China in Africa: Think again

By Deborah Bräutigam

You think you know what China is doing in Africa. You've seen the headlines: the Chinese arrived in Africa a few years ago in a desperate search for oil. They set up a huge aid program targeting resource-rich, pariah states that would otherwise have to heed western concerns about governance. Their companies bring in all their own workers. It's a great story. There's just one problem: almost none of it is true.

Three decades ago, I shared a compartment with two African students traveling through China's impoverished countryside between Canton and Shanghai. They were earning a degree in China, sponsored by China's foreign aid program. This sparked my curiosity. Why was China giving scholarships to Africans? Much later, with a Ph.D. under my belt, many visits to Africa, and years of research, I published a book on China's foreign aid on the continent. In 1998, the obscure topic aroused little interest. You could say it sank like a stone. A decade later, I returned to the topic, traveled to China and a dozen countries in Africa, and interviewed hundreds of people to sort out the myths and realities of China's aid and economic engagement. Here's what I found.

Is China a newcomer in Africa? Actually, the Chinese first began giving aid to Africa in the late 1950s as a tool of diplomacy and solidarity with fellow socialist countries. When Chinese leaders gradually pulled the country into the market, China's aid shifted to emphasize a mix of diplomacy and commerce. Chinese companies first began to win construction contracts in Africa in the late 1970s. Ethnic Chinese have been involved in private business in places like Mauritius and South Africa for decades. The first investments by China's state-owned companies started in the late 1980s. Beijing's current push in Africa is part of a long-term strategy, still unfolding, but not at all a hasty scramble for resources.

Is China's African adventure all about oil? This widely held assumption stops us from understanding the real challenges China presents. Yes, China is very interested in Africa's oil and other resources. But that's not all. Chinese banks, manufacturers, exporters and construction firms see much of Africa as wide open for business. When I ask Chinese companies why they've come to Africa, they almost always reply that they face tough competition in China, but far less in Africa. In 2008, Chinese firms exported more than $50 billion in goods to the continent, more than France, the UK, or the United States. The largest and fastest growing sector was not textiles and the cheap consumer goods we often hear about, but equipment and machinery.

Some of that machinery will be construction vehicles. Chinese construction firms reported 2008 revenues of more than $20 billion from contracts across Africa. They reported that they had signed new construction contracts worth almost $40 billion that year. Chinese finance will pay for only a fraction of these. Most of the finance is

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coming from African governments, private companies in Africa, World Bank and African Development Bank loans, and donors who have untied their aid and whose tenders are being won by Chinese companies.

Another surprise: the single largest direct Chinese investment in Africa so far – signed, sealed and delivered – is not an oil concession, copper field, or uranium mine. It's Industrial and Commercial Bank of China's 2008 purchase of 20 percent of South Africa's Standard Bank for about $5 billion. Together with their new South African partners, ICBC is co-financing energy, infrastructure, and telecoms projects across Africa. Two Chinese telecoms firms, ZTE and Huawei, are building fixed line and wireless systems for private and government clients across Africa.

Chinese companies bullish on Africa's potential are setting up at least a dozen industrial and investment zones, from Egypt to Mauritius. In Nigeria, where two zones are under construction, an official put it like this: "the West comes to Nigeria, and it's oil, oil, nothing but oil. But the Chinese come and they are interested in every sector of our economy."

Does China target its aid to resource-rich pariah regimes the West refuses to engage? The Chinese government routinely refuses to support sanctions as a tool to improve governance and end the violence in Sudan, Zimbabwe, and other troubled countries in Africa. Companies from China, along with companies from other emerging markets such as India and Malaysia, continue to pump oil in the booming economy of Sudan. If it were not for Zimbabwe's economic woes, Chinese firms would have deepened economic ties there. But little of this engagement involves official development assistance: it's business. By contrast, China's official aid is relatively small, and spread fairly evenly across the continent as a tool for *diplomacy*. Every country in Africa that has diplomatic ties with Beijing instead of Taiwan receives aid from China.

In Sudan, China long turned a blind eye to the killing in Khartoum's scorched earth policy against the Darfur rebellion. Yet around the time of the summer 2008 Olympics, Beijing woke up to the costs of this apolitical engagement. Now, peace negotiators see China as an active partner in the search for a negotiated peace settlement, supplying experienced and skilled diplomats and a peacekeeping force. Conscious that Sudan may split in two in a referendum to be held early in 2011, the Chinese do not want to be seen as the patron of Khartoum alone. With a huge new consulate in Juba, the capital of South Sudan, they are positioning themselves to reap benefits from engaging with the oil-rich south, while maintaining ties in the north.

On the other hand, Chinese efforts to do business in Zimbabwe have largely fallen flat, aside from a notorious small arms deal shipped to arrive right before contentious elections and the purchase of a major platinum mine formerly owned by Union Carbide. I traveled to Zimbabwe in September 2009 and found that deals entered into with high expectation on the side of the Chinese foundered in the reality of Zimbabwe's economic crisis. Opposition leader Tendai Biti is now Minister of Finance in the uneasy coalition government. He told me in March 2010: Chinese aid and economic engagement have been "minimal". When I asked him about rumors that Mugabe had secured a line of credit from Beijing worth $950 million, he responded: "it's fiction."

Further, to see "the West" as refusing to engage with rogue regimes, while "China" actively seeks them out, misses a big part of the picture. Take Angola as an example. After Angola's civil war ended in 2002, the International Monetary Fund asked the Angolan government – widely (and no doubt correctly) believed to be very corrupt – to implement a host of economic and governance reforms before it would agree to give Angola the green light for a debt cancellation package from Western donors. As Angola, forced into a corner, was about to agree, the story goes, China stepped in and offered Angola $2 billion in "aid". Flush with cash, the government of Angola turned its back on the IMF, undercutting the West's efforts to use conditionality to bring about reform. This oft-told tale warns that Beijing is a force actively working against transparency and good governance in Africa.

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The real story is a bit more complicated. During the civil war, the Angolan government grew used to using its state-owned oil company, Sonangol, as a "cash cow" to finance the war. Part of this system involved oil-backed loans from Western banking consortia. By the end of the war, Angola had taken out an estimated forty-eight oil-backed loans, nearly all arranged, very profitably, by respectable Western banks: BNP Paribas of France, Standard Chartered of the UK, Commerzbank of Germany, and so on. Even between September 2000 and October 2001, international banks provided Angola up to $3.55 billion in secretive, high-cost oil backed loans. In 2003, the French bank Société General helped Angola out with an oil-backed loan for $1.15 billion. And in 2004, China stepped into this crowded room with an oil-backed loan.

But China wasn't alone. Within months, Barclays and Royal Bank of Scotland arranged an even larger oil-backed loan for $2.35 billion. Discussions of China's impact on governance in Angola almost never mention these other loans. Two more points are salient. First, the Western bank loans came without strings, and no one tracked the uses to which they were put. On the other hand, the Chinese loans came as export credits, tied to Chinese goods and services. Second, they did not arrive as cash. The Angolans never saw the money, but they did start to see Chinese shipments of agricultural equipment, vehicles, and ambulances, as well as the rapid implementation of projects to repair post-war electricity systems, sanitation, irrigation, and major roads.

The Angolan Minister of Finance crowed that the interest rates on the Chinese loans were low enough to give him bargaining leverage to reduce the rates asked by Western banks. The Chinese Eximbank asked Angola to pay LIBOR (London Inter-Bank Offered Rate) plus 1.5 percent, compared with the Western banks, which were charging an interest rate of LIBOR plus 2.5 or even 3 percent. China's rate was not low enough to qualify as official development assistance, but it was clearly more competitive than Angola's standard rates. Oil prices boomed with the increase in Chinese demand. Within a year or two, Angola paid off its debts, and Germany, the United States and other countries began lining up to provide export credits of their own.

Do Chinese companies bring in all their own workers? Travel across Africa today and it's hard to miss the dozens of Chinese construction companies working on roads, stadiums, bridges and buildings. At any given worksite, you are likely to see expatriate Chinese workers – far more expatriates than you would find at a comparable site operated by Siemens, Bechtel, or Skanska. Yet the percentage of workers that are Chinese on any given project varies widely. In Angola and Algeria, where Chinese companies are a relatively new presence, oil-fueled construction booms have created shortages of skilled workers. Chinese companies here typically bring in at least half of their labor from home. But in Tanzania, Egypt and Zambia, where Chinese companies have been working for several decades, they tend to hire 80-90 percent of their workforce locally. Used to lax standards at home, Chinese companies frequently give few benefits, pay low wages, and have inadequate safety standards. But air tickets are expensive. Feeding and housing foreign workers has costs. And as wages and standards rise in China, workers are demanding higher compensation to come to Africa. "Localization is the only way," as one Chinese official told me.

Chinese engagement in Africa has very real challenges. While the impact China has on governance may not be as dire (or as singular) as it is oft portrayed, the Chinese are not going to be promoting democracy or human rights. Sovereignty is a key norm for Beijing, and it is likely to always trump the new international norm of the "responsibility to protect." Chinese companies bring to Africa the poor labor relations, low wages, inadequate safety standards, and weak environmental protections they are used to at home. Chinese traders and a small but growing number of Chinese farmers provide competition for small-scale African entrepreneurs, in their own markets. Imports of many goods from China, textiles in particular, have been devastating for Africa's import substitution industries. These issues are likely to grow in importance, as Chinese entrepreneurs and immigrants see Africa as a wide-open arena of opportunity, with far less market competition than they face in China.

Some in the West dismiss this important engagement as a new form of colonialism or comfort themselves that China will prove an unreliable, even treacherous partner, and that African countries will return to our embrace. This is an illusion. Learning the real story of what China is doing in Africa is essential if the West is to engage China effectively. Now is the critical moment if the West wants to be seen as a credible partner and continue to have and maintain significant power and influence in the world.

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About the author

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