China in Africa

Investors, not infesters

by Deborah Brautigam

China in Africa—just like everyone else

China's growing engagement in Africa remains a hot topic among diplomats, investors and aid agencies. Around the time of the Beijing Summit of the Forum on China Africa Cooperation (Focac) in November 2006, a stylized picture of Chinese engagement emerged. China was widely portrayed as a newcomer in Africa, desperate to gain access to African natural resources. China's aid program was believed to be enormous, and largely devoted to propping up dictators or gaining access to natural resources. Chinese banks were understood to be unconcerned about any social or environmental consequences of projects they financed. Six years later, we know a lot more about China in Africa. And the more we know, the more we see that the Chinese are not starkly different from the rest of us.

East wind rising

During the 1960s and 1970s, books like Alan Hutchison's *China's African Revolution* documented China's extensive political activities in Africa. In the summer of 1980, on my first trip to China, two African students—from Benin and Sudan—sat down in the seat opposite mine on the Guangzhou-to-Shanghai train. Beijing was financing their university education in China. Its goals then were solely political: supporting the independence struggle, aiding fellow socialists, and competing for diplomatic recognition with Taiwan. By 1975, China had aid programs in more African countries than did the United States. Those political goals remain today, making Chinese engagement a mix of diplomacy and commerce.

From the 1960s to the 1980s, China's African actitivites switched from being predominantly political to mainly economic

As China began to open the door to inward foreign investment in the late 1970s, Chinese companies took their first steps to generate business in Africa. Construction companies sent over to build aid projects began scooping up private contracts when their official projects were completed. In 1985, I interviewed a Beijing-based agribusiness corporation that was interested in joint ventures in Sierra Leone, and a provincial construction firm bidding on local projects in The Gambia. By 1999, Chinese investors had oil fields in Sudan, copper mines in Zambia, and farms in half a dozen countries. Engineering firms were signing contracts of close to US$2 bn annually, across 52 African countries.

Today's engagement, while much larger, follows the path laid out over those decades. Just how much larger, however, is hard to ascertain. Although Beijing has become somewhat more transparent about its official activities in Africa since 2006, it has a long way to go to reach the

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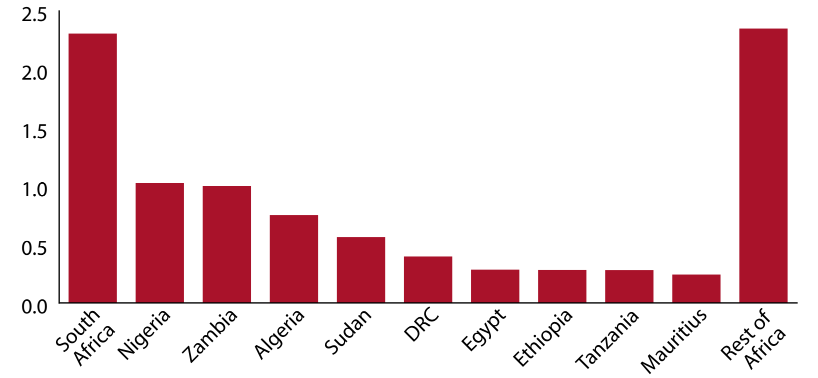
Spreading tentacles

China's investment stock in Africa by country (2009), US$ bn



Source: Ministry of Commerce

level of openness that is now common for OECD governments. China's State Council has provided a bit of aggregate data on official aid, but not for individual countries. China Exim Bank, which disburses China's concessional aid loans, as well as export buyer's credits and other forms of support for exporters, has actually become *less* transparent over the past decade. Quite possibly, this is to avoid giving too much ammunition to competitors eager to charge Beijing with violations of the WTO's trade rules. Foreign direct investment data is published, but not considered reliable, as so much Chinese investment travels through offshore financial centers such as Hong Kong, the British Virgin Islands, or even London, before landing in Africa.

Never look a gift elephant in the mouth

Some aspects of China's foreign aid program have persisted almost unchanged over the past three decades. Without a formal system of evaluation and a finely tuned sensitivity to accusations of local interference, Chinese officials are loath to criticize host governments that fail to maintain infrastructure or sustain productive ventures. The number of "white elephants" requiring costly maintenance is probably lower than before, as China now funds almost no factories through its aid program. Yet Chinese leaders' desire to bring "gifts" means that some hospitals continue to be built in remote towns, but remain unused because of the scarcity of trained local personnel. Those designing China's aid program see nothing wrong with fulfilling a host president or key minister's desire to have a fancy Chinese school built in his or her hometown.

China remains unwilling to criticise host goverments that fail to maintain projects it funded

At the same time, the Chinese are experimenting with "economic cooperation" initiatives that go far beyond the boundaries of official development assistance as defined by the OECD. Weary of building agricultural centers and irrigation systems for African governments and having to return again and again to repair and renovate them, the Chinese are trying a new. Over the past few years, Chinese agribusiness firms and institutes competed to build 20 agricultural demonstration centers across Africa. Each company was given three years to build the center, and three more to manage it, before turning it over to the host government. During this time, they were tasked to show host governments how, as in China, centers could produce revenues to keep the centers afloat. Yet not every host government has embraced this vision. On my recent visit, Tanzania's center, fully equipped, stood empty. Again, a Chinese reluctance to interfere could condemn some of these centers to costly irrelevance.

Drawing on its own experience, China is backing the development of six economic cooperation zones in Africa

A different experiment involves Chinese government support for Chinese companies building overseas trade and economic cooperation zones. Fifteen zones are at various stages of construction, six in Africa (Egypt, Ethiopia, Mauritius, Nigeria-Ogun, Nigeria-Lekki, and Zambia). Launched through a competitive tender, the zones are being built by a mix of state-owned and private Chinese firms, some in joint ventures with companies from the host country. The zones are intended to assist small and medium-sized "mature" firms from China to move offshore, helping China's domestic restructuring. Beijing provides some construction cost rebates after firms have met specific benchmarks. Some host governments and even Chinese provinces have also stepped up to offer subsidies.

While several of the zones in Asia are booming, the African zones have all faced obstacles. Tianjin Economic Development Authority's zone in Egypt was the most advanced, but development slowed during the Arab Spring. The firms that launched zones in Mauritius and Ethiopia were delayed by the financial crisis; both had to bring in new financial partners. Zambia's zone was supposed to attract Chinese metallurgy companies, but most of the manufacturing firms located in the zone are subsidiaries of the parent, China Nonferrous Metals Corporation. Nigeria shows considerable promise in two ambitious zones near Lagos. Several dozen Chinese manufacturers have already set up shop inside the uncompleted zones, but the zones have yet to solve the power supply problems that bedevil Nigerian industry. The jury is still out. After all, it was a decade or so before China's own special economic zones like Shenzhen matured and became the famous manufacturing hubs they are today.

A mixed bag of swag

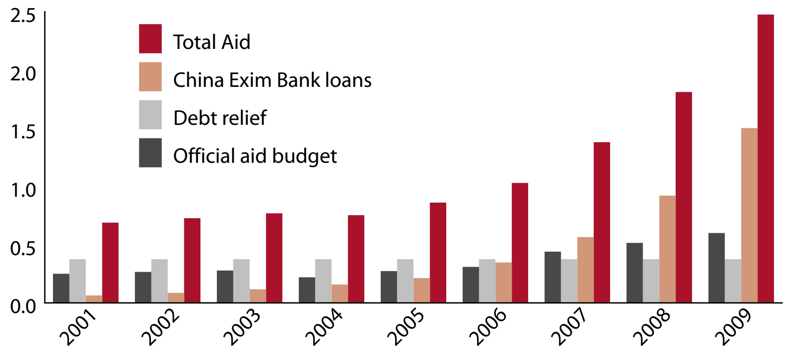
Some Chinese factories and refineries operate profitably, but many have struggled

Chinese investments in Africa tend to be a hit-and-miss affair. Starting in the 1960s, China spent some of its foreign aid budget building large state-owned factories for African governments. Most of these struggled to turn a profit and, today, fewer than a dozen or so of these old factories remain in operation, employing thousands of African workers, but with uncertain prospects. New Chinese-built factories and refineries do not receive funds from China's aid budget: they are intended to be investments. In a growing number of cases, Chinese state-owned companies have been willing to build industrial capacity where other investors refused. Some Chinese factories and refineries appear to be operating profitably, but many have struggled. The wisdom of this ambitious strategy is now in question.

China National Petroleum Corporation (CNPC), in particular, has struggled to make its African joint ventures profitable. In Sudan, political tensions with South Sudan have starved CNPC's refinery of crude

Generous, but not that generous

China's aid to Africa, US$ bn



Source: CEIC, Dragonomics estimates

oil. Refineries built recently in Niger and in Chad, both owned 60% by CNPC and 40% by the host government, have not been able to overcome a wholly predictable challenge: both host governments arbitrarily lowered the price of refined petroleum, expecting the joint venture refineries to operate at a loss. It is not clear whether CNPC regarded these risky ventures beforehand as probable write-offs, part of the cost of the oil concession, or whether they were surprised to have politics trump economics for their joint-venture partners.

CNPC appears to be following old Chinese models of risky joint investments with host governments in fragile states. Yet other Chinese companies are looking more and more like "normal" investors in Africa. Growing trends feature mergers and acquisitions, as well as Chinese joint ventures with private Western firms and syndicated loans with big global banks. South Africa's Standard Bank received US$300m in a syndicated loan arranged by China Construction Bank, Citibank, Mizuho and HSBC, to support its expansion into African project finance. Chinese metals firm Chinalco invested with Australian firm Rio Tinto in the Guinean Simandou iron ore project. Sinopec is working on a Ghana gas pipeline project with France's Technip and Intecsea, a company registered in the US. In Uganda, China National Offshore Oil Corporation (CNOOC) is partnering France's Total and a UK firm, Tullow, to develop an oil concession. And Chinese enterprisers are not only seeking Western partners: India's Varun Industries worked with China's Daqing Oil Field Company on a project in Madagascar.

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Learning to play by the rules, slowly

Chinese companies have probably recorded more successes than failures on African soil. But the extent of Chinese investment in Africa, where many Chinese managers have little cultural or business experience, has inevitably created tensions. Zambian president Michael Sata famously criticized Chinese investors for not following Zambian laws. Few Chinese mining projects in Africa, for example, are completely trouble free. Are Chinese investors different from those of other nationalities? In some ways, the answer is yes, but in many other respects, Chinese investors are following in familiar pathways already trod by earlier visitors to Africa. And as they become more experienced local operators, some of these tensions should melt away.

Competition from Chinese traders disconcerts some urban Africans, but many others welcome the influx of cheap goods

It has been a long time since European traders sold their wares in rural Africa, but the growing (and controversial) presence of Chinese traders on the continent is not at all unique. In East Africa, Indian and Arab traders run many of the small shops. West Africa hosts Syrian and Lebanese shops, while across the continent, migrants from one part of Africa are known as traders in others: Mandinka shops in Liberia, Fula shops in Sierra Leone, Somali shops in South Africa, and so on. While competition from newly visible Chinese traders selling their wares in less formal urban markets is disconcerting to some urban Africans, others welcome the influx of cheap goods. The telecoms revolution among the poor in

Not taking over—yet

How large is Chinese engagement in Africa? Bilateral trade is considerable, topping US$160 bn in 2011. China has nudged out the US, UK, and France to become Africa's biggest trade partner. But China's role as an investor, aid donor and financier is not outsized. Although Western countries fret about China's growing role in Africa, the United States alone disbursed more official finance to African countries than China did in 2010.

There is no single, reliable data source recording China's investments in Africa. Official Chinese foreign direct investment data show a flow of only US$2.1 bn in 2010, just 3% of China's total overseas investment. By 2011, the total stock of investment exceeded US$15 bn. On the other hand, American Heritage Foundation's China Global Investment Tracker, which tracks investment commitments of US$100m or above, identified seven such investment commitments in Africa in 2010 alone, amounting to US$6.9 bn. Yet not all of these will be realized, and the flows, if made, will be spread over a number of years.

Nor is China a huge giver of aid. In 2010, Beijing had official global aid expenditures of Rmb13.6 bn, or around US$2 bn (this figure includes only actual expenditures on grants, zero-interest loans, and the interest subsidy on concessional loans). Over 40% of this is estimated to have gone to Africa, or around US$800m. Adding the face value of concessional aid loans would increase the total disbursed in Africa in 2010 to an estimated US$1.6 bn. Compare this to Europe (both individual countries and EU institutions), which gave aid amounting to US$23 bn.

China Exim Bank also disburses preferential and regular export buyers' credits, mainly to foreign governments. In 2010, China Exim Bank reported that it disbursed US$4.8 bn of regular export buyers' credits. The percentage going to Africa is unlikely to be higher than 50%. In 2006, China Exim Bank was tasked with committing just US$2 bn in preferential export credits to Africa over the next three years, or commitments of about US$660m per year. This is likely to have doubled between 2009 and 2012 to about US$1.2 bn. Finally, China Development Bank is increasingly active in Africa. Between March 2007 and September 2010, CDB disbursed approximately US$4.6 bn to projects in Africa, an average of US$1.3 bn per year.

In total, China disbursed approximately US$6 bn of official finance to Africa in 2010. That compares to US$8 bn expended by the US, across similar categories. Neither of these includes finance from private or commercial banks; for both, this category is minimal at present. Moreover, Chinese aid—particularly the grants and zero-interest loans—is distributed remarkably evenly across the continent. This is in marked contrast to OECD donors, who tend to provide more support to "donor darlings."

In July 2012, the Chinese pledged to commit $20 bn in finance to Africa over the next three years. This would average just over $6 bn per year, a sum quite consistent with the recent past. China provides more varied kinds of official finance than do countries like the US, where foreign aid grants (typically tied to health projects) are the primary category of official finance. Crucially, however, recipients of loans from China have more choice about how to spend them. Most opt to use them for building infrastructure: roads, telecom networks, electric power plants. That means that Chinese cash has the potential to make a powerful development push in Africa over the coming years.

Africa was made possible by cheap Chinese mobile phones, many knock-offs of better known brands. Whether or not to allow Chinese traders to do retail business is a decision under the control of host governments. There are no Chinese retailers in the streets and alleys of Ethiopia, for example.

Another charge laid at the door of Chinese investors is that they seem uniquely devoid of a sense of corporate social responsibility (CSR). Human Rights Watch recently criticized the labor practices of a Chinese copper mining firm in Zambia. Southern Sudanese complain bitterly about toxic run-off from Chinese-led oil operations, and CNPC's investments in Chad have come in for similar criticism. Western firms have been under pressure for longer to clean up their investments, although complaints can still be heard against companies like Shell in Nigeria's heavily-polluted, oil-rich delta region. Still, there is no question that homeland pressures for better behavior overseas remain far fainter for Chinese firms than for major OECD multinationals.

Many Chinese investments have been criticized for their poor records of corporate social responsibility

Yet, over the past six years, we have seen concrete examples of a growing sense of awareness emanating from Beijing. Since at least August 2007, China Exim Bank requires project environmental and social impact assessments before it will sign off on a loan. In January 2008, China's State-owned Assets Supervision and Administration Commission (Sasac) began requiring all state-owned firms to publish annual CSR reports. In a few cases, these expectations are beginning to bear fruit. Chinese investors like China-Africa Overseas Leather Tannery in Ethiopia show visitors their state-of-the-art effluent management system. In Gabon, China's state-owned oil company Sinopec shocked many when it (legally) started oil explorations in a national park. But it later cooperated successfully with international and local environmental NGOs and the Gabonese ministry of the environment to bring more environmentally sensitive practices to bear in its oil explorations.

Just like us

These are encouraging signs. China's ties in Africa are far more complex than negative headlines suggest, and Chinese investment there will continue to expand. Six years after China hit the headlines for its growing Africa engagement, we are closer to a more realistic story of what the Chinese are doing there. China has been in Africa for a very long time, but in recent years this engagement has rapidly evolved from socialist solidarity to a far more commercial focus. Today, Chinese banks and companies are emerging as multinational corporations, with all the growing pains experienced by Western companies when they began to invest abroad. Chinese companies face a steep learning curve, but they are learning and adapting. Knowing more about the realities of China in Africa is essential if the West—and Africans—are to engage constructively with the world's new superpower.

Understanding the realities of China's African activities is essential for constructive engagment with China