FRIEDRICH EBERT STIFTUNG

WORKSHOP PAPER ON CHINA AND AFRICA RELATIONS WITH SPECIAL FOCUS ON EXTRACTIVE INDUSTRIES

PRODUCED BY: STEPHEN L. MUYAKWA
P.O.BOX 51347, LUSAKA, ZAMBIA
E- MAIL: smuyakwa@coppernet.zm
Tel: 293416

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1.0 Main Introduction

China has been identified as one of the fastest growing economies in the world, recording a growth rate of around 10% per annum in the past decade making it the seventh largest economy as well as the most densely inhabited. It has been noted that at its current rate of economic growth China might soon replace America and the EU as the world's leading exporter and importer. This rapid growth and increased openness since 1990 has led to concerns in both developed and developing countries.

China-African trade grew by 700 percent during the 1990s[1]. The 2000 China-Africa Forum in Beijing set off a new era of trade cooperation and investment that is producing notable results. From 2002 to 2003, trade between China and Africa doubled to $18.5 billion, and then nearly doubled again in the first ten months of 2005, jumping 39 percent to $32.17 billion. Most of the growth was due to increased Chinese imports of oil from Sudan, Angola and other African nations. China's foreign direct investment in Africa amounted to $900 million out of the continent's $15 billion total in 2004. China is now the continent's third most-important trading partner, behind the United States and France, and ahead of Britain.

1.1 Purpose of this Paper.

Friedrich Ebert Stiftung of Germany, together with partners, decided to organize an international workshop in Lusaka, Zambia to look at the relationship between Africa and China. The specific objectives of the workshop are as follows:

1) Allow affiliates, through researchers, to exchange information on the state and role of foreign direct investment (FDI) in the extractive industries in Sub Sahara Africa.
2) What role does foreign direct investment have in sustainable development or how does it violate development.
3) Identify major multinational corporations (MNC) who are mainly involved in FDI and those who violate sustainable development.
4) If possible come up with main companies who are violators of sustainable development and then develop a campaign against them.
5) Develop ways of coordinating work with the main NGOs involved in the Extractive industries.

The purpose of this paper is to look at available literature on China Africa relations and share with workshop participants issues of special interest to them specifically in relation to China and

[1] For details see Council of Foreign Relations (2006). China, Africa and Oil.

the extractive industries in Africa[2]. Below, we provide a brief background to the Chinese economy.

2.0 Background to the Chinese Economy

The People's Republic of China (PRC) has become an important and influential player in Africa and an increasing source of political and financial support for governments across the continent, particularly countries rich in natural resources. This is a fairly recent development in diplomatic relations spanning several centuries[3].

The Peoples Republic of China (China), with a population of 1.3 Billion people, is the world's most populous country. The country boasts of having a continuous culture stretching back nearly 4,000 years[4].

It is widely recognised that many of the elements that make up the foundation of the modern world originated in China. These include paper, gunpowder, the printing press, credit banking, the compass and paper money.

After stagnating for more than two decades under the rigid authoritarianism of early communist rule under its late leader, Chairman Mao, China now has the world's fastest-growing economy and is undergoing what has been described as a second industrial revolution.

In the early 1980s it dismantled collective farming and allowed private enterprise again. Now it is one of the world's top exporters and is attracting record amounts of foreign investment as well as investing in other countries.

In 2001, China joined the World Trade Organization, China thus benefits from access to foreign markets. In return, China has to expose itself to competition from abroad. China's relations with major trading partners, especially the USA, have been strained over the country's huge trade surplus. Another area of contention has been the piracy of goods or the production of counterfeit goods. The huge trade surplus has led to demands for China to raise the value of its currency, which would make Chinese goods more expensive for foreign buyers and, in theory, hold back exports. The Chinese authorities fear that the rise of private enterprise and the demise of state-run industries carry heavy social costs such as unemployment and instability.

[2] The documents used in this study are appended at the end of the paper but mostly come from Centre for Chinese Studies of the Stellenbosch University in Cape Town, South Africa, Frontier Advisory Services of South Africa, Friedrich Ebert Stiftung and Civil Society Trade Network of Zambia.

[3] Centre for Chinese Studies (2007): China's Engagement with Africa. Stellenbosch, South Africa.

[4] This section draws on the fact sheet on the www.bbc.com website.

Moreover, the fast-growing economy has fuelled the demand for energy. China is the largest oil consumer after the US, and the world's biggest producer and consumer of coal. The country spends billions of dollars in pursuit of foreign energy supplies. There has been a massive investment in hydro-power, including the $25bn Three Gorges Dam project.

The economic disparity between urban China and the rural areas is among the largest in the world. Many impoverished rural dwellers are flocking to the country's (mostly eastern) cities, which are enjoying a construction boom. Social discontent has manifested itself in protests by poor farmers in rural areas and poorly paid workers in urban areas. In absolute terms, however, China has managed to reduce the number of those living in absolute poverty by about 200 Million. The recent recession has hit China and made well over 20 million migrant workers unemployed creating panic in the Chinese Government circles.

Other pressing problems include corruption, which affects every level of society, and the growing rate of HIV infection. A downside of the economic boom has been environmental degradation; China is home to many of the world's most-polluted rivers and cities.

The rate of economic change hasn't been matched by political reform as understood by western world liberals, with the Communist Party - the world's biggest political party - retaining its monopoly on power and maintaining strict control over the people. The authorities still crack down on any signs of opposition and send outspoken dissidents to labour camps.

Human rights campaigners continue to criticise China for executing hundreds of people every year and for failing to stop torture. The country is keen to stamp down on what it sees as dissent among its ethnic minorities, including Muslims in the north-west. The authorities have targeted the Falun Gong spiritual movement, which they designate an "evil cult".

3.0 History of Relations between China and Africa

Chinese traders had been navigating the Indian Ocean and visiting the east coast of Africa since the Tang Dynasty (AD 618-907). In the early fifteenth century, the famous Chinese explorer Admiral Zhèng Hé sailed down the coast of East Africa with a fleet of over 250 ships and 25,000 people, rounded the Cape of Good Hope, and sailed up along the west coast as far as the Cape Verde islands before crossing the Atlantic. Shortly thereafter, China’s exploration was severely curbed, as Imperial China lost interest in outward exploration, choosing instead to follow a policy of isolationism. Growing evidence, however, suggests that China’s trade with East Africa and many parts of the world continued well into the nineteenth century.

After 1949, the newly-formed People’s Republic of China (PRC) initiated diplomatic bilateral relations with many African states, within days of their independence. This demonstrates Mao Zedong’s ideological solidarity with Africa in their stance against imperialism and colonialism. This was also to counter diplomatic recognition of Taiwan and to compete with the West and Soviet Union for spheres of influence.

China’s multilateral engagement with Africa can be traced back to the 1955 Bandung Conference, where Asian and African states re-enforced their commitment to the principle of non-alignment, seeking to promote Afro-Asian economic and cultural co-operation. This was followed by Chinese Premier Zhou Enlai’s tour of ten African countries between 1963 and 1964, offering support to Africa’s people and leaders. It was also an effort to increase China’s influence within the United Nations and contest Taipei’s claims to sovereignty over Mainland China. In 1971, China achieved this aim with official UN recognition of the PRC in lieu of the Republic of China (Taiwan), aided by strong backing from the bloc of newly independent African states. China also sought to draw US and European attention away from Southeast Asia, and temper the United Socialist Soviet Republic’s (USSR) influence on the African continent.

During the 1960’s and 1970’s, China provided financial support, equipment and training to a variety of liberation movements, particularly in southern Africa, including Angola, Congo, Mozambique, Namibia, South Africa, and Rhodesia, now Zimbabwe[5]. This support was not always of the magnitude of Soviet assistance. Particularly given the current context of Sino-African relations however, it is held up as a symbol of China’s historic support of African independence movements. Chinese economic aid to newly-founded African state governments consisted primarily of soft commercial loans, focused on infrastructure and development, with the construction of high profile projects such as the Tanzania Zambia Railway Authority (TAZARA) railway between Tanzania and Zambia. Such undertakings were carried out by Chinese State-Owned Enterprises (SOEs), the only Chinese companies then authorised to operate in an international ambit and only for the purpose of completing a foreign aid project. In addition to teachers and medical personnel, the Chinese also provided technical assistance in agriculture and basic processing, often in the form of turn-key joint venture projects to be operated as co-operatives, such as textile and grain mills. Following the death of Mao in 1976, China’s ideological support of African anti-colonial resistance movements waned as the Chinese government policy became more inward focused during the economic reform that took place under Deng Xiaoping from 1978.

3.1 China’s post Cold War Re-engagement with Africa

Following the political turmoil resulting from the death of Mao Zedong in September 1976, the Chinese Government turned inward throughout the 1980s in order to address pressing domestic economic crises. During this period, Chinese assistance to Africa was eclipsed by World Bank and International Monetary Fund (IMF) support for structural adjustment programs requiring extensive economic privatisation and liberalization, including reduced tariff barriers and trade restrictions.

The year 1989, however, marked a watershed in Sino-African relations. Following the Tiananmen Square incident, China was severely criticized by Western powers for the heavy-

[5] Centre for Chinese Studies (2007): China’s Engagement with Africa. Stellenbosch, South Africa.

handedness that Deng's regime had used against student protestors. African countries, on the other hand, were quick to praise the decisive actions of the Chinese leadership in quelling the counter-revolutionary rebellion. African leaders not only wished to show solidarity with China in the face of Western criticism, but also supported China's authoritarian style of leadership in the face of civil unrest. They also hoped that Chinese aid, which had been dwindling in previous years, would increase as a result of their support. They surmised correctly, and China began to take greater interest in relations with the African continent.

By the early 1990s, the economic reforms in China, initiated under the leadership of Deng Xiaoping, had begun to produce results, and the Chinese economy was recording significant growth. Chinese assistance to Africa resumed, continuing its focus on key industries such as textiles and agriculture. These projects were administered by the Chinese Ministry of Foreign Relations and Trade (MOFERT), with a change in policy to the more flexible use of loans that would prove more beneficial to Chinese business interests in establishing a presence in Africa.

3.2 China's Commercial Focus on Africa

Chinese relations with Africa grew exponentially over the past decade. During the 1990s, Sino-African trade grew by 700 percent and, from 1995, many high-level visits took place. Trade between China and Africa increased from US$6.5 billion in 1999 to US$56 billion at the end of 2006[6], and is expected to reach US$ 100 billion by 2010. While the majority of countries have experienced growing trade deficits with China– importing enormous quantities of consumer goods, in addition to light manufacturing and agricultural equipment - a small number of resource-rich countries, such as Angola, Nigeria, Sudan, Nigeria, and Zambia, in total 17 out of 53 African countries, enjoy mounting surpluses, notably due to their rich oil and mineral deposits.

The Forum for China Africa Co-operation (FOCAC) was established in 2000, at the instigation of Chinese President Jiang Zemin, with the first Ministerial Meeting taking place in Beijing of that year. The Forum was China's largest ever multilateral undertaking. The 2000 Forum produced the "Beijing Declaration", a document that affirmed the consensus between China and Africa on certain international issues.

This was followed in 2003 by FOCAC's second Ministerial Conference in Addis Ababa. It consolidated Sino- African relations and earmarked further areas of cooperation in the areas of trade, economic assistance and cultural exchanges. The Chinese delegation announced the Special Preferential Tariff Treatment program which removed import tariffs on 190 different items from twenty-five African countries. It was implemented in January 2005. The program has resulted in a substantial boost to trade volumes with China, presenting an opportunity for the countries involved to diversify exports. The year 2006 was unequivocally declared by the Chinese leadership to be the year for China-Africa relations.

[6] See Annex 2 and 3 below

As earlier stated, 2006 marked the "Year of Africa" in China's diplomacy[7]. The highly intensive diplomatic activities that took place were unprecedented both for China's diplomatic history and the China-Africa relationship. In the same year, China became Africa's third largest trading partner following the United States and France, making Africa one of China's major overseas origins for strategic resources, investment opportunities and a market for Chinese products. While China is enjoying the many benefits of an increasingly close relationship with Africa, such benefits are not the only forces driving China's African policy. So, why is China pursuing an expanded Sino-African engagement? An examination of China's diplomatic focus on Africa and the historical context in which China's African policy emerged reveals a deep relationship based on common experiences, values and principles.

It is common for Western media and scholars to attribute the development of the China-Africa relationship mainly to the Chinese demand for resources, in particular energy resources. However, this explanation neglects a number of facts. China has only become an energy importer since 1993 yet the Sino-African relations have been developing steadily since the establishment of the People's Republic of China (P.R.C.) in 1949. Furthermore, China's interaction with Africa, both past and present, is not limited only to those countries rich in resources. Most of the African countries that benefit from China's policy efforts, including debt reduction, low or zero-tariff trade agreements and aid are among the least developed in Africa and are not rich in natural resources.

China's African Policy Paper reiterates China's declared policy of respect for national sovereignty and non-interference in the internal affairs of other states. The paper confirms statements dating back to President Jiang Zemin's declaration in 1996 that the five cornerstones of China's Africa policy are "sincere friendship, equality, unity and co-operation, common development, and looking to the future". This foundation has been re-affirmed and expanded upon by the current Chinese President, Hu Jintao, in his six pillars of Sino-African relations. These are non-interference, African ownership in dealing with problems, mutual trust and co-operation, the increase of economic assistance with limited political conditions, lobbying for the international community to pay more attention to Africa, and the promotion of an international environment more conducive to Africa's development.

This policy outline contrasts with Western donors' conditional assistance, and has been well received by African heads of state. China's current policy stance can be compared to that of the US a century ago, as it tried to penetrate China which had already been carved up by European powers. African governments are only beginning to appreciate the potential leverage afforded to their position in the renewed interest showed by foreign investors for the continent's markets and resources, spearheaded by China. China presents Africa with an alternative to the West. In the words of Tanzanian President Jakaya Kikwete: "China and India shouldn't be viewed as competitors or clients, but as contributors to Africa's development."

[7] He Wenping (2007): The Balancing Act of China's Africa Policy. China Security, Vol. 3 No. 3

At the recent FOCAC forum, held in Beijing in November 2006, China made further pledges to develop the African continent. The multibillion-dollar development package includes the following promises: US$ 3 billion in preferential loans and US$ 2 billion in preferential buyer's credits over the next three years; the doubling of its 2006 aid assistance by 2009; initiating a China-Africa development fund that will reach US$ 5 billion to encourage Chinese companies to invest in Africa; increasing the preferential zero-tariff treatment of more than 440 from 190 products; the training of 15,000 African professionals; the establishment of ten agricultural technology demonstration centres on the continent over the next three years; the building of 30 hospitals and US$ 37.5 million in grants to help fight malaria; the dispatching of 100 senior agricultural experts; and the building of 100 rural schools and increasing the number of Chinese government scholarships for Africans to study in China from 2000 to 4000 by 2009. In addition, President Hu pledged that China would forgive all interest-free loans that matured at the end of 2006 owed by the most heavily indebted and underdeveloped African nations. While it was certain that FOCAC would broadly cover and expand on these issues, it is worth noting that a new dimension was added to strengthen the cooperative relationship. The Chinese government committed, amongst other things, to step up cooperation in capacity building, prevention of water pollution and desertification, maintenance of biodiversity, and the development of environmental-protection in projects conducted in Africa. This is seen as a response to China's increasing awareness of the risks associated with the negative international image its companies are creating in some African countries, especially with regard to environmental practices.

China's pragmatic policy shift to economic concerns has been deeply reflected in the drive behind China's foreign diplomatic relations, particularly with regard to African countries. Increased diplomatic activity has thus, by design, paved the way for the entry of Chinese companies of all sectors into Africa's economies.

3.3 China's Strategic Interest in Africa

By the end of 2006, there were over 800 officially registered Chinese companies active in Africa, engaged in a variety of sectors. Such enthusiastic Chinese commercial interest on the Africa continent is explained by several reasons. While certainly not the only reason, one of the most important motives for Chinese commercial interest into Africa is the growing need for raw materials and oil to feed China's growing economy. China became a net oil importer in 1993. It was ranked as the second largest oil importer after the US in 2004. China currently imports 28 percent of its oil from Africa, primarily from Sudan, Congo, Angola and Nigeria. Particularly due to its strategic importance for economic growth, the procurement of secure oil supplies are a principal national interest and form a fundamental part of China's foreign policy. Unsurprisingly, all China's oil companies are stateowned, and have worked in close concert with China's Exim Bank in several key African oil acquisitions, in countries such as Nigeria, Angola and Sudan.

China's interest in African oil has been encouraged by the established US presence in the Middle East, consolidated by the invasion of Afghanistan in 2001 and Iraq in 2003. In addition, despite affirmations of cooperation with China, Russia has decided to direct the proposed East Siberian-Pacific oil pipeline to Japan and not China. While a tributary to China has not been ruled out, the oil supply that China will receive from Russia is considerably less than originally expected, further prompting China to look elsewhere to procure oil supplies. These developments in global oil dynamics have encouraged China's stateowned oil comanies to court Africa's oil rich states with increased energy.

3.4 Who is benefiting from Chinese Investments in Africa?

In light of the rapid growth of China's investment in Africa and bi-lateral trade worth US$100 billion[8] in just two years, there is debate as to whether the country is promoting development across the continent, or is driven largely by capitalist and mercantilist motives. There is need to ask questions such as i) which Africans are benefiting from Chinese money, and ii) whether China will continue its large-scale investments in Africa in view of the financial crisis. Observers caution that China may become more strategic and perhaps more prudent around which of its investment projects it wants to initiate based on overall benefits and viability. If Chinese investment is to promote development, it must take 'a bottom-up approach that recognises the daily social justice struggles of ordinary Africans for socio-economic survival rather than intensifying them'[9].

Until the global financial crisis struck, China had not only increased its investment portfolio in Africa through the launch of its US$5 billion China-Africa Development Fund, announced during the 2006 Forum on China-Africa Co-operation (FOCAC) Summit, but had managed to achieve more than US$100 billion in bilateral trade with Africa, which was two years ahead of the 2010 schedule. And so the debate remains between two competing trends, of whether Chinese investment promotes development across Africa or is mainly driven by resource and market-seeking imperatives.

China has clearly created new markets in Africa, stimulated access to cheaper goods for African consumers and even provided an opening for Africa's migrant petty traders to trade in cheap exports in Africa's formal and informal sectors. Should Africa be satisfied with this type of development? More importantly, which Africans are benefiting from this investment?

Banking on China's massive foreign reserves should be done cautiously, since it cannot be assumed that the US$500 billion plus stimulus package that China unveiled in 2008 is going to

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[8] Naidu S. (2009): Chinese investment: Good for Africa? Pambazuka News. Issue 438

[9] Naidu S. (2009).

stimulate Africa's supply and demand commodity dynamism. In Africa's case, the trickledown effect of Chinese investment to the people is a slow drip, which is causing restlessness and unease amongst sections of Africa's citizenry.

The type of development that is being floated through Chinese investments is not one that is unique or differs with Africa's other development partners. Like all other investments they:

- Cause environment hazards
- Displace local producers
- Challenge labour rights
- Displacement of communities.

Having said this, it is also critical to highlight that African leaders and governments must bear responsibility for their complacency in allowing investors, including the Chinese, to get away with such injustices.

4.0 Factors Promoting Chinese Investments in Africa

4.1 Political considerations

While China's oil companies negotiate oil agreements in Africa, other no less strategic deals are worked out in other sectors. The state-directed nature of Chinese investment in Africa, channelled through the larger SOEs, lends itself to being used as a political tool. In previous years, this was aimed at achieving recognition of China by African states, at the expense of Taiwan. With only five African countries continuing diplomatic relations with the latter, this political goal has been all but achieved. Nevertheless, Taiwan remains an important consideration in terms of China's relations with African states. China's most recent political convert is Chad which severed diplomatic relations with Taiwan to recognize the Government of Mainland China in August 2006. Shortly thereafter Chad received a packet of debt relief, economic cooperation agreements and medical donations worth US$ 80 million. As the largest group of developing countries in the world, the 'African bloc' is also being courted by China as the largest collective voice in the United States General Assembly, to block Japan's possible ascension to the United Nations Security Council (UNSC) in favour of an African candidate. Despite healthy trade relations, there is little love lost between China and Japan, with historical colonial tensions too fresh to be forgotten. Having usurped Japan's role as the growth engine of Southeast Asia, China is eager to consolidate her position as *the* emerging Asian power.

4.2 Commercial Considerations

Chinese multinational companies, which are not yet confident enough to attempt penetration into developed countries, have adopted the approach of entering less competitive developing countries' markets. In the wake of increased diplomatic and commercial traffic between China and Africa, the latter has become a favoured 'testing ground' in which aspirant Chinese multinationals can cut their teeth.

Africa consumers furthermore, are more likely to be swayed by the price tag than the brand name of products on the shelves. Chinese companies are extremely price-competitive, but weak in terms of branding. This has led to Chinese companies manufacturing under license for European markets, in order to get an (unacknowledged) foothold in the fiercely competitive European markets. In African markets, branding is not as much of an issue, allowing Chinese firms to expand market share in several sectors, under their own names, thus promoting their own brand recognition.

4.3 New markets

Decades of a command economy have resulted in oversupply in many sectors in China's domestic market, driving down prices. In addition, regional competition between companies is consequently so fierce that products sold but not made in any given province are heavily taxed. Expansion into international markets provides more scope for a product to attain greater market distribution with fewer tax obligations. It also stimulates foreign demand for products substantially cheaper than the global average, due to Chinese domestic market saturation. The need to find new markets for products that are in oversupply has become a matter of survival for many Chinese companies.

African countries, for their part, have been experiencing the highest rates of economic growth in several decades, fuelled in no small part by China's appetite for African oil and raw materials. Consequently, African markets are promising ones for Chinese firms, as there is a growing market of African consumers. While far from wealthy, many Africans are nevertheless now more able to afford the kinds of products that Chinese companies can produce. As market entry into developed countries' markets has been particularly challenging, Africa's markets are being targeted.

5.0 China's Comparative and Competitive Advantage

China's interests in Africa are guided primarily by economic imperatives. In this respect, Chinese companies are little different from Western multinationals. It is rather the scale of Chinese operations, combined with the condition of the African state and its inability to monitor and manage such large inflows of investment and foreign economic activity that has caused concern amongst many of the traditional actors. There are, however several aspects which give Chinese companies an edge over other market competitors despite their relative in-market inexperience in Africa. Below, we examine some of these factors in some detail.

5.1 Political Assistance

In a bid to encourage Chinese firms to engage in the global economy, China's centrally planned "go-out strategy" provides support specifically to Chinese companies seeking to increase access to international markets, increase competitiveness through global competition and expand Chinese exports. Should a multinational, state-owned or otherwise, be earmarked as a 'flagship enterprise', it can also expect additional preferential treatment from the government. The State Assets Supervisory and Administrative Commission (SASAC), charged with overseeing the internationalization of China's SOEs, has, as of 2006, compiled a list of approximately 150 companies that have been cherry-picked for special attention. These companies are seen to be advancing China's global interests. Thus, often bids that would be deemed too costly by global competition standards, but deemed strategically important by government, are embarked upon by these multinationals, who then receive additional public sector backing.

Specific to the African context, the recent strengthening of diplomatic relations between China and Africans countries has largely facilitated Chinese companies' access to African markets. As staed earlier, the November 2006 Forum on China-Africa Co-operation (FOCAC) saw the announcement of several overarching initiatives to increase aid and commercial linkages. At the conference alone, US$ 1.9 billion worth of commercial transactions took place, the most lucrative being a US$ 938 million contract to develop an aluminium smelter plant in Egypt.

This was followed with high-level visits, such as Premier Wen Jiabao's seven-country African tour in June 2006, and President Hu Jintao's eight-country tour in February 2007. Each country visited was granted debt relief (in the case of less-developed countries), and presented with trade agreements and commercial proposals to further strengthen China-African relations and consolidate commercial ties.

The Chinese government also leverages its extensive diplomatic presence on the continent. Most African countries with official diplomatic relations with China also have Chinese Trade Centres that provide information to both local and Chinese businesses wishing to enter the respective market, either through trade or investment options. These centres also provide limited logistical support, assisting with the organisation of accommodation, transportation and, in some instances, telecommunications. Such services are usually offered for a fee. The Economic and Commercial Counsels, who are attached to Chinese Embassies but have a larger degree of autonomy than other desks, restrict their assistance to providing information. Chinese embassies, however, may extend their assistance to helping Chinese nationals with administrative problems that they may encounter with local authorities. Furthermore, China continues to uphold its principle of non-interference which, in theory, separates commercial engagement from political interference. This allows Chinese companies to pursue investments in resource-rich outcast states such as Sudan and Zimbabwe, free from domestic political pressure as experienced by other multinationals[10].

[10] See map of Africa in Annex 1 to this report.

Recently, however, China has experienced increasing international pressure from the international community regarding its relations with these states. This is most evident in China's modified stance on UN and AU intervention in the civil conflict in Darfur, Sudan. Despite strong rhetoric around its stance on non-interference and support of Khartoum's rejection of UN intervention, the Chinese leadership was instrumental in persuading Khartoum to accept a joint UN-AU task-force in late 2007. China has come under pressure from a number of campaigns attempting to use the Beijing 2008 Olympics as leverage around various issues.

6.0 European Union Response to China and Africa Challenges

Since the unabated stream of news reports on ambitious Chinese ventures in Africa, the European Union has been panicking about how it should react[11]. Brussels felt irked when it found its own Africa policy in sharp contrast with the agility of China's new Africa offensive. Without a doubt, many officials fidgeted about China's outspoken disdain for interfering with tricky issues like good governance and human rights. Europe's past imperialist status made it hard to find the right words to call China's attention in Africa. European Commission Development Director Michel invited China for a meeting. The focus is a triangular partnership that would permit Europe to steer China's increasing interest in Africa in such a way that it would benefit the region's development and prevent the EU having to put its relationship with China at risk. During a trilateral conference at the EC, Michel stressed that Europe should be pleased to see China's reappearance. By emphasizing the need for a 'win-win strategy' he certainly struck a tone that sounded familiar to his Chinese guests.

In the mean time, the EC did not sit on its hands. It agreed with the Chinese government to maintain a high level dialogue on Africa. Envoys from both sides conferred on the situation in Darfur, with the European Union desperately seeking to induce China to take a more responsive attitude. The EC stuck out its chest when it observed that China finally joined its efforts to persuade Khartoum to consent to a UN Peacekeeping Mission in the conflict-ridden region of Sudan. To its satisfaction, the European Union also saw that China was willing to talk about joint efforts to expand Africa's logistics infrastructure, that it accepted to talk about responsible logging, and that it was joining the fight against trade in 'blood diamonds'.

Even at this early stage, the trilateral exchanges seem to bear fruits. Formal and informal talks neutralized suspicion. China gave up its initial reluctance and appears to grasp the value of avoiding distrust. The dialogue might well allow China and Europe to find out that their economic interests are not that conflicting and that trade relations with Africa are quite complementary. The European Union might be able to convince China that its economic needs can only be fulfilled if it becomes a responsible stakeholder in Africa's development and stability. The trilateral engagement might form a crucial learning school for China and raise the consciousness that for the long haul principles like good governance and transparency are advantageous for all parties. 'Might', because Brussels cannot take for granted that in the end

[11] Holslang J. (2007) Asia Briefing. Brussels. Belgium.

China will take its expectations serious. There are three serious flaws in the EU's response to China's increasing influence in Africa. First and foremost, the triangular thinking is not adequate. It is naïve to assume that China will adapt its policy to the demands of the European Union, simply because the EU isn't China's main challenger on the African continent. The apparent compliance might allow China to deflect criticism on the short term, but for the future it is likely to adjust its policy in the first place to key competitors like Brazil, India, Russia, and to some extent South Africa. All these countries are just starting to step up their efforts to gain access to the local deposits of resources and do not seem to be charmed by European appeals for more responsibility. Even the United States and several individual European member states are not very keen to follow Brussels' benevolence. Second, it is not serious to consider the African countries as one solid pillar in the triangle. It is correct that many states in the region showed themselves critical with regard to China's expanding footstep. The African Union even appointed a panel to investigate how the region should deal with emerging powers. Yet, these African countries are as much skeptical about the European policy that is found to be too much focused on conditions and merely on engagement. While several well-governed states struggle to get their products sold on the European market; oil producing countries like Sudan, Equatorial Guinea and Angola boom while turning a deaf ear to Brussels' demands. The European Union should also be aware that its fixation on dialogues and joint projects with a high visibility does not alter requirement that any policy should thrive on substantial influence. While talking, the EU forgets that its proper position in Africa weakens very fast, mainly because it fails to translate its huge potential weight into real diplomatic clout. Europe is still Africa's main trade partner and donor, but its impact is diminished due to the absence of a political consensus on how to use these levers.

Europe's Africa policy should evolve from a thin to a thick diplomacy. This does not entail sending gunboats to the oil rich Gulf of Guinea. Nor does it mean a new Berlin Conference to divide Africa's wealth among external powers. There are several options for cooperation, but as always, it takes two to tango. The EU has the capacity to complement China's rush for resources with investments in other branches. It can help to diversify Africa's exports. Only by reinvigorating its own Africa strategy and by speaking with one voice can the European Union stay in the game and help avoiding that the new scramble degenerates into a new race to the bottom. If not, it might end up as a naked emperor, trying to get its wishes heard, but without the credibility to play a central role in its own backyard.

7.0 Key Elements of China Africa Relations[12]

Several aspects emerge that should be taken into consideration when evaluating China-Africa engagement:

[12] Centre for Chinese Studies (2007): China's Engagement with Africa. Stellenbosch, South Africa.

7.1 The Central Policy-making Role of the African Executive

In most African countries, supreme power rests with the office of the executive, more specifically, with the Presidency. This is especially so in the case of countries like Angola, where the current head of state has been in power for extended period allowing him to amass control and influence over government structures. In many cases, African governments, in particular the executive, comprise a political elite whose reality is much removed from the rest of the population. This results in policy-makers and influential opinion-leaders crafting policy approaches that are not beneficial to the more impoverished sectors of the population.

Additionally, big business has close ties to the political elite and it is often difficult to distinguish between the two. Thus, efforts to empower the poor and vulnerable by encouraging more broad-based benefits will be interpreted as being at the expense of patronage networks and will be perceived as a threat to the political elite and big business. As a result there is little political will in either sector to effect social change through policy reform.

The lack of electoral and judicial accountability in certain states is conducive to the "developmental state" rapidly becoming a "predatory state" where state intervention in the economy is abused for the financial gain of the ruling elite. The degree to which African governments function properly is important in defining the development benefits that accrue to the country through engagement with China.

The Chinese actors with whom African executives engage tend to be stateowned enterprises in the extractive industries and construction sectors, as well as the policy banks – China Exim Bank and China Development Bank. These bodies are the agents of China's foreign commercial policy projection. What we are witnessing in Africa is state mercantilism – a marriage of national and commercial interests in foreign policy. African states' own developmental models are less clearly formulated. Thus, although the African executive is powerful there is uncertainty over the role of the state and its interventions in domestic economies.

7.2 The Influence of an African state's geo-strategic nature on Chinese Engagement

African embassy postings are ranked according to the economic significance of the host country. South Africa, Kenya, Egypt, Nigeria are considered high priority engagement countries. This ranking is generally due to their economic and political dominance in the region. The geographic size and location of the country, its strategic importance in terms of whether it has natural resources such as oil, copper and the size of its market are all important factors determining the particular country's strategic value to China. Countries which have no large market or natural resource base, but which still enjoy a high level of Chinese engagement, can be considered strategic for other reasons. For instance, Uganda and Tanzania are important transport gateways to Eastern and Central Africa. This will be enhanced following the development of infrastructure corridors by Chinese companies such as ICT backbone in Uganda and the Tazara railway. The

Chinese government appears to view the continent in its entirety with a long-term perspective. Each African country is evaluated in terms of its potential for trade and political exchange with China.

7.3 The Long-term Perspective of Chinese Commercial Interests in Africa

The Chinese Government adopts a long-term view of its business activities in Africa. This longer term vision of commercial engagement also quantifies risk in a different manner to traditional investors. Chinese companies are often perceived to be less cognisant of risk when investing in Africa compared to other foreign investors. This, however, is not necessarily true. Chinese state-supported investors are simply afforded a longer time-period in order to allow their investment to be realised. China's "state capital" approach to engagement through the likes of China Exim Bank is answerable to political stakeholders, not private or institutional shareholders.

Furthermore, the infrastructure that Chinese companies construct is exchanged for secure access to oil and raw materials or mining concessions for Chinese companies, This is most evident in several African countries where Chinese companies work on projects spanning construction and extractive industries such as Gabon, Zambia and Angola, hence the term "the Angola Model". The substantial infrastructure investments also further facilitate the extraction of such resources in Africa.

The development of transport infrastructure will also assist with the wider market distribution of Chinese imported goods. Chinese investment in road and railway systems such as the Benguela, Tazara and Belinga railways is of strategic importance in providing market access for Chinese products. In addition, heavy investment by Chinese companies in telecommunications infrastructure, in countries such as Angola and Uganda, oil pipe lines from southern Sudan to Port Sudan on the Red Sea coast, electric power lines, massive irrigation and hydroelectric power systems, along with procurement, supply and distribution networks across the continent can be expected to have a significant impact in reducing the cost of producing and transporting products.

The competitive landscape of Africa is thus being transformed by China's commercial engagement. Some sectors of African economies are clear beneficiaries of this emerging trend, but this is likely to come at the expense of traditional investors and donors on the continent as well as the less competitive sectors of African economies.

7.4 Playing the 'China Card' in Domestic African Politics

As Chinese investment in Africa deepens, the question of whether the Chinese can continue to adhere to its policy of non-intervention and refrain from intervening in domestic politics is raised. Several observers have described China's involvement in Zambia's 2006 elections as one of the first clear examples of China's shift away from its well-publicised position of domestic non-interference. Furthermore, the abduction of five Chinese workers in the Niger Delta and the killing of nine Chinese oil surveyors in eastern Ethiopia in April 2007 have also indicated to China that substantial investments in unstable African countries may require protection, not only through military means, but in terms of political advocacy. The modification of Beijing's stance on the Darfur crisis in Sudan in terms of persuading Khartoum to allow the entry of an AU/UN peace-keeping force is a clear sign that its noninterference policy is not as fixed as originally anticipated by foreign observers.

Further instances of China's purported influence on domestic politics can be found in Angola and Gabon. Gabon's Government, in its eagerness to fasttrack the development of the Belinga mining project, favoured the Chinese bid, although many senior NGO representatives in Gabon have expressed doubts as to whether adequate feasibility studies have been conducted.

7.5 Labour and Environmental Issues

Recent reports state that the most polluted cities in the world are located in China. As the Chinese Government tackles this issue, we can expect heavily-polluting industries to move offshore, to regions such as Africa where environmental regulations are not so rigorous or adequately enforced. There have been no reports of Chinese companies dumping toxic waste in Africa; however, Chinese companies are not generally perceived to uphold environmental standards during the implementation of projects in Africa. A US$200 million Chinese manganese mine was closed down in Zambia as it emitted air pollution beyond the statutory limits affecting both workers and nearby residents. Such issues can be expected to increase as the Chinese establish more manufacturing plants in Africa. Rising pollution levels in China have prompted the Chinese Government to encourage the construction of such plants in external markets to mitigate the pollution production. Furthermore, Africa is in need of value-adding processes for its exports and is currently prioritizing economic development over environmental concerns. Many business groups have accused Chinese companies of low labour and environmental standards in their protests against market entry of Chinese companies.

These allegations are often dismissed by the African host government as "sour grapes". Furthermore, numerous examples of substandard environmental practices by Western companies have seriously diminished the power of lobby groups for important issues of this nature. While some Chinese companies do not have a good track record in terms of environmental standards, the recognition that this must change in order to cultivate and retain a good international image for Chinese companies, steps have been taken to address this issue. The China Exim Bank released in April 2007 a code of environmental conduct for the Chinese companies undertaking projects financed by the bank. While this may not necessarily guarantee adherence to the code, it provides a platform for local and international NGOs to engage China Exim Bank, as the financier of such projects on this issue.

8.0 Conclusions and Recommendations

8.1 Conclusions

The ties between China and Africa go a long way. These ties have moved from support to libration movements on the continent to construction of infrastructure projects such as rail lines and roads. The current phase of the relationship is characterized by trade and investment activities. China is in a hurry to develop and improve the economic situation of it's over 1.3 Billion inhabitants. Africa, for its' part is blessed with many natural resources such as oil, timber and other minerals. China needs these resources to advance her economic development and is willing and able to access these resources at all costs. The African Governments are yet to craft a viable and effective policy not only for China but all other countries requiring her natural resources. Africa appears to be still in a "governance trap" which hinders her ability to use her resources for the benefit of all her peoples.

8.2 Recommendations

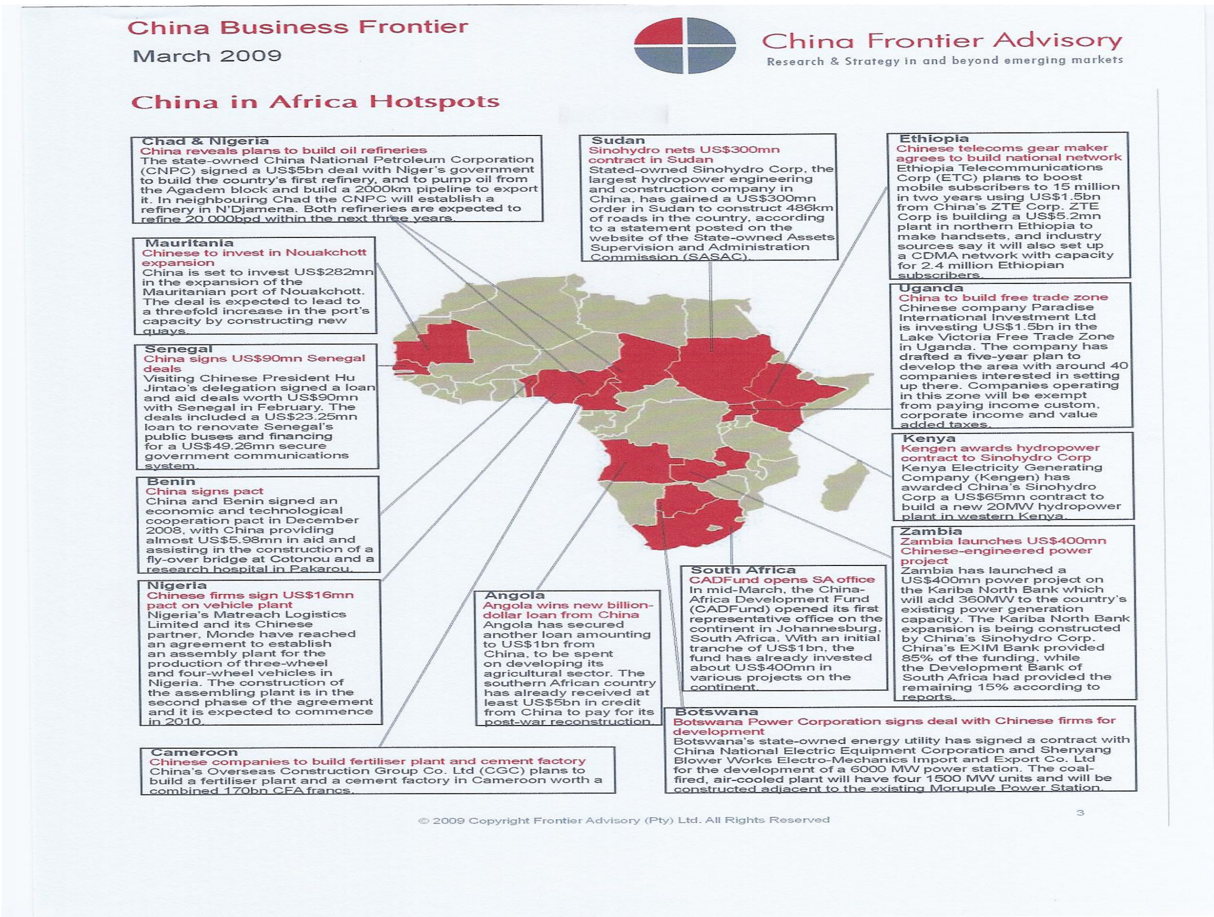
- The vast majority of challenges facing African countries in their dealings with China are relevant to their dealings with international actors across the board, and not China alone. China's engagement with Africa is dynamic and any meaningful analysis will require constant revision. What is clear is that China's political and economic linkages with Africa will continue to strengthen. This engagement will pose new challenges and offer new opportunities for Africa's future development prospects. Africa needs to come up with a governance system that offers its' people an opportunity to fully participate and influence development policy and programmes for the vast majority of the people.

- African leaders' policy response to China and other external players has been slow in comparison to the other actors ability to execute foreign commercial policies towards African states and the subsequent rapid market entry of both state-owned and private foreign companies. It is obvious that African policy-makers did not foresee or adequately anticipate first European entry into Africa and subsequently China's engagement strategy toward the continent. This has prompted reactive, rather than pro-active African decision making. There is need for Africa to devise a strategy, first at national, then regional and finally at African Union level, to guide and control relations with other actors on the continent.

- Extractive industries, by their very nature are harmful to the local communities and the environment. There is need to ensure that the three "P" principles of profit, people and planet are adequately harmonized to ensure optimal benefits from extractive industries to the people.

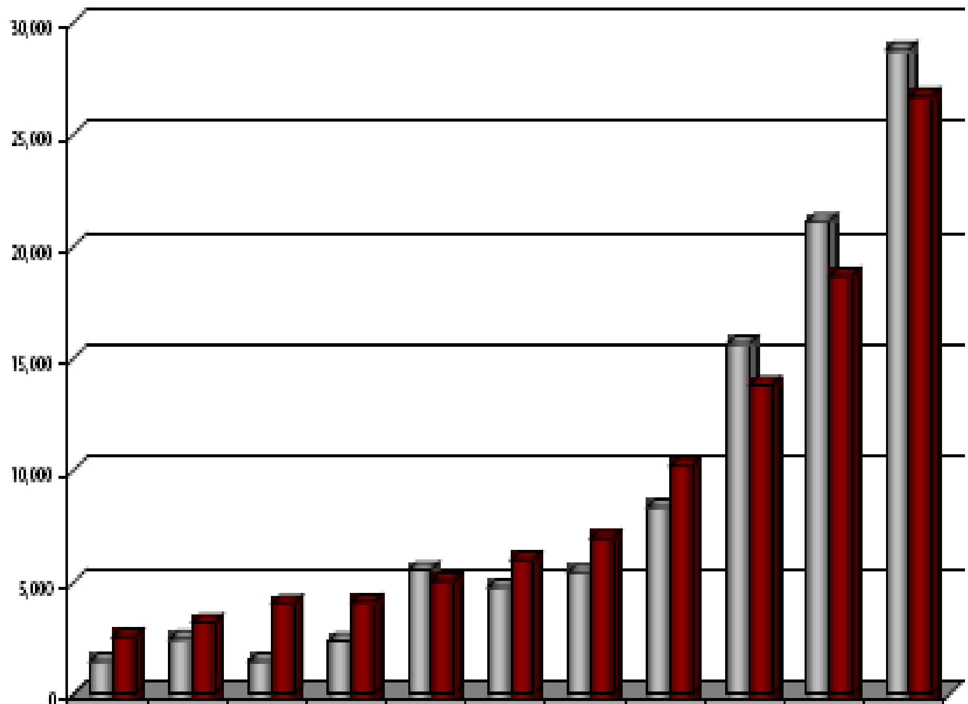
- Civil Society Organisations have been slow at engaging the African and foreign investors including the Chinese. Early CSO engagement would have helped ensure that trade, investment and economic policy is designed in such a way that it contributes significantly to poverty reduction and wealth creation. In view of the above, CSOs should work together at national, regional and international levels to ensure that FDI into Africa promotes poverty reduction and sustainable development.

Annex 1: Chart 1: China and African Hotspots.



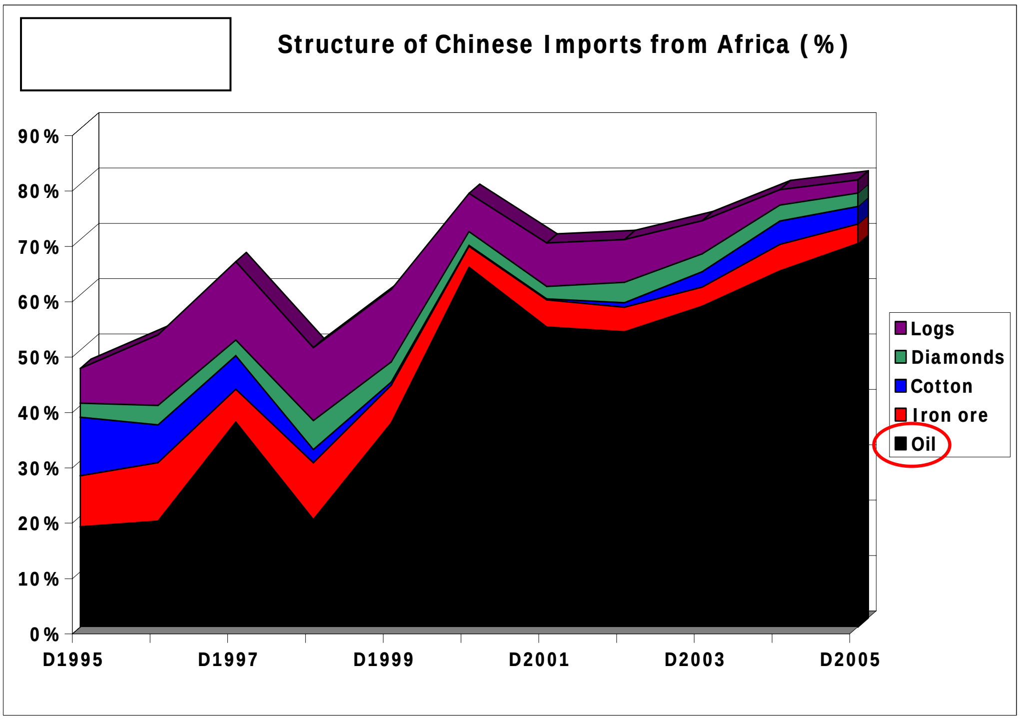
Annex 2: Figure 1.1 China Africa Trade Statistics 1995-2006

Figure 1.1: China-Africa Trade Statistics 1995-2006



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Exports to China	1,464.48	2,463.56	1,478.63	2,375.13	5,540.71	4,792.45	5,427.31	8,364.78	15,640.85	21,114.12	28,767.62
Imports from China	2,566.33	3,208.11	4,054.66	4,110.08	5,057.40	6,007.51	6,962.82	10,199.43	13,815.13	18,686.76	26,704.87

Annex 3: Chart 2: Structure of Chinese Imports from Africa (1995 to 2005)



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