



*Strengthening Africa's Economic Performance*

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### **COMPETITION OR PARTNERSHIP?**

#### **China, United States and Africa – An African View**

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## COMPETITION OR PARTNERSHIP? China, United States and Africa – An African View\*

### Introduction

CHINA'S rising profile in Africa is perhaps the most significant development for the continent since the end of the Cold War. It has sparked new interest in Africa's economic potential. It has helped to elevate interest about Africa in global affairs, a profile already raised by the continent's current economic growth spurt and homespun efforts to deal with conflict and institutionalise governance regimes. Finally, China's involvement has ended European and American complacency that Africa would always belong to their sphere of influence.

No other major power shows the same interest in Africa. The Forum on China-Africa Co-operation in November 2006, which included nearly every African head of state, was the largest diplomatic meeting in the history of the People's Republic. President Hu Jintao's February 2007 trip to Africa was a catalyst for all manner of speculation on China's role on the continent. Hu's recent trip – his fifth since 1999 and second in nine months – took him through eight African states in 12 days. It came on the heels of the visit by Chinese Premier Wen Jiabao to seven resource-rich African countries in June 2006, his third trip to the continent. Compare that record to the only two official trips made to Africa by a US president; those by presidents Clinton in March 1998 and Bush five years later.

Does Beijing's extraordinary level of interest reflect Africa and China's economic maturity, or does it represent something sinister, a fresh attempt to exploit Africa's natural resources? Is it of benefit to Africa? And how will growing competition between China and the United States and European countries over Africa's natural resources turn out?

China's fresh involvement comes at a dynamic juncture in Africa's history. After years of being viewed as the 'hopeless continent', Africa is 'in play.' The continent may receive new aid (as high as \$50 billion annually), and new investment flows, especially in the energy sector (potentially \$40 billion over the next 15 years). But critical obstacles remain for the continent: Principally, the twin challenges of lifting its 800 million people out of poverty, and of enjoying the technological fruits of globalization alongside increased capital and trade flows.

This paper identifies where there is a convergence and divergence between Africa's interests and those of the great powers and addresses what Africa might be able to do to ensure today's heightened activity on the continent is to its own advantage.

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## **Africa's Development Situation**

In Africa, the fifty years since the independence of Ghana in March 1957 were dominated by the 'great' issues of decolonization and nation-building, and the ideological struggle between capitalism and socialism. The next fifty years will be different. Today there is little disagreement in Africa about the importance of governance, the principles of economic organization and management, and commitment to democratization. African governments have acknowledged the importance of economic and political interdependence and agreed on the mechanisms for achieving these goals: the constitutive act of the African Union (AU) and the New Partnership for Africa's Development (NEPAD).

Now that the Cold War is over, Africa does not have to pick sides. Partnerships should be based on an identification of Africa's own needs. Business competition is good for the continent; indeed, it can reduce costs for African consumers and increase revenues for its governments. And neither is competition a zero-sum game, occurring at the expense of one economy or the other.

African development goals are underpinned by a number of strategic tenets: Access to technology and global markets, creation and maintenance of social peace, the establishment of environmental standards, transparent bidding and institutions, promotion of governance and sound economic management, transparency in aid giving, the maximization of revenues for African governments and electorates, and maximizing the effect of local conflict resolution and peacekeeping.

Africa's development path is likely to be differentiated according to the performance, governance and comparative advantages of its nations. Given China's industrial pre-eminence, African development is unlikely to come from high-volume manufacturing. Asian countries will probably dominate industries like cheap clothing or footwear for a generation or more, thereby inhibiting most African countries from climbing the traditional first step of the industrialization ladder. A combination of natural resource exploitation, agricultural self-sufficiency and high-value agro-exports, and the expansion of its unique range of service industries including tourism, would seem to be the most likely and rewarding growth path for many African states. China illustrates not only what is possible by managing an agricultural revolution, but how public and private initiatives can be productively integrated and managed.

This cannot simply be growth at all costs. Environmental factors and questions of social justice and the creation of a peaceful society along with democracy and human rights are all important.

For Africa, the critical issue in its relations with China and the US is the strengthening of governance institutions and the promotion of trade and investment links. External assistance needs to be aligned to clearly defined and articulated African needs. Africa is much more than a destination for increased aid or a source of energy and natural resources. It is not just a 'problem' to be 'solved'. It is rather a voice to be heard, and a partner of choice for the long-term, beyond access to natural resources.

## **China's Interest in Africa**

The popular view from Africa, however, is that China's continental interest is mostly about trade and aid. At the China-Africa summit held in Beijing in November 2006, President Hu offered \$5 billion in loans and credit to Africa along with a doubling of aid. During his February 2007 visit to Africa, Beijing also announced that it would lend African nations \$3 billion in preferential credit over three years and double aid and interest-free loans at the same time. In 2006, trade between China and Africa reached \$55.5 billion, a 40 percent jump over 2005. Direct Chinese investment in Africa is now \$6.6 billion, according to official Chinese sources.

But the figures do not tell the full story. The importance of China to Africa has to be understood in terms of China's own development path. Its real economic growth, which has averaged a shade under nine percent annually for the past 30 years, has been driven by year-on-year export growth averaging over 17 percent. Export growth in 2006 alone exceeded 30 percent. In 1980, China's share of world trade was less than one percent; by 2003 it had risen to six percent. This trade largely involves processing and assembly of components that come from elsewhere. China's shortage of minerals, energy, arable land and even water is as impressive as its abundance of labour and manufacturing capacity.

This helps to partly explain China's renewed interest in Africa. Chinese-led demand is driving up the prices and availability of the raw materials it needs. As the growth in the value of its exports inevitably slows as foreign and domestic markets saturate, China will need to continue expanding its economy and cater for its 1.4 billion expectant citizens by adding more Chinese 'content' to the same exports. To do that it needs to acquire and secure sources of raw materials.

## **Points of Intersection: A Coincidence of Interests?**

African countries face a conundrum with regard to China's changing relationship with the continent. African domestic industries, in textiles and other areas, are being swamped by cheaper Chinese products. Such concerns are raised by the investment trends of China (and the US) in Africa, which have tended to be in the oil sector which traditionally has not benefited African citizens for a range of reasons, including the nature of governance in those countries and macro-economic effects including the overvaluation of currencies. Oil booms have generally enriched Africa's elites, not its people, and have contributed to the plague of corruption in Africa – which is estimated today to cost the continent \$150 billion annually. Like crime, corruption imposes a significant tax on development.

With only half of its energy needs now supplied by domestic sources, China has aggressively pursued oil interests in Africa notably in the Sudan, which comprises one-tenth of all Chinese oil imports. Africa is more important as a share of China's oil supply than it is to the US', with Africa today supplying 25 percent of China's oil and 15 percent of the United States'.

The benefit Africa generates from such investment depends on what Africans do for themselves more than what China and the US can do for Africa. Good governance is a prerequisite for the higher-order investments in Africa that Africans consider essential, such as beneficiation of natural resources. It is of

course crucial that Chinese and American economic activities not implicitly undermine good governance. One of the best guarantees that a venture will promote African interests is the length of its engagement: A company that builds factories and mine shafts has a greater stake in stability and responsible government than does the short-term speculator.

In addition, low human capacity, poor infrastructure and Africa's small market size (about the same size as the US state of Ohio) reduces its attractiveness to foreign investors. But more importantly, such investors follow the lead of their local African counterparts. The fact that Africans themselves are seen as significant *divestors* in their own countries (around 40 percent of African capital has fled the continent) gives foreign investors scant confidence.

Contrary to the widespread perception that there is a contradiction between China's activities in Africa and improved standards of African governance and democracy, good governance is actually in China's long-term interest because it is the best way to ensure that investor interests are safeguarded – a realization that Western countries have long since arrived at in Africa. Similarly democracies have consistently performed better economically than autocracies (outside of East Asia about 50 percent faster growth between 1960-2003), hence promotion of democracy is also in the investor's enlightened self-interest. Moreover, support for autocratic governments by external powers is likely to pit them against African citizens who had consistently fought for such rights.

There are other areas where external powers share interests with Africa. Support for African peace-making efforts goes beyond technical support. It has to be undergirded by political consensus and co-ordination, without which such efforts run the risk of incoherence and costly failure. The absence of unity of international effort runs the risk of the infection of entire regions – viz. Sudan and Darfur. Africa can ill-afford to be used as a bargaining chip in any political contest.

The trajectory of African democracy suggests that internal developments are no longer a strictly sovereign affair. Africa has today replaced 'non-interference' in domestic affairs with the principle of 'non-indifference'. All this is in line with the contemporary movement towards human and not simply state-centric security, and with the lesson that civil wars do not fix themselves. Chinese and American support in the United Nations for fully-funded African peacekeeping missions would not only be practically expedient but a signal of political partnership, as would their co-operation over painfully intractable issues such as Darfur. Even so, bilateral actions must be viewed as part of overarching multilateral agreements towards the goal of sustainable security and development.

### **A 'Win-Win' Strategy?**

Care must thus be taken not to view Africa exclusively through the optic of foreign energy security. Instead, cognisance has to be taken of Africa's own strategic development and security needs.

Can the interests of China, the US and Africa be reconciled? Potentially but not automatically. 'Yes' – if Africa can strike beneficiation and exploration partnerships, and if China and the US seek to improve governance standards. Even though China and the US are acting in their own self-interest in deepening

their ties with Africa in the resources sector, Africa should not be afraid of losing out. Lasting relationships need to be mutually beneficial.

Efforts to establish control of supplies of raw materials will be both a challenge and an opportunity for those African nations intent on adding more value domestically to their commodities through increased local beneficiation.

The impact of China's increased aid to Africa on the dominant Western aid paradigm in Africa must be viewed in this light. This paradigm today can be explained in terms of the promotion of governance and democracy rather than simply the securing of narrow national interests. Overall, aid has to be offered in a manner that strengthens African institutions, encourages transparency, improves macro-economic policies, develops national and regional infrastructure, assists technical capacity-building, and facilitates the growth of Africa's productive sector, notably in agriculture and manufacturing. Aid-giving must align with African needs – promoting growth and enhancing continental productive capacity. The facilitation of foreign direct investment flows and assistance in improving credit risk ratings are similarly in the long-term African interest. Ultimately, however, as with East Asia, development will demand investment rather than solely aid-based strategies. Development will depend more on how aid is used by Africans than on how much is given by outsiders. Any worthwhile 'development dialogue' with Africa has to encompass the creation of a local enabling environment to compete for investment.

From the above a number of possible trilateral Africa-China-US governance mechanisms emerge.

It may be necessary to create a new set of principles on how business should be done with Africa. Such principles could include the importance of giving African people democratic choice, as well as issues of mutual interest around conflict prevention, integration into the world economy, health care, energy, good governance, and capacity building. Africans must write and own these principles if they are to succeed in the twenty-first century.

What the burgeoning Chinese and American interests in Africa show is overwhelmingly positive: It moves the prevailing view of Africa from a mindset where engagement is driven by aid and humanitarian instinct to one of partnership and commercial opportunity. It is motivated not by a spirit of benevolence but one of mutual opportunity. In so doing, it shows Africa has an increasing stake in the global economy.