engagement with Africa, able to channel huge financial flows to fund large-scale businesses and projects. At the international level, China's accession to the WTO has contributed to China's further economic liberalization and integration into the world economy, facilitating China's engagement with Africa based on market principles. The FOCAC serves as an important intergovernmental forum and cooperation mechanism whereby China asserts its leadership in cultivating relations with African countries. Concrete policies to further and deepen economic relations between China and African countries have been pronounced and implemented, and have yielded positive outcomes, which in turn have driven this relationship further ahead. Finally, although a less vocal factor in the current discourse, politics also has a role to play in driving this relationship. China's non-interference policy is considered a guiding principle in China's engagement with Africa and has well served China's commercial purposes. However, the principle of non-interference itself is a result of the Chinese government's political considerations. Moreover, several political factors feature either sporadically or constantly in the China-Africa economic relationship, namely, the 1989 Tiananmen Square protest, the One China Principle and China's strategic calculation in international politics concerning its position in regional and international affairs. On the African side, Africa's widespread elitism has played an important role in supporting China's economic activities in Africa, as the Chinese present themselves as an alternative income source, largely appealing to the African ruling elites. The elitist nature of Africa's political order has provided political incentives for African states to engage China economically, which has proved to be both economically and politically beneficial for African governments.

The analysis of these three driving forces are not only important in making sense of how China's economic engagement in Africa has been able to reach such a large scale and attract the world's attention, but also in understanding how China has been able to gain an edge over the West. In terms of economic driver, while their primary economic incentives might not differ, namely Africa's rich resources and markets, and China and Western countries' domestic demand, China is has a comparative advantage in manufacturing and is able to provide aid to Africa on better terms than the West. In terms of institutional driver, China's state capitalism, in contrast to the West's predominant liberal capitalism, shows robustness in Africa: Chinese state-backed businesses enjoy economic, political and diplomatic advantages over their western counterparts. In terms of political driver, China, upholding the principle of "no-interference", presents itself to Africa as an equal business and development partner without a colonial past and one that does not seek to impose conditions on its loans whilst the West has a "good governance" agenda behind its aid giving. Moreover, the Chinese are willing and able to approach African elites directly with economic benefits, which the West largely avoids.

To be sure, the three drivers do not exist separately but are interconnected with one another in several ways. Firstly, China's growing economic demand from Africa results from China's rapid economic growth, which is itself a result of the combination of institutional factors: Chinese government's favourable policies of economic liberalization; China's institutional integration into the world economy, and the intervention of state institutions. These institutional factors provide additional economic incentives such as lowered tariff rates and government subsidies, deliberately encouraging the Chinese economy and the China-Africa economic relationship. Secondly, China's aid to Africa as an economic incentive, normally resource-backed, is supported by China's non-interference policy and Africa's elitist political order, whereby African

elites are able to reap direct economic and political benefits from engaging China without having to satisfy conditionalities imposed by western institutions. Thirdly, China's institutional characteristic, i.e. state capitalism, has proved to be compatible with Africa's political order, i.e. elitism, in the sense that the Chinese state-controlled institutions are willing and able to approach and benefit the African ruling elites directly with large deal packages. Last but not least, the FOCAC has become an important regional forum where China asserts its leadership as the largest developing country, a result of not only the strengthening economic ties between China and Africa but also China's strategic ambition in the wider international community, as the FOCAC not only covers economic issues between China and African countries but also addresses regional and international challenges. Economic factors provide primary incentives for an economic relationship to take place, which neither institutions nor politics could possibly substitute. However, economic incentives must be supported by appropriate domestic and international institutions to be regulated, sustained and translated into favourable policies; they must also be predicated on political interests, given the particularity of the Chinese and African political order whereby the state plays a vital role. All three drivers are intertwined with one another; any one of them alone would not suffice for the China-Africa economic engagement to reach such a level and scale.

In light of the discussions above, it can be concluded that this paper contributes to the current debate about the China-Africa economic relationship in the following ways. First of all, it is now understood that the growing China-Africa relationship has been more than a result of China's growing appetite for natural resources and overseas markets but driven by complex and intertwined economic, institutional and political forces, each of which plays a different but significant role. Secondly, the paper underlines different reasons behind the impacts and

consequences resulting from this relationship, be it positive or negative. More importantly, it provides explanations for why this relationship can be sustained and keep on growing despite all the negative impacts it has incurred, namely, disrespect for human rights, undemocratic practices, corruption, lack of rule of law and environmental degradation. Thirdly, it casts insight on the debate about the nature of China's economic engagement in Africa and echoes Alden's view that the characterizations of China being a development partner, an economic competitor or a colonizer "oversimplify what are complex and overlapping interactions which are themselves nested within the diverse African political and economic landscape" (Alden, 2007, p125). Finally, given the growing economic interdependence between China and Africa, their strong political and strategic interests and the strengths of the already well-established institutional structure for economic cooperation, the China-Africa economic relationship will keep on expanding and deepening in the future, despite potential temporary setbacks caused by economic recessions, regional conflicts or internal politics in China and in African countries.

This comprehensive analysis of the three drivers of the China-Africa economic relationship is important for Western countries, African countries as well as China. The West should recognize the fact that given the economic, institutional and political incentives, China's rise on the African continent is inevitable and irreversible, and should therefore not fear nor overly criticize China but proactively cooperate with Chinese businesses in Africa based on market principles and improve the competitiveness of western companies, seeking mutual economic interests and gains; it should also continue to promote good governance practices and advocate for human rights and the rule of law, which China is not in a position of doing (given its own lack of such practices domestically). The importance of institutions in a free market should not be undervalued as they serve to provide powerful economic incentives for businesses. Furthermore, China's heavy focus

on infrastructure construction and knowledge transfer and its unconditional loans offer a novel model that is considered more effective for Africa's development, challenging the West's traditional aid-giving. It is therefore important for western policy-makers to take China's approach seriously and design aid programmes that focus on Africa's economic growth and address African countries' direct needs, without attaching unrealistic conditions that are deemed too costly by African governments. African decision-makers, on the other hand, should strategically benefit from the growing China-Africa economic interdependence by increasing their leverage and bargaining power so as to reach deals that can maximize economic gains and at the same time reduce negative impacts such as unfair competition, under-employment of local workers and pollution; they should also strategically use the FOCAC processes to enhance bilateral relation with China, voice their interests and lock in the gains from this important China-Africa cooperation mechanism. Lastly, the Chinese decision-makers should focus on improving the China-Africa economic relationship by mitigating the negative impacts, as China is assuming more responsibilities as a global power. More specifically, SOEs should be encouraged to compete with their western counterparts based on market principles; government policies that seek to encourage trade and investment should better respect market forces; business practices should be regulated and monitored in different local contexts; mechanisms should be established to minimize the negative impacts such as labour abuses, corruption and pollution. Moreover, the Chinese government should not avoid speaking openly about their aid programmes in Africa but seek to take a stronger lead in shifting the current discourse concerning foreign aid and promoting a different approach. In this way, China can not only benefit Africa economically and socially, but also improve its own world image as a responsible rising power.

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