



Strengthening Africa's Economic Performance

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American and Chinese Activities in Africa – and African Priorities for the Future

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Introduction

The past 500 years of global history have been characterised by changing patterns of global dominance. In the late 16th century, China accounted for around 30% of the global gross domestic product (GDP), compared with a share of around 20% for Western Europe and less than 5% for Japan. At that time, North America barely featured as a production base. During the 18th and 19th centuries, Western Europe in general (and Britain in particular) grew to dominate the global economy, with their role being supplanted by the United States from the late 19th century onwards.¹

This paper concentrates on the current scramble for Africa. It first highlights some of the background of Africa's relationships with its two trading partners, and then reviews some key statistics of Sino–African and US–African trade, including a look at foreign direct investment (FDI) by the two countries. The paper pays particular attention to the energy sector, as it represents a large chunk of both US and Chinese interests in the continent. Trade, foreign policy and foreign aid are other issues that are reviewed. Capsule descriptions of a selection of countries illustrate the motivations and impact of Chinese activities. The paper closes with a detailed catalogue of areas that African governments should consider as they assess their relationships with these two world powers.

China in Africa

China's current interest in Africa is not new. Chinese history, and archaeological evidence in East Africa, indicates that its trade relationship with Africa dates back to the Han dynasty between 202 BC and 220 AD (Shinn, 2005). There was exportation of goods from Africa to China and importation of Chinese goods to Africa during this time. Four distinct waves of Chinese visits and migration, characterised by different interests, can be identified.

The first wave

This was the first period of Chinese visits to and settlement on the east coast of Africa – what is now South Africa and the Indian Ocean island of Mauritius. During this first wave, the Chinese migrated to Africa as traders. Some actually settled, but most relocated back to China, leaving only a few behind.

The second wave

After the Chinese revolution of 1949, China began to grow from a regional to a global power. Most African countries were struggling to become independent during

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¹ IDS (Institute for Development Studies), 'The impact of Asian drivers on the developing world', *IDS Bulletin*, 37(1), January 2006, pp. 1–6.

this period. Determined to extend its influence throughout Africa, the People's Republic of China (PRC) supported these African liberation movements, a policy that is still appreciated by African governments today. During the Cold War, China competed with both the West and the Soviet Union for influence in independent Africa, and by 1970 had established diplomatic relations with all the countries that had gained independence in the region, except Libya. Formal relationships with other African countries were established as they gained independence. Currently, China has embassies in all of these countries except Somalia, where security conditions preclude posting resident diplomatic personnel.² This second wave was marked by Chinese political and trade influence. The Chinese came to Africa mainly as traders.

The third wave

This period started in the mid-1960s, when the Chinese came to Africa as contract workers. Tanzania and Zambia had just gained independence in 1961 and 1964, respectively. These two countries had an urgent need for a new railway line in order to develop their national economies and at the same time support the people of the Southern African region in their struggle against imperialism and colonialism, as well as for national liberation. The railway line would enable them to overcome their dependence on the seaports in the south, which was under the control of the white racist regimes of South Africa and Rhodesia.

The Tanzanian and Zambian presidents asked the Chinese government for support, which was granted. The project commenced in 1968 and was finalised in 1976. Not only did the Chinese come in as construction workers, but their government funded the construction of the Tanzania–Zambia railway line. The Chinese government provided an interest-free loan of 988 million Yuan (equivalent to US\$119 million) and shipped about one million tons of equipment and materials to Africa. The total number of Chinese technicians and workers dispatched for the construction was about 50,000. Sixty-four Chinese people died in the course of building this 1,860-kilometre-long rail line.³ The Tanzania–Zambia railway is to date the largest Chinese assistance project in Africa or overseas. After the completion of this construction work, the Chinese returned home.

This support gained key political mileage for the Chinese, as the Tanzanian and Zambian presidents had first sought assistance from major powers in the West and the former Soviet Union, but were turned down.⁴ The Chinese seized this opportunity to provide support to the African countries in their struggles against colonialism and to assist them to develop their national economies and consolidate their national independence, while at the same time actively boosting their friendly cooperation with Africa.

The fourth wave

From the 1960s until the fall of the Berlin Wall in 1989, relationships between China and African countries were driven mainly by the anti-capitalist ideologies of Marx and Mao, as well as by efforts to counter Soviet influence in states like Angola and Congo (later Zaire and now the Democratic Republic of the Congo or DRC). Since the end of the Cold War, however, China has shifted from a focus on encouraging ideological allies in the region to an emphasis on access to natural resources, commercial ties

² Ibid.

³ W. Hongyi, 'A friend indeed: China's aid to Africa stands the test of time', 2005, <<http://www.bjreview.com.cn/50-03-4htm>>, accessed 19 June 2006.

⁴ Ministry of Foreign Affairs, PRC, 'China's assistance in the construction of the Tanzania–Zambia railway', 2000, <<http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18009.html>>, accessed 19 June 2006.

and political influence.⁵ Currently, it is market motives and not ideological interests that the Chinese government is pursuing.

The year 2006 marked the 50th anniversary of the beginning of diplomatic ties between the PRC and Africa. During that half-century, the mutual trust and support between the two has grown stronger. Some 47 African countries have diplomatic relationships with China. Bilateral trade between China and Africa increased to US\$39.74 billion in 2005, from US\$12 million in 1950. It is said that the Sino–African relationship is currently the best in history.

The Interest of the United States in Africa

The relationship between the United States and Africa goes back to the period between 1600 and 1807, when Africans were shipped to America as slaves.⁶ The majority of African-Americans are the descendants of the enslaved Africans transported from West and Central Africa to North and South America during the transatlantic slave trade.

Modern US policies towards Africa have been characterised by almost complete indifference – except as they related to Cold War alliances – largely because of the size of the commerce between the United States and Africa. Until recently, Africa's share of trade with the United States stood at 1%. The official policy began to change in the late 1990s. In 1998 US president Bill Clinton visited Africa, marking a turning point in US policy towards Africa. During this visit, the Americans were quick to recall some of their initiatives in the continent, like their support for the creation of Liberia in 1847 and their commitment to the independence movements after the Second World War. In recent years, the United States has shown far greater interest in Africa.⁷

The Second Scramble for Africa

Sub-Saharan Africa (SSA) is a major producer of many of the world's most important minerals and metals, including platinum-group metals, gold, diamonds, uranium, manganese, chromium, nickel, bauxite (the raw material for aluminium) and cobalt – not to mention petroleum and gas. There are substantial mineral and metal industries in numerous African countries. The DRC, Ghana, Namibia, Nigeria, South Africa, Tanzania and Zimbabwe are the largest mineral and metal producers in SSA, and there are many smaller-scale producers (e.g. Botswana, Mozambique, Namibia and Sierra Leone).

Given the continent's natural resource endowment, coupled with various internal crises ranging from poverty to poor governance and civil war, Africa is likely to emerge as a volatile stage of Sino–US energy competition. African states have been drawn to China by its non-interventionist, non-ideological approach to conducting relations, although China's attempts to secure energy resources in conflict-ridden states by offering aid or arms for oil could heighten instability in the region.

⁵ Shinn, op. cit.

⁶ *Wikipedia*, 'African-American history', 2006, <http://en.wikipedia.org/wiki/African_American_history>, accessed 8 June 2006.

⁷ F. Lafargue, 'China's presence in Africa', French Centre for Research on Contemporary China, 2005, <http://www.cefc.com.hk/uk/pc/articles/art_ligne.php?num_art_ligne=6101>.

Chinese companies have been especially active in the mineral-rich countries of Central and Southern Africa. China has become the world's largest user of copper, and has investments in copper, as well as in cobalt and hydro-electric facilities in the DRC. It has invested US\$170 million in Zambian copper and other minerals, while South Africa and Zimbabwe are the PRC's main sources for platinum and iron ore.

Economic links between China and the United States are not new, but both countries' trade with Africa has increased significantly in recent years. The Table below provides a glimpse of the overall statistics reflecting Chinese, US and African trade.

Chinese, US and African trade

	Value of exports (US\$ millions)	% of world's share of exports	% of annual average growth rate of exports, 2003–04	Value of imports (US\$ millions)	% of world's share of imports	% of annual average growth rate of imports, 2003–04
China	573,567	6%	31%	561,440	6%	36%
USA	818,520	9%	13%	1,525,680	17%	17%
Africa	225,551	3%	26%	199,292	2%	18%
World	8,975,589	100%	100%	9,244,679	100%	100%

Source: UNCTAD (UN Conference on Trade and Development), *UNCTAD Handbook of Statistics*, 2005, <<http://www.unctad.org/statistics/handbook>>, accessed 14 June 2006

China and Africa have complementary economic and commercial needs. Africa is capital-short, has a low manufacturing base and is highly import-dependent. Africa also needs basic infrastructure. It exports a lot of petroleum, minerals and other raw materials. China has abundant investment capital; is building a huge manufacturing export base; and imports petroleum, minerals (metals) and timber from Africa. It is willing to build infrastructure.⁸

The Chinese economy has seen sustained rates of economic growth of over 9% for more than a decade. The current wave of Chinese migration to Africa is part of a wider scramble that is the result of the opening up of China and its search for raw materials and markets for its goods. The growth of China presents direct and indirect challenges, as well as opportunities for Africa and the developed world. On the one hand, there is growth of Africa's exports to China, which has a positive impact, but on the other hand, increased competition from China in both local and export markets in Africa has negative impacts on poor countries.

China and the African continent are currently celebrating the renewal of their partnership. For China, Africa is a source of coal and oil, and for the African states, China is an ideal commercial partner that imposes no special political conditions on its suppliers, and even gives them diplomatic backing. But Sino–African relations come into conflict with the interests of the United States, itself concerned about diversifying the sources of its oil imports.⁹

Over the past decade, while the United States has all too often ignored SSA in its policies, other than for counter-terrorism, cooperation and aid initiatives, Beijing has quietly established relationships with the continent's political and business elites. And Beijing has enjoyed considerable success in Africa, building close ties with countries from Sudan to South Africa, becoming a vital aid donor in many African nations,

⁸ E. J. Wilson III, 'China's influence in Africa: Implications for U.S. policy, 2005, <http://www.cidcm.umd.edu/wilson/wilson_congressional_testimony_2005_07_28.pdf>, accessed 20 June 2006.

⁹ Lafargue, op. cit.

signing trade initiatives with more than 40 African states and developing military relationships with many of the continent's powers.¹⁰

Beijing's motives are clear. China is home to more than 20% of the global population. Its growing industries demand new energy and raw material suppliers; its exporters want markets; its diplomats require support in international organisations; and its propaganda still seeks support from allies to advance Chinese interests and, when necessary, to counter the United States.¹¹ The PRC views Africa as a centre for military-to-military cooperation and a market for China's growing arms industry. Today, Chinese firms rank among the top suppliers of conventional arms in Africa; between 1996 and 2003 China's arms sales to Africa were second only to Russia's.

China's Trade with Africa

Beijing has adopted policies to encourage greater Chinese investment in Africa. It has launched centres for 'investment and trade promotion' to provide business and consultation to Chinese enterprises in Africa. Beijing has also created special funds and simplified procedures to promote Chinese investment. Although trade with Africa constitutes less than 3% of China's global trade, it is growing rapidly. In 2002 the total value of the transactions between the two stood at US\$12.4 billion. A year later, that figure had gone up by 50% to US\$18.5 billion and by 2004 stood at more than US\$20 billion.¹² According to official Chinese statistics, bilateral trade surged to almost US\$40 billion in 2005.¹³ China is therefore catching up with, and in some cases surpassing, Africa's traditional trading partners, especially the former colonial powers. The country is currently Africa's third-largest commercial partner after the United States and France. Furthermore, it is the second-largest exporter to Africa after France, and is ahead of Britain in both.¹⁴ See the Table below for statistics on Sino-African trade in 2003.

Trade between China and Africa, 2003 (US\$ millions)

	Exports	Imports	Total
South Africa	2,020	1,840	3,860
Algeria	640	90	730
Angola	140	2,200	2,340
Benin	470	70	540
Congo	60	810	870
Egypt	930	150	1,080
Morocco	690	160	850
Nigeria	1,780	70	1,850
Sudan	470	1,440	1,910
Others	2930	1,520	4,450
Total	10,130	8,350	18,480

Source: Lafargue, op. cit.

¹⁰ J. Eisenman & J. Kurlantzick, 'China's Africa strategy', *Current History*, May 2006, pp. 219–24, American Foreign Policy Council, <<http://www.afpc.org/china-africa.shtml>>, accessed 14 June 2006.

¹¹ Ibid.

¹² *The Economist*, 'China's business links with Africa: A new scramble', 25 November 2004.

¹³ *China Monitor*, 'President Hu's African safari and the new regional impulses in Africa', May 2006, pp. 4–8.

¹⁴ Ibid.

Trends in Sino–African trade

The African continent currently accounts for only 2.3% of China's exports and 2% of its imports. And Sino–African commerce consists mainly of trade with South Africa, which represents 20% of the trade with the continent as a whole. China's other major trading partners are Algeria, Angola, Benin, Egypt, Morocco and Nigeria.

Exports from African countries to China have been predominantly of extractive products – minerals, petroleum, metals and timber – while China has been exporting finished goods. China therefore sees Africa not only as a source of raw materials, but also as a market that allows it to test its industrial products by offering them to less-demanding customers. African exports to China totalled about US\$16 billion in 2004, while Chinese imports reached about US\$14 billion.¹⁵ This African trade surplus is highly misleading, however. Oil suppliers such as Algeria, Angola, Nigeria and Sudan had huge trade surpluses with China, while virtually every other country had a deficit.

The governments in many poor African countries are deeply concerned by the sizeable trade deficits. To counter this problem, China agreed in 2005 to exempt from tariffs 190 commodities from 25 least-developed African countries. The PRC also approved 16 African countries, including Ethiopia, Kenya, Uganda and Zimbabwe, as destinations for Chinese tourists. This pushed the number of Africa's Chinese tourists to 110,000 in 2005, a 100% increase over 2004, according to Chinese government figures,¹⁶ and it is expected to ameliorate trade imbalances and contribute to these countries' economic growth. Kenya and Uganda are already planning direct flights to China, in order to cash in on the expected tourist flood.

One technique China uses to build export growth is the offer of modest amounts of free equipment, especially communications equipment, with the goal of eventually selling larger quantities. China continues to be a major supplier of military assistance to African countries, and gives senior-level military exchanges a high priority.¹⁷

The impact of Chinese trade on Africa

Imports from China have a double effect on the African countries. On the one hand, they make relatively cheap goods available, which benefits consumers. On the other hand, they compete with domestic producers for both local and international markets. The latter may be the most direct and deleterious impact of China's trade and economic growth on many African countries. Low wages paid to Chinese workers and the massive Chinese export machine especially threaten textile and garment production and trade. The Chinese textile industry has swamped many fledgling African producers. The press and textile manufacturers call the current situation an African 'textile tsunami'.¹⁸ The impact became acute as of 1 January 2005, which marked the end of African textile manufacturing operations under special arrangements permitted by the Multi-Fibre Agreement (MFA), including the US African Growth and Opportunity Act (AGOA). This has resulted in many SSA economies being edged out of final markets, notably in the case of the global clothing and furniture sectors.¹⁹

¹⁵ Shinn, op. cit.

¹⁶ Eisenman & Kurlantzick, op. cit.

¹⁷ Shinn, op. cit.

¹⁸ Wilson, op. cit.

¹⁹ IDS, op. cit.

AGOA permitted duty-free textile imports from Africa, including products sewn in Africa using non-African textiles (including from China). When MFA ended and the World Trade Organisation (WTO) free-trade provisions were adopted, the AGOA trade benefits ended and the extremely cheap Chinese clothing flooded the market. Kenya, Madagascar, Swaziland and South Africa were all badly hit, and nearly 20 of their textile companies immediately closed down. Employment loss has been high, with very severe distributional and poverty impacts;²⁰ South Africa and Lesotho lost up to 85,000 and 10,000 jobs, respectively, in the clothing and textile industries.²¹ The Kenyan government requested the Chinese government not to oppose the AGOA preferential treatment.

The Kampala City Traders Association has complained that some Chinese 'investors' are taking advantage of their status and are really no more than petty traders who compete with Ugandans.²² While the owners of the defunct firms knew the WTO changes were on the way, they had no way of anticipating that at the same time the yuan would be undervalued by 20–40%, further depressing textile and garment prices and leading to a deterioration in the terms of trade of textile-exporting African economies.²³

Manufacturing and services

Although China's direct interests in Africa are mainly in the extractive industries, there is some interest in manufacturing investments and operations. This is conducted by the 674 Chinese state-owned enterprises that operate in the continent. A Chinese pharmaceutical company is currently producing a new anti-malaria medicine in Uganda, and another Chinese firm was recently awarded contracts worth US\$400 million for servicing mobile phone networks in Kenya, Nigeria and Zimbabwe.²⁴

The Chinese interest in the construction industry in Africa has also grown, with recent examples being the airport terminal in Algeria, roads in Kenya, and hotels and other big jobs in Botswana and South Africa.

US–African Trade Relations

In addition to securing energy supplies in the region, the United States has its own burgeoning economic relationship with Africa, and since the end of the Cold War has been increasingly concerned with Africa's security situation, political freedoms and human rights records. US–African trade stood at US\$44.5 billion in 2004, with oil-rich Nigeria being the second-largest target of US investment after South Africa.

Total merchandise trade between the United States and SSA increased by 33.3% in 2003 to US\$32.1 billion, from US\$24.1 billion in 2002. This increase was the result of a 39.9% increase in imports, from US\$18.2 billion in 2002 to US\$25.5 billion in

²⁰ R. Kaplinsky, D. McCormick & M. Morris, 'The impact of China on sub-Saharan Africa', unpublished paper, UK Department for International Development, China Office, 2006.

²¹ M. Morris, 'China and South Africa: What's the brief story?', paper presented at OECD, Paris, 16–17 March 2006, <<http://www.oecd.org/dataoecd/43/54/36344114.ppt>>, accessed 27 May 2006; DFID (Department for International Development), UK, *The Effect of China and India's Growth and Trade Liberalization on Poverty in Africa*, unpublished final report, May 2005.

²² Shinn, op. cit.

²³ Wilson, op. cit.

²⁴ Ibid.

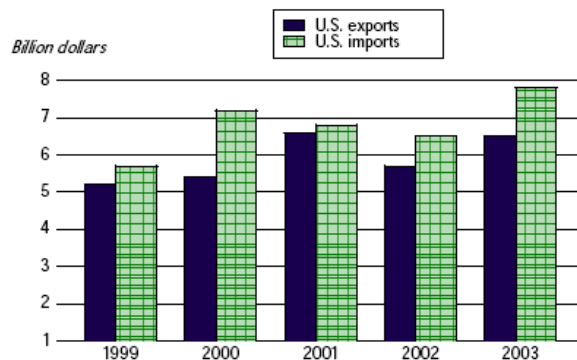
2003, and a 13.1% increase in exports, from US\$5.9 billion in 2002 to US\$6.7 billion in 2003. The growth of US imports from SSA was primarily the result of a US\$5.9 billion (50.9%) increase in the energy-related products sector. Nigeria accounted for most of this: US imports from Nigeria increased by US\$4.3 billion (73.8%), with most of the increase concentrated in the energy sector (up by US\$4.3 billion or by 73.7%).²⁵

Overall, US imports from SSA increased in 2003, but this increase was partly offset by lower imports from Ghana and Zimbabwe. US imports from Ghana fell by 28%, mostly in agricultural products and the minerals and metals sectors, a reduction that was mainly due to lack of infrastructure, such as cold-storage facilities, and to regional instability. Meanwhile, US imports from Zimbabwe, primarily in the miscellaneous manufactures and agricultural products sectors, declined by 33%. This decline was largely because of continued social and political instability in Zimbabwe.

US exports to Africa rose primarily because of increases in the transportation equipment, agriculture and electronic product sectors, which went up by 22%, 18% and 22%, respectively. Ethiopia, Equatorial Guinea and South Africa accounted for most of the increase in US exports to SSA, although the gains were partly offset by decreased exports to Cameroon, Chad and Kenya.

The US non-energy-related trade with SSA is presented in the Figure below. In 2003 the US trade deficit with SSA increased by 20% from the previous year to reach US\$18.8 billion, while US non-petroleum imports increased by 20% in 2003.

US non-energy-related trade with sub-Saharan Africa, 1999–2003



Note: Non-energy-related trade excludes trade classified under 'energy-related products' as defined by the US International Trade Commission Office of Industries.

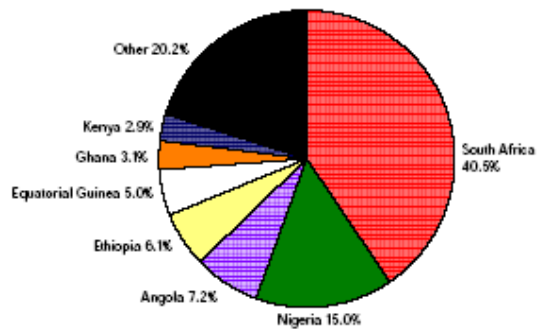
Source: USITC, op. cit.

US commodity exports

The Figure below presents US exports to SSA by major trading partners. As indicated in the Figure, South Africa is the largest SSA market for US products, accounting for 41% of US merchandise exports to the region in 2003. Other leading SSA markets were Angola (7.2%), Ethiopia (6.1%), Equatorial Guinea (5.0%), Ghana (3.1%), Nigeria (15.0%) and Kenya (2.9%).

²⁵ USITC (US International Trade Commission), *US Trade and Investment with Sub-Saharan Africa*, unpublished Fifth Annual Report, December 2004.

US exports to sub-Saharan Africa trading partners, 2003 (%)

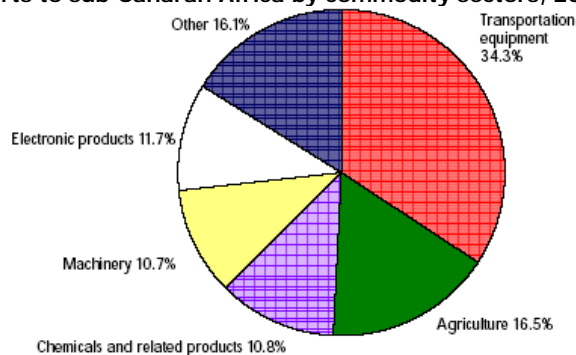


Source: USITC, op. cit.

Twenty-six countries in the region increased purchases of US merchandise exports in 2003, whereas 22 recorded a decrease. The largest increases were recorded by Ethiopia, Equatorial Guinea and South Africa, at 578%, 212% and 10%, respectively. The largest decreases in US exports to the region in the same year were recorded by Cameroon, Chad and Kenya, where the exports decreased by 43%, 50% and 28%, respectively.

The biggest share of US merchandise exports to SSA was in the transportation equipment sector (34%), followed by agricultural products (17%) and electronic products (12%). Machinery and chemicals (and related) products accounted for 11% export shares each (see Figure below).

US exports to sub-Saharan Africa by commodity sectors, 2003 (%)

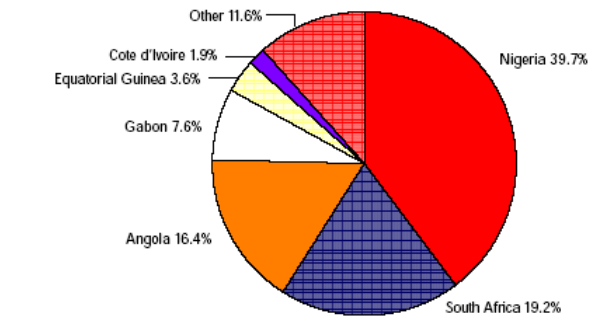


Source: USITC, op. cit.

US merchandise imports

As with China, US imports from Africa are driven by energy and raw materials. US imports from SSA by major trading partner are shown in the Figure below, which clearly reveals Nigeria as the largest supplier of US imports from SSA. In 2003 it had US\$10.1 billion in sales (primarily crude petroleum) to the United States, representing 40% of US imports from the region. South Africa ranked second, with US\$4.9 billion in sales and a 19% share. Third was Angola, with US\$4.2 billion in sales, representing a 16% share. US imports from Gabon totalled US\$1.9 billion and imports from Equatorial Guinea were approximately US\$918.5 million.

US imports from SSA by trading partners, 2003 (%)

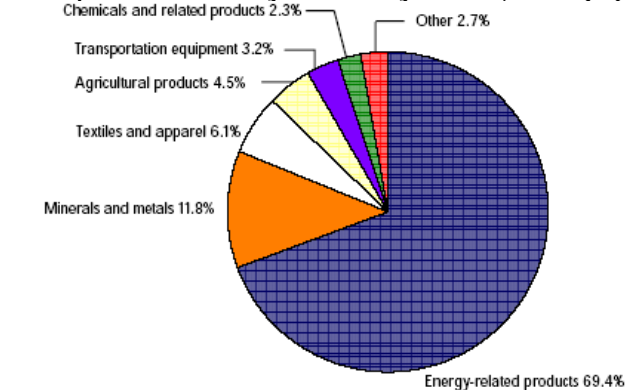


Source: USITC, op. cit.

A total of 30 countries in SSA increased their sales to the United States in 2003, while 18 decreased their sales. The largest increases in US imports in the same year were from Angola, Nigeria and South Africa. The biggest declines in exports were from Ghana and Zimbabwe.

US imports of SSA energy-related products totalled US\$17.7 billion in 2003 and accounted for 69.4% of all US imports from the region, up from US\$11.7 billion (64%) in 2002, primarily because of increased imports of crude petroleum from Nigeria. The second-largest import commodity sector was minerals and metals (US\$2.9 billion), which accounted for a 12% share in 2003, compared with a 15% share in 2002. Textiles and apparel (US\$1.6 billion) represented 6% of the total in 2003.²⁶

US imports from SSA by commodity sectors, 2003 (%)



Source: USITC, op. cit.

Commodities trade balance

In 2003 the US commodities trade deficit with SSA increased by US\$6.5 billion to US\$18.8 billion, compared with deficits of US\$12.3 billion in 2002 and US\$14.3 billion in 2001. Excluding energy-related products, the US trade deficit with the region increased by US\$500.7 million, from US\$796.7 million in 2002 to US\$1.3 billion in 2003.

The United States had the largest trade deficit with Nigeria, followed by Angola, then South Africa and Gabon. However, it had trade surpluses with many SSA countries, including Ethiopia, Ghana, Mozambique and Senegal. In terms of sectors, the largest US trade deficit with SSA occurred in energy-related products, followed by minerals

²⁶ Ibid.

and metals, and textiles and apparel. Transportation equipment, electronics, machinery, and chemicals and related products sectors among others exhibited a US trade surplus with the region.²⁷

US–African services trade

In the services trade, the United States recorded a cross-border surplus with Africa of US\$2.2 billion in 2002: exports of US\$4.8 billion and imports of US\$2.5 billions. Tourism, business services, education, and freight transport and port services are the most frequently used cross-border service exports to Africa. Tourism accounts for the largest share of this trade. In the service trade, South Africa is the largest US trading partner: in 2002 South Africa accounted for 24% of US exports to and 31% of US imports from the continent.

To increase trade with Africa, the United States has signed different trade agreements such as AGOA, and it partners with SSA regional organisations, including the following:

- ◆ Economic Community of West African States (ECOWAS)
- ◆ Union Economique et Monétaire Ouest Africaine (UEMOA)
- ◆ Common Market for Eastern and Southern Africa (COMESA)
- ◆ Southern African Development Community (SADC)
- ◆ Southern African Customs Union (SACU)
- ◆ East African Community (EAC)
- ◆ Intergovernmental Authority on Development (IGAD)
- ◆ Indian Ocean Commission (IOC)
- ◆ Communauté Economique et Monétaire de l’Afrique Centrale (CEMAC).

Foreign Direct Investment in Africa

In 2003 SSA attracted an estimated US\$8.5 billion in new FDI from all sources – a meagre 6.3% of total FDI to the world’s developing countries. Angola, Nigeria and Sudan together accounted for approximately one-half of all FDI to SSA, which was destined for new investment in the petroleum sector (see Table below).

Chinese, US and African FDI flows, 2004

	Value of FDI inflows, 2004 (US\$ millions)	% of world’s share of FDI inflows, 2004	Value of FDI outflows, 2004 (US\$ millions)	% of world’s share of FDI outflows
China	60,630	9%	1,805	n.g.
USA	95,859	15%	229,294	31%
Africa	18,090	3%	2,824	n.g.
World	648,146	100%	730,257	100%

Source: UNCTAD, op. cit.

China is the primary recipient of the world’s direct overseas investments, and at the same time a major source of such investments. There are two aspects to the impact of the growth of this Asian driver on FDI. First, there is a concern that the massive growth of FDI flows to China have diverted investment from other developing countries, and that this could have a negative effect on growth and poverty reduction in these countries. On the other hand, China has begun to invest overseas, and this aspect of its growth may have a positive effect on growth and poverty reduction in host countries.

²⁷ Ibid.

Diversion of FDI to China may have negative effects on production in African countries, which would reduce the demand for labour. Increased competition for FDI might also reduce government revenues, as countries compete to attract investors through lower tax rates and increased incentives. On the other hand, inflows of FDI from China may tend to increase employment and might reduce prices as a result of increased competition. However, the low level of FDI in SSA, compared with FDI in other developing country regions, reportedly reflects investor perceptions of the African investment climate, affected by concerns about political crises and the HIV/AIDS pandemic. Investors have also cited taxation, labour laws and excessive regulation as factors that discourage investment in the region.

In 2003 China was the fifth-largest investor in the world, after the United States, Germany, the United Kingdom and France. Its overseas investments totalled US\$2.087 billion, which represented an increase of 112% over the amount for 2002, and gave it an active presence in 160 countries. China is investing massively in raw material deposits overseas, and is multiplying its trading partnerships in order to secure regular supplies.²⁸ In 2005 it was estimated that the cumulative value of Chinese investment in Africa was US\$4.5 billion, which constituted about 10–15% of a total FDI stock of US\$37 billion in Africa.²⁹

Net US direct investment flows to SSA measured US\$1.4 billion in 2003, which was less than 1% of total US direct investment abroad. Equatorial Guinea, Gabon and Nigeria, all petroleum-exporting countries, together accounted for 94% of total US direct investment flows into SSA. Investment flows into South Africa totalled US\$89 million in 2003. However, US direct investment on a historical basis in SSA was US\$11.4 billion in the same year, and South Africa accounted for US\$3.9 billion, or 34% of the overall US direct investment position in SSA. The four largest petroleum-exporting countries, Angola, Equatorial Guinea, Gabon and Nigeria, together accounted for US\$6.2 billion, or 55% of the overall US direct investment position.

There is evidence that the increase in the migrant worker population from China to Africa to take up low-paid jobs has led to reduced employment opportunities among the local population. Some 80,000 migrant workers from China have moved to Africa, creating a new Chinese diaspora that is unlikely to return home. In some cases, especially in Uganda and Sudan, this diaspora, along with imports of cheap Chinese goods, has sparked anger in Africa. At one point, China had 10,000 labourers in Sudan working on Chinese projects. This led to complaints from unemployed Sudanese. Many African businesspeople believe that Chinese goods are unfairly undercutting them, and fear that the diaspora is remitting nearly all of its money back to China rather than reinvesting it in local economies.

This is in a region that is already experiencing high levels of unemployment and low levels of human development. Hence, the migrant workers have potentially devastating and far-reaching socioeconomic effects on the SSA population, particularly for the lower cadres of unskilled labour. These are the kinds of concerns that once led to anger against South Asian populations on the continent.

²⁸ Lafargue, op. cit.

²⁹ *China Monitor*, op. cit.

Global Energy Requirements

It is not news that the price of oil has been rising steadily since 1999, in part because the major energy companies have not invested in building enough refinery capacity to meet the growing level of demand. Other factors are the increased demand for energy, a general sense of insecurity in global oil markets because of wars in Iraq and Sudan, and political instability in Indonesia and Nigeria.

Energy use is fundamental to everything we do, and the present level of global output is only possible because fossil fuels are available to power our production and distribution systems. Basically, all the sectors of the economy, including agriculture, transportation, industrial manufacturing, electricity generation and households, depend on oil. Petroleum products are used as inputs in the production process and as consumer goods. For example, households use oil as fuel for lighting and cooking, and in transportation to power vehicles. The following are examples of some products that depend on oil in some way: food production, mineral and metal mining, all kinds of transport systems, and solar panels. Most plastics and many chemicals are oil-based, and other commodities such as coal need to be mined and transported³⁰.

Demand for oil

The increase in the demand for oil is led by the US market, which accounts for 25% of the world's demand for petroleum. The new demand is also coming from emerging industry in Third World nations, including India, Brazil and especially China, which are developing a Western car culture and whose manufacturing bases have grown very rapidly in recent years. Sources of world consumption increase in 2004 compared with 2003, according to US Department of Energy, Energy Information Administration estimates, are:

- ◆ China: 38.9%
- ◆ United States: 19.4%
- ◆ Asia outside Japan and China: 13.8%
- ◆ Canada: 4%
- ◆ United Kingdom: 3.5%
- ◆ Combined other non-Organisation for Economic Cooperation and Development (OECD) countries: 21%

Supply of oil

The world supply rate increased to its highest level of 83 million barrels a day during 2004. Despite this, there is increasing discussion of an oil peak and the possibility that the oil supply may decline in future. Experts argue that even if overall oil supplies are not reduced, accessible sources of light sweet oil are almost exhausted, hence in future the world may depend on more expensive sources of oil. Furthermore, some oil traders fear that the oil supply may be reduced because of the growing turbulence in the Middle East, the world's largest oil-producing region. The war in Iraq, Iran's nuclear programme and internal instability in Saudi Arabia could lead to a fall in the supply of oil. Outside the Middle East, strikes and political instability in Venezuela and potential instability in West Africa also create investor uncertainty.³¹

³⁰ W. M. Lyakurwa, 'High oil prices and the African economy', paper presented at the annual meeting of the African Development Bank Group, Ouagadougou, Burkina Faso, 15–16 May 2006.

³¹ Ibid.

Sino–African Energy Relations

The Chinese presence in Africa appears to be driven primarily by a strategic search for raw materials for China's ever-expanding economy; however, Chinese businesses are also looking to open new markets for their products. China's demand for oil has recently seen the formation of key alliances with oil-producing economies in Africa, with others initiated for the express purpose of oil prospecting to fuel the country's industry. Other than oil, non-ferrous metals and wood are also important raw materials exported to China in large quantities. In all cases, it is notable that the exports involve very limited processing within African countries.

In 2005 the PRC became the world's second-largest consumer of petroleum products after the United States, and its imports of natural gas, copper, cobalt and other key resources are rising by as much as 20% annually. China currently obtains about 28% of its oil and gas from SSA, which also has a high proportion of the most desirable sweet crude. The US imports only 15% of its oil from Africa, although this is expected to grow to 20–25% over the coming decade. China's energy dependency is rapidly increasing; in 2000 oil imports represented 27% of China's total consumption for 1999. This rose to 37% in 2002, and was expected to reach 45% in 2005. Within the next decade, as China's domestic oil production continues to diminish, the country will surpass the United States as the largest global consumer of oil.³² Indonesia, the Sultanate of Oman and Iran were the main suppliers of Chinese oil until 1990. The burgeoning Chinese economy, high and rapidly increasing oil prices, the Iraq war, and the depletion of Caspian Sea and Indonesian reserves have shifted China's focus towards African nations as likely sources of hydrocarbons. China has also imported large amounts of copper from Zambia, the DRC and other African states.

Within the African region, Sudan is a major oil supplier to China, currently accounting for 7.7% of Chinese total oil imports. Furthermore, China is also focusing new attention on Algeria and Libya, as well as remaining active in Somalia, which is known to have gas reserves, and collaborating with Egypt on energy development.³³ Chinese government firms have invested billions of dollars in foreign exchange and used Chinese engineering and construction resources on infrastructure for developing oil, gas, minerals and other natural resources in several African countries.

Sudan has benefitted from the largest Chinese investments. Working through the China National Petroleum Company (CNPC) and with the Greater Nile Petroleum Operating Company, which controls Sudan's oil, the PRC has invested US\$3 billion in refinery and pipeline construction in Sudan since 1999. The CNPC is the single largest (40%) shareholder of the Greater Nile Petroleum Operating Company. However, China's growing energy partnership with Sudan represents one of a number of areas where Sino–US energy interests diverge in Africa: the CNPC was establishing oil exploration rights in Sudan in 1995 when the United States was cutting ties with Khartoum.

The PRC has become the third-largest major purchaser of oil from Gabon, after the United States and France, and trade relations between the two countries are expanding. For example, over 60% of Gabon's timber is exported to Asia, mainly to China. China has given US\$2 million to Libreville and has granted a further US\$6 million as an interest-free loan. Algeria has the seventh-largest natural gas reserves

³² Eisenman & Kurlantzick, *op. cit.*

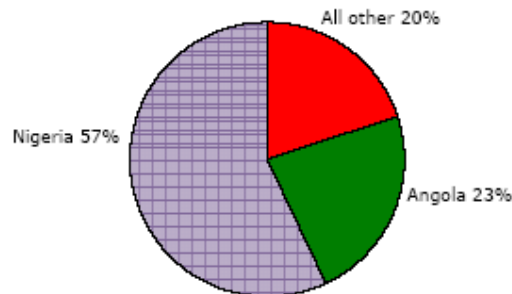
³³ Shinn, *op. cit.*

in the world, and in 2002 Sinopec, a Chinese oil company, signed a €420 million contract to develop the Zarzaitine oilfield in the Sahara.³⁴ At the same time, China is increasing its presence in Congo-Brazzaville oilfields. In 2003 PRC imported a million tons of Congolese crude oil, which is 1.5% of its total imports. Oil is Congo's primary export commodity and provides two-thirds of the national budget revenue.

US–African Energy Relations

The United States currently derives 15% of its oil supplies from Africa, compared with 22% from the Persian Gulf. According to the US National Intelligence Council, however, by 2015, America could depend on Africa for 25% of its oil supplies. Nigeria alone is the fifth-largest source of US oil imports, and the United States accounts for 50% of Nigeria's oil exports.³⁵ Nigerian oil amounts to over half the quantity imported from Saudi Arabia. With the support of the World Bank, the United States also intends to bring the deposits in Chad on stream and has participated in building a pipeline leading to a terminal in Cameroon. The United States has also re-established diplomatic and energy relations with Libya, following the removal of economic sanctions in September 2003, after Libya abandoned its nuclear weapons programme. The Figure below illustrates the dominance of Nigeria and Angola in US energy sector imports from SSA.

US energy sector imports from SSA by source, 2003 (% of US\$17.7 billion)



Source: USITC, op. cit.

The US FDI position in the SSA petroleum and energy-related products sector totalled US\$4.8 billion in 2003, up from nearly US\$4.0 billion the previous year. Equatorial Guinea, Chad, Gabon and Nigeria were major SSA destinations of US FDI in the sector in 2003, together accounting for 83% of the regional total. The sector accounted for 41% of the United States' total FDI position in SSA in 2003,³⁶ but SSA received only about 5% of US global FDI in the sector during that year.

Sino–American Competition

With both the United States and China jostling for interests in African oil and gas fields, Africa now finds itself as a field of conflict between these two powers. This Sino–US competition in Africa is clearly seen in Equatorial Guinea, Angola and

³⁴ Wilson, op. cit.

³⁵ C. Bajpae, 'Sino–U.S. energy competition in Africa', *Power and Interest News Report*, 7 October 2005. <http://www.pinr.com/report.php?ac=view_printable&report_id=378&language_id=1>, accessed 10 July 2006.

³⁶ USITC, op. cit.

elsewhere. Equatorial Guinea is a small country of half a million inhabitants and has brought its oil deposits on stream with the help of American companies, particularly Exxon Mobil, Chevron Texaco and Triton Energy. At present, the United States is Equatorial Guinea's main trading partner, making it the third-largest oil producer in SSA, after Nigeria and Angola.

But China has maintained close relations with Equatorial Guinea since its independence in 1968, and is also taking a keen interest. China buys a large part of Equatorial Guinea's timber production, and is its third-most-important customer after the United States and the former colonial power, Spain. China is multiplying its investments in local undertakings. A new road, from Bata on the coast to Mongomo in the country's eastern province, is being built with technical and financial assistance from the PRC.³⁷

China and the United States are also clashing over oil deposits in Angola. American companies have been present in the country for over two decades, and half of Angola's oil production is shipped to the United States. Here too China has become a major player, buying one-third of the overall production. In October 2004, in return for financial aid, the PRC obtained a 50% share in the Block 18 oilfield, which had previously been held by Shell, but was also fervently sought after by the Indian state-owned Oil and Natural Gas Corporation (ONGC)-Videsh.³⁸ Moreover, the China oil company Sinopec was granted extraction rights in Block 3/80 at Total's expense, which lost its operating licence. China approved a loan of US\$2 billion in 2004 to help Angola redevelop its infrastructure. In addition, there are about 20 projects in progress, and Angola repays its creditor with oil exports. The arrival of Chinese joint operatives looks set to make the Chinese community in Angola the largest in Africa.

The United States and China are not the only states vying for energy resources in Africa. Recently, Korea National Oil Corporation obtained 65% oil and gas production rights in two Nigerian offshore blocks, while India's ONGC-Videsh obtained a 25% stake. South Korea and India are the world's fourth- and sixth-largest energy consumers, respectively. India and China both hold stakes in the Greater Nile Oil Project in Sudan, and India has invested US\$700 million in Sudan's oil sector. China and India have also been engaged in direct competition for Angolan energy resources, as noted above.³⁹

Sino-US relations are going through a cold spell as a result of disputes over US quotas on China's military expenditures, exchange rate policy, intellectual property rights infringements, human rights record, and relations with dictatorial 'rogue' or anti-US regimes, including Iran, Myanmar, Nepal, Uzbekistan and Venezuela.⁴⁰ The recent failed bid by Chinese energy company China National Offshore Oil Corporation to acquire US energy company Unocal is evidence of the existing conflict. There have been recent gestures of rapprochement in Sino-US relations, however, such as the recently initiated Sino-US Strategic Dialogue.

China is especially fearful of American initiatives in this area in the Caucasus, of which the grouping of Georgia, Uzbekistan, Ukraine, Azerbaijan and Moldova (GUUAM) is an example. Founded in 1996 with the joint support of the Organisation

³⁷ Lafargue, op. cit.

³⁸ Ibid.

³⁹ Bajpae, op. cit.

⁴⁰ Ibid.

for Security and Cooperation in Europe and the Council of Europe, this organisation is intended to advance economic and military cooperation among its member states in close collaboration with the United States, and to deal with such matters as the fight against terrorism and the settlement of local conflicts.⁴¹ The five founding members share a common platform in refusing the presence of Russian forces on their territory. But one of the main aims of GUUAM is to build a supply network, independent of Russia, with the support of the Atlantic alliance. The PRC shares Moscow's view that GUUAM is a mechanism for allowing Washington not only to pursue a policy of encirclement aimed at Russia, but also to expand it later to include China.

Investment in Africa allows the PRC to reduce its dependence on these energy suppliers, since the African continent possesses 8.9% of global oil reserves and represents 11% of global production. China is currently the second major importer of African oil, after the United States. Africa supplies 25% of Chinese requirements, as opposed to 15% in the 1980s.

Foreign Policy

As a rising world power, China is actively seeking allies. It needs votes at the United Nations (UN) and in other forums and seeks global legitimacy. It wants to steer a path between the conventional foreign policies of the West and the conventional policies of the global South. For its part, Africa seeks allies for its own special economic conditions, as well as whatever flexibility and manoeuvrability it can get from the great powers.

Chinese foreign aid to Africa

The PRC's anti-Western and anti-Soviet thrust, combined with its self-identification with Third World struggles, shaped its foreign aid activities in Africa, including assigning Chinese doctors to Africa, hosting African students in China, and building the first railway linking Tanzania and land-locked Zambia. Given this background, African states view China as one of their own. China is also seen as an African champion on the UN Security Council.⁴²

Initially, Beijing's aid was concentrated on national stadiums and 'People's Palaces'. This has given way to a more practical focus: constructing roads, dams and government buildings; upgrading power distribution systems; installing methane-generating plants; and so on. The sending of medical teams and agricultural specialists continues to be a mainstay of Chinese assistance to Africa.

Chinese foreign aid has tended to concentrate on these basic infrastructures and education, areas where Western donors have cut back substantially compared with earlier periods. In contrast to most other donors (especially the United States and the United Kingdom, with France much less so), China does not impose political and economic conditionality requirements. This makes the country an attractive source of aid, especially when, as in Angola and Zimbabwe, the international financial institutions like the International Monetary Fund (IMF) or World Bank are trying to alter the behaviours of governments by imposing political conditions.

⁴¹ Lafargue, op. cit.

⁴² Wilson, op. cit.

US multilateral and bilateral assistance to Africa

Just like China, US trade with and investment in SSA is influenced by a number of factors, including programmes that provide multilateral assistance, bilateral assistance and other trade-related initiatives. US trade and investment with countries in SSA are affected by the policies and programmes of the Export-Import Bank, the US Trade and Development Agency, the Overseas Private Investment Corporation, and various programmes operated by the US Agency for International Development and the US Department of Agriculture.⁴³ The United States is a major shareholder in both the World Bank and the African Development Bank and thus has an important say in the operations of these financial institutions. Unlike the PRC, the US now links its financial assistance to issues such as democracy and good governance, human rights, and the fight against corruption – and at the same time monitors how these resources are spent.

It is important to note that a large share of US assistance to Africa has been to military training, anti-terrorism and peacekeeping missions mainly in West Africa, where the majority of African oil producers are. In fact, since the United States realised its reliance on African oil, the US Navy has significantly increased its presence in African waters.⁴⁴ The United States is also planning to set up several military bases in West African countries like São Tomé and Príncipe.

Debt cancellation and capacity building

The PRC uses debt relief to assist African nations, effectively turning loans into grants. Since 2000 Beijing has taken significant steps to cancel the debt of 31 African countries. In 2000 China wrote off US\$1.2 billion in African debt; in 2003 it forgave another US\$750 million.

In addition to increased aid, China's outreach includes efforts to boost its soft power in Africa. This is evident in a growing focus on promoting Chinese cultural and language studies on the continent. In 2003 nearly 1,800 African students studied in China, representing one-third of total foreign students that year. Indeed, China plans to train 10,000 Africans annually for the next three years, including many future African opinion leaders who once might have trained in the West. Beijing also seeks to establish 'Confucius Institutes' in Africa – programmes at leading local universities, funded by Beijing and devoted to China studies and Chinese language training. Already, in Asia, Confucius Institutes have proved effective in encouraging graduate students to focus on Chinese studies and, ultimately, to study in China. Meanwhile, Chinese medical schools and physicians train African doctors and provide medicine and equipment free of charge to African countries. Through these programmes and exchanges, China develops trust by investing in long-term relationships with African elites who formerly might have been educated in London or Washington.⁴⁵ It is therefore important to note that the Chinese are combining 'foreign aid' packages with commercial and oil deals.

The United States is also contributing to debt reduction by supporting the Heavily Indebted Poor Countries Initiative (HIPC) launched by the IMF and World Bank and through its own debt-reduction initiative. This has reduced the financial burden in some countries, but African governments have expressed dissatisfaction with the scope and pace of the programmes and are still pressing for more debt forgiveness.

⁴³ USITC, op. cit.

⁴⁴ D. Volman, 'The scramble for African oil', AllAfrica.com, 2006, <<http://www.allafrica.com/stories/printable/200605251026.html>>, accessed 9 June 2006.

⁴⁵ Eisenman & Kurlantzick, op. cit.

Transparency and democracy

China has a consistent policy of not imposing explicit political conditionalities on its aid recipients. This philosophy of non-interference in the internal affairs of other nations fits well with the policy preferences of many African heads of state. On the other hand, there may be implicit assumptions that aid recipients will support Chinese positions in various international forums like the UN.

China's only explicit demand for entering into commercial relations is a complete break of links with Taiwan. However, the PRC does not propose to deploy any troops on African territory, and above all refrains from lecturing African governments on democracy. Consequently, some African countries see China as a powerful protector who is less demanding in terms of democratic norms and less inquisitive about the actual uses of its agreed credits. This therefore conflicts with the pro-democracy policies of the Bush administration and the British.

African countries, especially those with sensitive relations with the international community, rely on China not only to counterbalance pressure from the United States and France, as in Gabon and Congo-Brazzaville, but also to end their international isolation, and even to supply arms. In 1996 the PRC did not hesitate to supply Sudan with F-7 surveillance aircraft and Y-8 transport planes. China has strengthened its military cooperation with Zimbabwe, Angola, etc. by delivering light armoured vehicles and equipment.

Clearly, many of China's diplomatic initiatives in Africa are in direct conflict with US policy toward the region. For example, Beijing supplied US\$1 billion in arms to both Ethiopia and Eritrea during their war from 1998 to 2000. In 2004 its investment in Zimbabwe amounted to US\$600 million, and it is also the main trade partner of Sudan, as has already been shown.

Security

China supports Africa's efforts to prevent and combat terrorism, including the adoption of a counter-terrorism convention and the establishment of an anti-terrorism research centre. Many African countries, in part because they experience similar criticism, are sympathetic to China's human rights policies. In terms of broader security operations, however, China has agreed to take a more active part in peacekeeping operations in Africa. By the end of 2004 there were 840 Chinese peacekeepers in seven UN missions in Africa, and China had contributed a total of about 1,500 peacekeepers to nine UN missions in Africa since it began this policy.

As in the Middle East and Caspian Sea region before it, Africa is now a target for military intervention by the United States, France, China and other powers competing to gain control over energy supplies. Since 1980 the United States has officially committed (in the words of President Jimmy Carter now known as the 'Carter Doctrine') to the use of 'any means necessary, including military force' to ensure the free flow of Persian Gulf oil.⁴⁶ President Clinton also announced the establishment of military ties with the new republics of Central Asia as a way of diversifying US sources of oil. Now the Carter Doctrine has been extended to Africa, as the US assistant secretary of state declared in 2002 that African oil is among the United States's strategic national interests.

⁴⁶ Volman, op. cit.

The military programmes in Africa and provisions of US arms, military equipment and technical assistance have been geared towards this. The largest chunks of US aid to Africa are going to Angola and Nigeria, Africa's two leading oil suppliers to the United States. Total US security aid to these two countries in 2002–04 amounted to approximately US\$300 million, a substantial increase over the previous three-year period.⁴⁷

Since the September 11 attacks, the US has also stepped up security cooperation with African states. The US Coast Guard has increased patrols of the region, as well as engaged in training, intelligence-sharing and public relations exercises with numerous states, including São Tomé and Príncipe, Cape Verde, Ghana, Benin and Equatorial Guinea. At the same time, the US State Department's Trans-Sahara Counter Terrorist Initiative has trained troops in Niger, Mauritania, Mali and Chad. The United States also maintains a military base in Djibouti, from where it coordinates anti-terrorism operations on the continent.⁴⁸

Diplomatic issues

China sees the African continent as a scene of confrontation with Taiwan. One-third of the countries that recognise Taiwan are African, including The Gambia, Burkina Faso, Liberia, Malawi, Chad, Swaziland, and São Tomé and Príncipe. South Africa and Senegal severed diplomatic links with Taiwan in 1998 and 2005, respectively. The PRC has laid out its ideas of 'China's peaceful rise' in various national and international forums. This is the notion used by some of its leaders who want to put the best face possible on the PRC's strategy of engagement with the rest of the world. Their argument is that their motives are strictly commercial, minimally political and altogether peaceful; they shun any militarist ambitions. However, the PRC's policy on Taiwan and its expanding defence budget – growing at more than 12% per year – suggest a different situation. China is able to expand its influence in Africa because African leaders feel that they share a past with China, and at the same time the country is viewed with more credibility than Western states with imperialist legacies. China's efforts to win friends across Africa are also aimed at safeguarding its interests in international forums and institutions, such as the UN Commission on Human Rights.

The United States has largely ignored African nations in UN forums, while China has supported a range of proposals favoured by African countries on UN Security Council reform, peacekeeping and debt relief. In so doing, Chinese officials often portray Beijing as a champion of the developing world that listens to other countries, drawing an implicit contrast with the United States, which China portrays as uninterested in developing nations' needs.

Sino–African Cooperation

China maintains dialogue with Africa through several bilateral and multilateral forums, such as the Asia–Africa Summit and the China–Africa Business Council. The latter was jointly established with the UN Development Programme in November 2004 to support China's private sector investment in Cameroon, Ghana, Mozambique, Nigeria, South Africa and Tanzania. In 2000 China initiated the China–Africa Cooperation Forum (CACF), an umbrella organisation designed to encourage better diplomatic relations, trade and investment, and comprising 46 of the 53

⁴⁷ Ibid.

⁴⁸ Bajpae, op. cit.

African countries. This forum is a mechanism by which China is coordinating its activities in Africa, and is a consultation and dialogue forum for China and the African countries with a focus on South–South cooperation and issues of globalisation. The CACF also commits China to adopt measures to support African economies, including lowering customs duties, granting tourist exit visas to Chinese citizens, etc. The forum meets at the ministerial level every three years and holds a high-level preparatory meeting a year before the ministerial.

The first CACF ministerial meeting took place in Beijing in 2000, where the participants adopted the Beijing Declaration and the Programme for China–Africa Cooperation in Economic and Social Development. Its second session was held in Addis in 2003, with 44 African delegations. A China–Africa Business Council was formed in October 2004, and China has hosted more than 100 meetings in China with visiting trade and foreign affairs officials.

The CACF hosted a seminar on human rights in Beijing in 2004 for delegations from 27 African countries. The goal was to develop a consensus on human rights issues, coordinate their positions on international human rights and improve the human rights situation in their own countries. This was clearly an effort by China to join forces with certain African countries that have a similar approach to human rights issues.

Sino–African conflicting interests in trade and political issues

China supports Africa's position on multilateralism, the elimination of trade barriers and farm subsidies, increased aid, and more debt relief by the developed countries. However, African and Chinese interests in certain WTO and political issues vary, as is evident in the cases of textile exports and the landmine ban, respectively. Most African countries prefer a ban on landmines; China has refused to sign the Ottawa treaty banning them. At the same time, neither China nor the United States is a party to the Kyoto Protocol.

There are growing concerns of a 'new imperialism' from the Middle Kingdom. South African observer Moeletsi Mbeki says China represents both a '[t]antalizing opportunity and a terrifying threat. We sell them raw materials, they sell us back manufactured goods'.⁴⁹

Examples of Sino–African bilateral relations

To have an in-depth understanding of the impact and dynamics of China's bilateral relationship with African countries, it is important to highlight specific country activities. There are 53 African governments, and the PRC has a wide range of relationships with them. Their influence varies from one country to the next, and some countries are more important than others from the PRC's perspective. Not surprisingly, these are countries that are also important for the United States and Europe. As seen in the examples below, the Chinese are adept at combining foreign aid packages with commercial and oil deals.

Sudan: The PRC's interest in Africa is well illustrated by its ties to the government in Khartoum. China is down-playing the violence and genocide in the Darfur region and importing thousands of barrels of crude oil, while other nations have imposed trade sanctions, including on oil operations. For more than a decade, Chinese oil

⁴⁹ P. Mooney, 'China's Africa safari', *YaleGlobal Online*, 2005, <<http://yaleglobal.yale.edu/article.print?id=5106>>, accessed 20 June 2006.

companies have been active in this country. Thirteen of the 15 most-important foreign companies in the country are Chinese.

Sudan is actually China's first major overseas oil development 'project'. Chinese investment in Sudan totals about US\$4 billion, most of it in the oil sector, which makes China Sudan's largest foreign investor. There are also an undetermined number of Chinese military personnel in Sudan to secure its investments.

Beijing and Sudan also have economic cooperation outside the oil sector. This includes a US\$400 million project by Harbin Power of China to build seven electricity sub-stations and transmission lines. China provided 75% (US\$200 million) of the financing to construct the Kajbar Dam at the Nile's second cataract, and Chinese companies are part of a consortium to build public works projects in connection with the dam. Sudan signed agreements this spring with China to construct a US\$345 million pipeline that will channel water from the Nile to Port Sudan and to finance a US\$325 million water system for the town of Alfashir.

China has also been an important supplier of arms to various Sudanese governments for many years. Deliveries of weapons from China to Sudan have included ammunition, small arms, towed howitzers, anti-aircraft guns, anti-personnel and anti-tank mines, tanks, helicopters, and fighter aircraft. The PRC also provided soft financing for some of these purchases. It has helped establish three weapons factories in Sudan, including one for assembling T-55 tanks. Since the mid-1990s, the supply of arms to Sudan has been linked to the supply of oil to China.

Sudan strongly supports China on its one China policy and its position on human rights. In return, China has helped to deflect Western criticism of Sudan's actions in Darfur. Human Rights Watch argues that China's oil purchases and arms sales have helped fuel the conflict in Darfur.⁵⁰ China has used its status as a member of the UN Security Council to block real measures intended to address the genocide in Darfur. However, China has indicated that it will provide military and medical personnel for the UN peacekeeping operation in support of the peace agreement between the Sudanese government and the Sudan People's Liberation Movement.

Nigeria: As noted earlier, Nigeria is one of Africa's largest oil exporters and one of its biggest markets. In order to promote its interests in Nigeria, China signed a US\$800 million crude oil sales agreement with the Nigerian National Petroleum Corporation in July 2005 to purchase 30,000 barrels of oil per day for one year.⁵¹ The PRC won licences to operate four oil blocks and in return will build a hydro-electric power station. China also launched Nigeria's first space satellite and is reportedly considering a US\$15 billion investment package for Nigeria's mineral sector that would cover investment in oil and gas, solid minerals, agriculture, and transportation. On the one hand, China's main areas of interest in the mining industry include coal, copper, zinc, lead and clay. On the other hand, in the agricultural sector, China plans a US\$250 million cassava project that will use two million tons of cassava from Nigeria to make ethanol.

South Africa: South Africa is the main economic power in the continent, accounting for over a third of SSA's GDP. South Africa's trade deficit with China went from

⁵⁰ Human Rights Watch, *Sudan, Oil and Human Rights*, Human Rights Watch report, 2003, <<http://extras.hrw.org/reports/sudanprint.pdf>>, accessed 12 July 2006.

⁵¹ P. Brookes & Ji H. Shin, 'China's influence in Africa: Implications for the United States', *Backgrounders*, No. 1916, Heritage Foundation, 22 February 2006, <<http://www.heritage.org/Research/AsiaandthePacific/bg1916.cfm>>, accessed 20 June 2006.

US\$24 million in 1992 to US\$400 million in 2004.⁵² The most visible negative impact is experienced in the textile and garments industry, where many unskilled workers have lost employment and several textile businesses have closed down. There was a threat of a boycott of stores that carried Chinese goods in the last quarter of 2004. Unions also complained that South African technology industries were being flattened by Chinese exports of computers and telecoms equipment. Some local activists want local stores to agree to a 75%–25% balance of locally made to imported goods. The Chinese response has been that South Africa should learn from Chinese policies of low taxes, etc. Diplomatically, the countries enjoy a positive bilateral relationship.⁵³

Zimbabwe: The Chinese government stepped in to work with Zimbabwe after Americans and Europeans withdrew from the country because of the government's destructive land reform programmes and poor humanitarian record. PRC helped design the new presidential residence and contributed bright blue Chinese roof tiles. They are also engaged in trade, with China importing tobacco and exporting military equipment and vehicles to Zimbabwe. Chinese businesses are also involved in mining, transportation, communication and power-generation projects. Although Zimbabwe lacks oil, it has the second-largest deposits of platinum in the world. These and more than 40 other minerals, including ferrochrome, uranium, gold, silver and copper, remain largely untapped.⁵⁴ The strength of the two countries' business partnership is evidenced by the twice-weekly direct flights between China and Zimbabwe.

Who Is Benefitting?

The OECD says that a booming China can be of benefit to economies in Africa. It says that Chinese and Indian growth has dampened world inflation pressures, lowered global interest rates and raised raw material prices. This, in turn, it says, has helped to improve Africa's terms of trade.⁵⁵ African economies can use China as a source of technology, skill formation and world market access.

China's economic take-off has undoubtedly brought some benefits to African countries. It has offered them a new export outlet and, more importantly, brought a significant rise in the price of raw materials. Between 1992 and 2002 China's steel consumption rose by 20%, while the global average was 4%. Prices of mineral ores like nickel and copper, essential to the electrical and electronics industries, have risen considerably since 2001. In 2005 the price of nickel on the London spot market was €16,255 per ton, as compared with €3,725 in December 1998.⁵⁶ China's growth may have contributed to the economic growth of Algeria, Nigeria and South Africa. However, it is important to note that the current trend of African economic growth is due to several factors, including simultaneous growth in the American and Chinese economies.

There is a downside, however, as alluded to earlier. Competition from China is expected to have more negative impacts than those already experienced in the

⁵² *The Economist*, 'Africa's economy: A glimmer of light at last?', 24 June 2006.

⁵³ Wilson, op. cit.

⁵⁴ Eisenman & Kurlantzick, op. cit.

⁵⁵ *Business Manager*, 'India and China to boost Africa', 25 May 2006, <<http://www.bm.com.np/bm/news/international.php?newsid=1958>>, accessed 10 July 2006.

⁵⁶ Lafargue, op. cit.

textile industry. China is the fourth-largest importer of agricultural products after the European Union, Japan and the United States. But Africa also imports agricultural produce, including grain. In 2002/03, for example, Algeria, Egypt and Morocco imported 15 million tons of wheat, mostly from Canada. The increased pressure on grain markets due to increase in demand by the Chinese will inevitably have negative consequences for Africa. SSA countries have minimal impact on the international grain markets because of the low levels of their imports, but any price increases will still have serious financial and possibly food security consequences for them.

We have already seen that local African industries and workers may suffer, as they are unable to compete on price and possibly on productivity grounds with Chinese imports. This is especially because the Chinese companies receive direct and indirect benefits such as subsidised loans, taxes and rebates from their government that allow them to make decisions that private companies could not, making them unfair competitors. One result may be trade friction and internal social unrest as jobs are seen to have been lost to China. Moreover, in the absence of stringently enforced quality control and regulatory standards, many African countries stand to be flooded by sub-standard or even counterfeit goods exported by the PRC.

There are arguments suggesting that in time the Chinese will be seen as the new 'colonialists' as they gradually develop a greater influence on the local economy and, inevitably, the politics within their host countries. If this occurs, it is likely that there will be a backlash against Chinese people and their investments, as has been the case in Nigeria.

Apart from issues related to unskilled migrant workers, the influx of specialist labour and technical staff from China that accompanies their funded projects has been large. Perhaps more worrying is that they do not go home when the projects are completed (Amukiwe, 2006).⁵⁷ This results in increased unemployment and consequent poverty among their hosts.

Foreign state-owned enterprises (SOEs), such as those in the oil and gas sector, are by their nature political organisations. Hence, dealing with them has associated risks, as the investments may initially come with no conditionalities, but these may be introduced later. The interests of SOE investors, unlike those of private sector foreign multinationals, will inevitably be aligned with those of their government owners. Hence, once the political elements start to emerge, a receiving country will have less flexibility in dealing with such an investor than it would have with a 'non-political' multinational. To put it bluntly, it is easier to nationalise or force a foreign multinational to follow government policy than it is to do so with a foreign SOE whose links go way beyond the purely economic. The SOE investment may even lead to nationalisation of Chinese resources in Africa in much the same way as recently occurred in Bolivia, Ecuador and Venezuela.⁵⁸

Experts argue therefore that it is essential for African countries as recipients of resource investments from foreign SOEs to strive to achieve a balance between such investments and those from non-state-owned foreign multinationals, and also to avoid allowing too much of any sector to be owned or controlled by the companies of any one foreign country. In addition, African countries must ensure that their own

⁵⁷ M. Azukiwe, 'China now a global heavyweight, but what can Nigeria gain?', *Business Day*, 21 June 2006 (updated 10 July 2006), <<http://www.businessdayonline.com/?c=53&a=7145>>, accessed 10 July 2006.

⁵⁸ Ibid.

private and state-owned companies achieve a fair share of the business in their own country, and at the same time are able to avoid the emergence of the twin scourges that are often all too evident when such policies are abused – cronyism and poor performance.⁵⁹

African countries must reflect carefully on such potential long-term issues as they partner with Chinese investments in the near term, and should put in place sufficient controls to mitigate any unintended consequences.

African Economic Growth

In 2005 the African economy was estimated to have grown by almost 5%, while in 2006 it was expected to grow by 5.8% and in 2007 by another 5.5%. This growth has been fuelled by continued global expansion resulting in sustained demand and higher prices for African oil and other industrial raw materials.⁶⁰ Sound macroeconomic management, better performance in agriculture and improved political situations due to easing conflict in several African countries have provided the climate for the increase in economic growth. In addition, higher levels of official development aid and increased oil production in Southern and Central Africa have also contributed to this growth. In general, oil- and mineral-exporting countries such as Angola and Nigeria are growing at significantly faster rates than the rest. In 2005 Angola was estimated to have grown by 15.5%, the fastest in the continent. Non-oil-producing countries are also experiencing economic growth, as seen in Ethiopia and Uganda, which grew by nearly 7% and 6%, respectively.⁶¹ Debt relief, rising FDI, expansion in the industrial sector and growth in the tourism sector encourage economic growth.

One issue, however, is what this growth is supporting. Even though the continent is experiencing growth, it is still far from the 7% annual economic growth rate set by the UN as necessary for meeting the eight Millennium Development Goals, particularly the target of ending poverty by 2015. Secondly, some countries continue to face serious problems, for example, the humanitarian catastrophe in the Darfur region of Sudan; the economic collapse in Zimbabwe; drought and food crises affecting large areas in a number of East, West and Southern African countries; conflicts and political unrest in Ethiopia, Côte d'Ivoire and the eastern part of the DRC; and security problems in the oil-rich Niger Delta region of Nigeria. All of these, combined with high morbidity and mortality due to HIV/AIDS, tuberculosis and malaria, are likely to dampen the continent's growth prospects.⁶²

Most African economies have been better managed in recent years, with inflation levels now averaging 8% a year, in spite of increasing oil prices. Trade balances have improved in many countries, albeit with the largest gains going to exporters of oil and metal ores, while some countries have been adversely affected by higher import bills and lower prices for some agricultural products, in particular cocoa and cotton. The windfall gains from commodity prices have improved public finances, particularly in oil-exporting countries.

⁵⁹ Ibid.

⁶⁰ OECD (Organisation for Economic Cooperation and Development), 'The rise of China and India: What's in it for Africa?', English summary, Development Centre Studies, OECD Multilingual Summaries, 2006, <<http://www.oecd.org/dataoecd/54/62/36905545.pdf>, accessed>, 12 July 2006.

⁶¹ *The Economist*, 2006, op. cit.

⁶² OECD, op. cit.

For economic growth to be sustainable, these gains must be managed carefully. A sizeable proportion needs to be invested in transport and other infrastructure and in human resource development to lay the basis for long-term economic growth once the current commodity boom has run its course.⁶³

African Priorities

In determining the priorities for relations with either – or both – the United States or China, Africa must choose carefully. Among the broad areas of priorities are governance and capacity building, peace and security, and economic growth and poverty reduction. Promoting trade and fairer trade, safeguarding the environment, increasing investment, cancelling debt, and increasing foreign aid are other areas that help define choices.

Governance and capacity building

Two areas of weakness have blighted Africa's history over the last half century. These are capacity, which is the ability to design and deliver policies, and accountability, which is how well a state answers to its people.⁶⁴ Most African countries, for example, experience taxation with no real representation. Weak capacity results in poor systems and incentives, poor information, technical inability, untrained staff and lack of income. Capacity building, starting with the continent's systems of higher education, particularly in science and technology, is therefore a priority if sustained economic growth is to be achieved. There is the need to build efficient systems and staff in local and national governments, as well as in regional organisations. This is less likely to occur when foreign companies and governments insist on bringing along their own nationals to implement projects.

Improving accountability and transparency is imperative. African leaders need to develop accountable budgetary processes so that the people of Africa can see how money is raised and where it is going. Foreign companies involved in oil, minerals and other extractive industries must make their payments more open to public scrutiny. Oil- and mineral-exporting African countries should continue to enforce the rule of law and reduce corruption and rent-seeking activities so that revenues from oil and minerals can contribute to economic growth. This has been the route of countries, like Botswana, that have implemented such policies and have experienced economic development, growth and reduction in poverty.⁶⁵

China and the United States must continue to support the national priorities of African governments rather than allowing their own procedures and special enthusiasms to undermine the building of a country's own capacity. At the same time, they must ensure that money and state assets stolen from the people of Africa by corrupt leaders are not banked in their countries, but repatriated. Without progress in governance, all other reforms will have limited impact.⁶⁶

⁶³ Ibid.

⁶⁴ Commission for Africa, *Our Common Interest*, report, March 2006, <http://www.commissionforafrica.org/english/report/thereport/english/11-03-05_cr_report.pdf>, accessed 11 July.

⁶⁵ P. A. Olomola, *Oil Wealth and Economic Growth in Oil Exporting African Countries*, final report presented at the AERC Biannual Research Workshop, Nairobi, 3–8 December 2005.

⁶⁶ Commission for Africa, op. cit.

Peace and security

Africa has experienced more violent conflict over the last four decades than any other continent. These conflicts have predominantly been in countries like Angola, the DRC, Sierra Leone and Sudan that are endowed with immense natural resources, including oil and minerals. The main source of conflicts has primarily been over how to control these resources. Peace and stability have begun to prevail in many countries, although in some – like Sudan – violent conflict is still the biggest single obstacle to development.

There is need to improve the management of government incomes from natural resources and international agreements on how to control the ‘conflict resources’ that fuel or fund hostilities. African states and societies must be able to prevent and manage conflict. As African regional organisations and the UN help prevent and resolve African conflicts, China and the United States must ensure that their military and arms support to African leaders are not used to suppress Africans seeking transparency or accountability, and that these arms are not accessed by unintended recipients. The trade in small arms must be controlled.

Economic growth and poverty reduction

Africa is poor, ultimately, because its economy has not grown. The public and private sectors need to work together to create a climate that unleashes the entrepreneurship of the peoples of Africa; generates employment; and encourages individuals and firms, domestic and foreign, to invest.⁶⁷ African leaders have a role to play in ensuring that the investment climate is made stronger and that public–private partnership is strengthened in order to create a stronger climate for growth, investment and jobs.

There is need for a massive investment in infrastructure to break down the internal barriers that retard growth. This investment should start with rural roads and small-scale irrigation schemes and extend to regional highways, railways, larger power projects, and information and communications technology (ICT). There is also need to focus on agriculture and rural development. All these investments must target the poorest groups.

Trade and fairer trade

Africa trades mainly in raw materials, especially in extractive industries and unprocessed agricultural products. The goods produced are therefore not of a high-enough quality to break into the world market. At the same time, Africa faces various trade barriers, which, directly or indirectly, tax its goods as they enter the markets of developed countries. Africa needs not only to diversify its trade, but also to improve its transport infrastructure to make goods cheaper to move. It needs to reduce and simplify the tariff systems between its various countries, reform excessive bureaucracy and cumbersome customs procedures, and put a firm lid on corruption. Like China, it must reduce the barriers to private investment and improve economic integration within the continent’s regional economic communities.

Trade agreements like the Doha Round of multilateral trade talks should be finalised in a way that does not demand reciprocal concessions from poor African nations. This holds the promise of reducing agricultural subsidies in developed countries and significantly lowering the trade barriers that hinder market access for African goods. Specifically, these framework agreements should call for the elimination of export subsidies, in particular in the cotton sector, and the reduction of trade-distorting

⁶⁷ Ibid.

domestic support and substantial tariff reduction, as well as a specific timetable for their implementation. The United States could render tremendous assistance to Africa simply by being more supportive of Doha's development priorities.

Safeguarding the environment

For growth to be sustainable, safeguarding the environment and addressing the risks of climate change should be integral to policies of African governments' and Chinese and US programmes. African countries would do well to conduct environmental impact assessments before embarking on what may seem to be windfall gains arising from their natural resources. And subsequently, they must impose adequate environmental rules when allowing investments in the extractive or manufacturing industries in the country. Otherwise, they risk having to pay dearly later in order to redress the situation.

Increased investment

The African oil and mineral exporting countries should invest their commodity windfalls in infrastructure development, security, outsourcing services and alternative fuels in order to avoid the 'resources curse'. One model in this last area is Brazil, which is already producing ethanol from cane sugar. And Malaysia has for some time also been working on reconditioning car engines to run on refined palm oil. Regarding infrastructure development, emphasis must be on telecommunications; ICT; the energy aspects of hardware; and the attitude, human capacity mindset and reputation sphere of software.

Debt cancellation and increase in foreign aid

Debt relief and aid have begun to increase. By the end of 2005, some 29 countries – 25 of them in Africa – had their debt burden eased by nearly US\$35 billion under the HIPC Initiative. Nevertheless, several African countries are still heavily burdened, and are unable to service the debts and at the same time provide necessary services for their people. For these poor countries, there is need for 100% debt cancellation as soon as possible. This must be part of a financing package for these countries and those excluded from current debt schemes to achieve the Millennium Development Goals, as promised in Monterrey and Kananaskis.⁶⁸

For Africa to achieve economic growth and poverty reduction, there is need for increased financial aid. The developed countries must increase their funding to 0.7% of their GDP, as they have already committed themselves to doing.

Conclusion

It is best to leave the final word to Kofi Annan: 'This second scramble for Africa should not be like the nineteenth century scramble, but must benefit Africans – men, women and children. The agreements signed with the foreign investors must be fair, equitable and stand the test of time'.⁶⁹

⁶⁸ Ibid.

⁶⁹ *The Standard*; 'Kofi Annan warns against new scramble for Africa', 3 July 2006, p. 20.