

Sino-Africa Trade Relations

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This paper briefly covers the economic relations between China and Africa as China's amazing economic growth dramatically increases its dependence on fuel and raw materials - readily (and cheaply) available in developing countries, such as those in the African continent.

Introduction

The trade volume between China and Africa almost doubled from \$10 to \$18 billion from 2000 to 2003¹, jumping to \$39.7 billion in 2005² (as compared with US-Africa's \$44.5 billion trade in 2004³). Also during this period, Chinese private businesses invested over \$175 million in the pursuit of business ventures in Africa. China's growing population and energy demand (40% of world consumption of petroleum products) has made it second only to the USA in the demand for oil (pushing Japan to third place). For this reason, China has ventured to forge joint-partnerships with several African states rich in natural resources (especially oil) – where China invests capital and develops the country's infrastructure in exchange for employment (of its citizens) and favorable terms for extracting raw materials to China.

'Some see it as a late blossoming relationship, others as a new kind of colonialism. Either way, China is resolutely and rapidly extending its presence and influence across the African continent as its companies move into terrain where western businesses hesitate to tread.'⁴

This paper provides a high-level view into the economic relations between Africa and China, an emerging world super power (economy leader). It discusses the symbiosis of this relationship and explores the rising concerns of African observers and the West.

Economic development in China has grown rapidly fueled by the reach of the pervasive Internet. As of 2001, there were 10 million subscribers – this is expected to grow to 300 million by 2006 fueled by data convergence, video and telephony.⁵ China is a major recipient of Foreign Direct Investment, \$350 b in 2001, surpassing countries like Singapore, Japan, Malaysia, Indonesia and other East Asian countries, second to UK (\$394 b) and the US (\$1.1 trillion). China itself, contributed about 25% of FDI in developing countries since 1990.

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¹ *Leveraging the Dragon:.....*, Chris Alden, <http://yaleglobal.yale.edu/display.article?id=5336>

² *China defends economic co-op with Africa*, China View, http://news.xinhuanet.com/english/2006-06/09/content_4672019.htm

³ *A rising China counters US clout in Africa*, Christian Science Monitor, <http://www.csmonitor.com/2005/0330/p01s01-woaf.html>

⁴ http://economistsview.typepad.com/economistsview/2006/02/into_africa.html, Economists View into Africa

⁵ www.china.com, David Hale, http://www.findarticles.com/p/articles/mi_m2633/is_1_15/ai_78679622/print

China's thirst for energy sources has led it to Africa where it obtains one third of its energy needs. Angola this year, became the second (to Saudi Arabia) highest supplier of oil to China at half a million barrels a day. In exchange, China has provided cheaply manufactured products and financial support for fiscal projects.

Economic & political development in Africa

Africa is the world's second-largest and second-most populous continent, after Asia. At about 30,370,000 km² (11,730,000 mi²) including adjacent islands, it covers 6.0% of the Earth's total surface area, and 20.4% of the total land area. With more than 840,000,000 people (as of 2005) in 61 territories, it accounts for more than 12% of the world's human population⁶. Africa comprises 53 independent countries, many cultures, dissimilar customs and languages, besotted and previously under the rule of various Western colonial masters over the past 100s of years has struggled for an identity of its own by the formation of the Organization of African Unity (OAU) and memberships in the United Nations (UN).

In the late 19th Century, there was a rush to colonize Africa by the West. Most countries were occupied except for Liberia (Black American Colony) and Ethiopia. This continued until after the World War II when the African countries were given their independence. Unfortunately, the effect of colonization was severe as the Western colonial masters divvied up the continent into artificial borders (separating one Western colony from another), dividing the peoples of countries that shared the same culture and language, forcing together neighboring enemies to form a country – which led to civil wars, ethnic cleansings and general unrest for decades to come following their independence. ‘Europeans often changed the balance of power, created ethnic divides where they did not previously exist, and introduced a cultural dichotomy detrimental to the native inhabitants in the areas they controlled⁷. They divided Africans based on their physical characteristics and in most cases awarded the resident European settlers privileges unavailable to the natives. This led to apartheid in South Africa and similar human rights abuses in different parts of Africa where African labor was obtained at a significant discount.

Africa is hardly what you might call monolithic, though comprised primarily of Afro-black people, it ‘... is the most polyglot continent in the world with over ...’, 2000 languages. As the “colonial masters” departed the various African countries, leaving them independent, some left behind a legacy that helped the country develop its natural resources and grow its economic prowess – others left behind nothing of value – no continuing education, no credible leadership, no natural resources (or methods of extracting any even if there were). This lack of leadership and poor resource development led to instability, corruption, violence, authoritarianism, feuds and civil unrest. While awash with natural resources throughout the continent, these African nations expended their time and what little financial resources (World Bank loans and international trade) on wars and coup d’etats. These led to political and economic destabilization in these nations thereby discouraging foreign investment from the West.

⁶ <http://en.wikipedia.org/wiki/Africa>, Wikipedia

⁷ Ibid.

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‘Africa is the world's poorest inhabited continent...., the bottom 25 ranked nations (151st to 175th) were all African nations. While rapid growth in China and now India, and moderate growth in Latin America, has lifted millions beyond subsistence living, Africa has gone backwards in terms of foreign trade, investment, and per capita income. This poverty has widespread effects, including lower life expectancy, violence, and instability -- factors intertwined with the continent's poverty.’⁸

This table represents the natural resources available in some African countries.

| Country | Natural Resources |
|---------|--|
| Angola | petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite, uranium |
| Liberia | rubber, timber, iron, diamonds, cocoa, coffee |
| Senegal | agricultural and fish processing, phosphate mining, fertilizer production, petroleum refining, construction materials, ship construction and repair (no oil) |
| Zambia | copper mining and processing, construction, foodstuffs, beverages, chemicals, textiles, fertilizer, horticulture |
| Nigeria | Crude Oil |

China, not trying to be a hero or anything quite like that, recognized a mutually beneficial need in Africa. China needs Africa’s raw materials to maintain its thirst for fuel to run its industries and vehicles - and Africa in turn needs foreign investment and infrastructure development. The West shuns Africa generally because of its seemingly endless trail of political corruption and economic instabilities. The West is accustomed to bailing African nations out of financial troubles by yet extending lines of credit with no expectation of paying it back except by further devaluing their already depressed currency.

So again, Africa is being colonized, but this time economically and with a definite payback – *for now*.

Economic and political development in China

China, over the centuries has undergone numerous turmoil and periods of unrest as it “found” itself. Significant to this paper was the advent of the Great Proletarian Cultural Revolution which started as a result of protests regarding the educational system, disgruntled party members having a difference in opinions with Mao and the workers revolting against the Party. “In the summer of 1966, a group of Beijing high school girls protested against the system of college entrance examinations. The Central Committee acceded to the students' demand by promising a reform and postponing the 1966 enrollment for half a year. Freed from their studies, students demonstrated in Beijing in August, touching off demonstrations of young people in

⁸ Ibid

general.⁹” This radical movement caused schools to be closed down, slowed economic production and trade, and virtually severed China's relations with the rest of the world. It lasted for two years in its intense form, lingered on for another year and a half, and was not officially declared over until 1977. During this period, Chinese youths had lost a generation of education, China itself had lost its trading relations with all countries – China’s desires to be an economic power was set back another ten years.

Following this revolution, China changed its foreign policies and opened trade relations with the West. ‘China started to play an active role in international organizations, and diplomatic relations were established with countries willing to recognize the People's Republic--rather than the Nationalist government on Taiwan--as the government of China. Most dramatically, contacts were begun with the United States, leading to full diplomatic recognition on Jan. 1, 1979.¹⁰’

By the 1990s China’s economy had become the fastest growing economy in the world, in spite of not changing its communist political stance or backing down on the human rights front with the US. Even though there was a mounting trade deficit between the US and China, the West needed China’s low cost labor to produce what it had become accustomed to having. China had reached the point where the world needed it more than ever.

To fuel this economic growth, China needed cheap resources. This is what led it to Africa.

CONS

While China has infused African nations with much-needed financial support, it has also forged alliances with African countries of dubious human rights records.

Cases in point:

In 2004, China stymied US efforts to enforce economic sanctions on Sudan (which provides 5% of China’s oil) to control the rampant genocide in the region of Darfur. China stepped in, provided Sudan with unconditional financial aid thereby nullifying US’s sanctions. In 2005, as president Mugabe of Zimbabwe, increasingly isolated by the West, prepared for elections (a 25-year, autocratic leader), China provided his ruling party members with financial backing, weapons, fighter jets, trucks, even t-shirts for the party’s supporters. All these in the light of US weapons embargoes against Zimbabwe. Mugabe was quoted as saying “...The Chinese are our good friends, you see.” In response to a lavishly-built presidential mansion costing \$9 million of which China had donated some exquisite roofing tiles.

“In 2005, Chinese pressure forced the business go-between Antonio Pereira Mendes de Campos Van Dunem to resign from his post as secretary of the Angolan council of ministers.¹¹ In a moment of weakness, Chinese business had forgotten a basic principle of its long march into Africa: never get mixed up in the internal politics of countries with which it deals. But there was

⁹ http://en.wikipedia.org/wiki/United_Nations

¹⁰ <http://acc6.its.brooklyn.cuny.edu/~phalsall/texts/chinhist.html>, Chinese Cultural Studies: Concise Political History of China

¹¹ *ibid*

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little danger that this momentary moral qualm, no doubt explained away as a sop to international investors in a notoriously corrupt country, would slow the pace of dealings between China and Africa”

While African countries are practicing comparative advantage, since the cost of locally manufacturing goods outweighs the short-term cost of merely importing same from China, this ultimately damages local industries and stunts Africa's development. This is beginning to lead to resentment in Africa nations. In Nigeria, it was reported that 1.8 million jobs were lost as a result of direct competition with Chinese manufacturers.¹²

In Angola, for example, the Chinese government awarded a line of credit of \$2billion at a paltry 1.5% interest rate in exchange for Angolan oil exports which amount to 25% of Angola's total production of oil, making it the second largest commercial partner to China¹³. This 17-year line of credit provides Chinese businesses an exclusive right to 70% of the infrastructure rebuild contracts. The economist Cerqueira stated *"It is a huge amount of money, but it creates some internal problems because, behind the loan, Chinese firms get work in Angola without competition...There is a condition in the loan that 30 percent will be sub-contracted to Angolan firms, but that still leaves 70 percent which will not...Angolan businessmen are very worried about this, because they don't get the business, and the construction sector is one in which Angolans hope they can find work, helping to build schools and roads"*¹⁴.

Since Chinese businesses are allotted 70% of the projects, it is conceivable that these contracts will be fulfilled by Chinese citizens relocated to Africa. This has become so commonplace now that it is not unusual to find Chinatowns and discussions of creating direct flights from these African countries to Beijing. If this were to continue unabated, African countries will be encouraging a new form of colonialism – *'Neo-Colonialism'* – as they resign themselves to their new economic “leaders”.

China's way of conducting business in Africa encourages “less transparency” in business deals. African countries, notorious for “under the table” compensations (bribes) are further encouraged to persist in this practice as the Chinese do not request the level of transparency required by financial institutions in the West (such as the IMF and The World Bank). “It allows the government to escape transparency” as the ultimate goal of the Chinese is to secure a long lasting source of energy raw materials.

Arms dealing with Africa were initially based on ideology during the Cold War, today it is motivated strictly by profits to the chagrin of the West. China reportedly made \$1bn selling arms to Eritrea in the 1990s and continue to do so with other countries such as Zimbabwe (shunned by the West). ‘African states have been drawn to China by its non-interventionist, non-ideological approach in conducting relations, although China's attempts to secure energy

¹² <http://mondediplo.com/2005/05/11chinafrica>

¹³ Reuters, **Wen hunts African oil as China economic clout grows**, http://za.today.reuters.com/news/newsArticle.aspx?type=businessNews&storyID=2006-06-14T062300Z_01_BAN422938_RTRIDST_0_OZABS-CHINA-AFRICA-20060614.XML

¹⁴ <http://mondediplo.com/2005/05/11chinafrica>

resources in conflict-ridden states by offering aid or arms-for-oil could heighten instability in the region.¹⁵

South Africa, China's first African trade partner is suffering a trade imbalance which has increased from \$24m in the 1990s to over \$400m. South Africa exports its raw materials to China, which then return as finished goods, competing side-by-side with the products of the local market contributing to unemployment. "We sell them raw materials and they sell us manufactured goods with a predictable result - an unfavorable trade balance against South Africa."¹⁶

"The sum of its total exports and imports of goods and services amounts to around 75% of China's GDP; in Japan, India and Brazil the figure is 25-30% (see chart)."¹⁷



PROS

China's relations with Africa are not all dubious. Under the guidance of the UN, the China-Africa Business Council, headquartered in China is tasked to help boost trade and development with African countries such as Ethiopia, Tanzania and Zambia. Peace keepers have been deployed to Liberia. Critics postulate that these overtures are simply to "win favor" with

¹⁵ <http://acc6.its.brooklyn.cuny.edu/~phalsall/texts/chinhist.html> - Chinese Cultural Studies, Concise Political History of China

¹⁶ http://www.pinr.com/report.php?ac=view_report&report_id=378&language_id=1, "Sino-U.S. Energy Competition in Africa"

¹⁷ See Paul Mooney, "China's African safari" *Yale Global*, New Haven, 3 January 2005, <http://yaleglobal.yale.edu/display.article?id=5106>

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these countries in the event that a return favor is needed in the future to help UN face-offs with the US and also to bolster support for Taiwan's independence.¹⁸

Africa's well-publicized years of internal strife; civil and tribal wars have largely left their raw materials untouched for many years. Relative to the continent of China, Africa is closer than say, Latin America and in much need of infrastructure and manufacturing expertise, the continent offers a perfect hunting ground for China's majors. Besides, with the frequent unrest in the Middle East, Africa is a safer bet of an alternative (and less expensive) source of oil. This Chinese investment is bearing fruit. Booming crude and commodity markets should help push African growth to a 30 year high of 5.8 percent this year, the International Monetary Fund said in April¹⁹.

China's role in Africa, in addition to securing favorable terms for obtaining much needed raw materials and Chinese jobs for its Africa-based businesses, is to act as an anti-imperialist counterweight to the West. It has spread its business arms in places in the world that have largely been ignored by the West. It has taken on very ambitious infrastructure projects in various African countries such as dam and railway building, copper mining, opened up its universities to African students (over 15,000 educated), traded arms to the tune of \$147m from 1955 to 1977 and built several telecommunications infrastructures such as satellite technology in Nigeria. These are "basic" tasks these countries either did not have the finances nor the discipline to complete themselves²⁰.

In 2004, China contributed 1,500 troops to Africa as peace keeping efforts of the UN. It has supported countries like Nigeria, South Africa and Egypt in their bid for seats on the UN Security Council.

The Chinese government's African Human Resources Development Fund pays for 10,000 Africans to be trained in Beijing²¹. In 2005, at the Sino-African Cooperation Forum, China's Education Minister Zhou Ji announced providing 1,200 government scholarships to African students per year. By year end of 2004, 17,860 scholarships had been granted to students from 50 African countries²². China has further shown their support for African education by sending 530 professional teachers to over 33 African countries to help develop their middle school education programs. China has also helped 25 African countries develop disadvantaged disciplines, provided training in science and technology through 60 assistance programs²³.

Resource-seeking investments such as China-Africa's encourage business development in the African country. This occurs when the Chinese employee (typically China uses expatriates to manage their businesses in Africa), resigns from the company to start a new business venture in the African country. This increases entrepreneurship and Foreign Direct Investments.

¹⁸ http://www.economist.com/business/globalexecutive/dialogue/displayStory.cfm?Story_id=4221685, The Economist

¹⁹ A rising China counters US clout in Africa, <http://www.csmonitor.com/2005/0330/p01s01-woaf.html>

²⁰ http://za.today.reuters.com/news/newsArticle.aspx?type=businessNews&storyID=2006-06-14T062300Z_01_BAN422938_RTRIDST_0_OZABS-CHINA-AFRICA-20060614.XML

²¹ <http://mondediplo.com/2005/05/11chinafrica>

²² See The Hindu, <http://www.hinduonnet.com/2006/05/01/stories/2006050105171100.htm>

²³ See Forum on China-Africa Cooperation, <http://www.fmprc.gov.cn/zflt/eng/zt/zfjybzlt/t223756.htm>

Another advantage to this trading relationship is that African business models are less formal than say, in the West. China handles businesses in a way that is “customized” to the host country’s needs.

African countries are driven to improve their infrastructures (with the help of their sponsors) in order to facilitate trade operations with Chinese businesses, the process of “growth leading infrastructure²⁴”.

The most significant advantage of these trade relations is that the increase in foreign investment in African countries, increase in entrepreneurship, increase in infrastructure development provides these countries greater bargaining power as they extract concessions from and conduct business with Western businesses. It provides them options, which prior to Sino-Africa relations, did not exist.

Conclusion

Understanding the backgrounds of both continents has led to this unlikely *South – South* trade relations. This is a term of trade used to refer to foreign direct investment between two developing countries (as opposed to *North-South* which would refer to trade between a developed and a developing country).

China, over the past decade had the vision to ‘make friends’ with African pariah states marginalized by the US and the West (G8). It is today competing for energy resources with the G8. Whilst America is distracted by fighting terrorism in several countries and battling a trade-imbalance with China, the US has yet to confront China on this particular issue (of supporting pariah states) .

‘As the developing nations themselves come to rival the investment presence of the G8 and former colonial powers in Africa, it is salutary to recall that “south-south cooperation” may be more efficient and less wasteful than the West’s grand gestures – but it is no less self-interested²⁵’. In short, while the infusion of foreign direct investment and entrepreneurship has increased in Africa, whilst helping develop Africa financially, it was first for Chinese selfish reasons as was the initial colonization by the West decades ago. China’s “*neo-colonization*” of Africa seems, so far, to be a more productive alliance than the West’s, providing both continents a win-win strategy.

This is why the Sino-Africa trade relations must be carefully observed to maintain the win-win balance and to avoid repeating the past mistakes of Western colonization. Hopefully these investments in Africa will help build the next economic super power, Africa, and not again, cast it away after selfishly exhausting its natural resources.

²⁴ <http://www.fmprc.gov.cn/zflt/eng/zt/zfjybzlt/t223756.htm>

²⁵ <http://www.fondad.org/publications/africaworld/Fondad-AfricaWorld-Chapter16.pdf#search=%22south-south%20investment%20china%20africa%22>, South-South Investment, The case of Africa