China’s economic expansion in Africa – selected aspects

The unprecedented rise of China attracts worldwide attention due to the scale of changes as well as the speed at which they occur. Growing economic power has allowed China to undertake economic and financial cooperation with many countries on all continents, Africa included. The Chinese engagement in Africa covers extensive trade relations, outward direct investment of private and public companies, as well as development assistance and a rising number of contracted projects. Beijing’s drive for African natural resources remains a key determinant factor accompanied by other drivers of political or social provenience. The paper presents the China–Africa economic partnership in different sectors based on an analysis of available datasets.

Keywords: China, Africa, trade, investment, development assistance, aid

JEL classification: F10, F50, F63, F21

Introduction

Unprecedented development has put new challenges ahead of China’s leadership. In order to secure future economic growth, China turned to Africa, a continent rich in mineral resources yet unstable, with high political and economic risks.
As China’s focus on Africa has deepened with multiple investment and trade deals, the problem of political and financial dependence that goes in tandem with the Chinese involvement has arisen. The article aims at defining China’s engagement in Africa, including answering the questions: what are the sectors of China’s economic involvement in Africa? How important is China to its African partners? And what are the implications of this bilateral cooperation?

1. China’s African quest

China has been present in Africa since the 1950s, lending money and building roads, farms, and factories, with the most famous Tanzania–Zambia Railway (Tazara) completed in 1975 [Shinn, Eisenman, 2012]. Since the turn of the 21st century, China’s engagement has been deepening, as economic growth requires continuous access to various minerals, from energy resources like oil, gas, and coal, to ores, rare earths, wood, and water. As much as China is blessed with many mineral resources, it cannot satisfy all the demands of the growing industry, especially in the energy sector. Therefore in 2016 China surpassed the US as the world largest oil importer, and – according to EIA [2015] – the largest energy consumer and producer. Furthermore, China needs access to new markets to ease industrial overcapacity and consumer goods overproduction, which – along with broad strategic interests – stand behind the new Belt and Road Initiative (BRI). There were also political incentives, including the need to eliminate Taiwan from international relations and build diplomatic sphere of influence.

In order to secure access to natural resources, China engages in a sort of “commercial diplomacy” in Africa [Albert, 2017]. President Xi Jinping visited Tanzania, South Africa, and the Republic of the Congo in April 2013, and every year Africa is scheduled as the first destination of the Chinese Minister of Foreign Affairs. All diplomatic trips are followed by financial pledges to develop infrastructure, transportation facilities, or utility buildings, enforced by numerous deals and contracts as well as Chinese financial and technical assistance and expertise in various sectors of cooperation.

China has a full range of financial institutions engaged in bilateral cooperation with Africa, such as the Export-Import Bank of China (Exim Bank), the China Development Bank, and the China-Africa Development Fund. The assistance is based on three basic requirements: non-interference policy, no diplomatic relations with Taipei, and no meetings with the Dalai Lama. The Chinese strategy is very simple

1 Unless otherwise specified, the article covers China’s economic engagement on the whole continent. Despite the fact that China’s economic interests concentrate on Sub-Saharan Africa (SSA), due to the scarcity of reliable data only trade with SSA was possible to be distinguished.
yet efficient, based on extended relations with all African countries, regardless of their political system or human rights record. China’s economic engagement in Africa takes traditional forms of trade, investment, and financial assistance.

2. Trade

China’s unprecedented economic development has deepened its focus on Africa and strengthened bilateral trade. The volume of bilateral trade has been rising since the turn of the century and since 2009 China remains the largest trade partner of Sub-Saharan Africa (SSA), covering 14.3% of its trade turnover in 2016, ahead of Germany (6%) and India (5.8%). However, African countries are not the main destination of China’s merchandise, as Africa’s share in China’s trade reached its peak of only 5.15% in 2014 and is declining.

![Figure 1. China–SSA trade and Africa’s share in China’s trade](image1.png)

Source: Own elaboration based on: [NBS, 2018].

![Figure 2. SSA’s trade with China (USD bn)](image2.png)

Source: Own elaboration based on: [WB, 2018].
Between 2012 and 2016, China was the source of 17.5% of African imports and the destination of 7.8% of its exports. The growing trade deficit shows dependence on Chinese merchandise and is a proof that Africa is an important export market for China’s industrial overcapacity. Traditionally, the continent is an important crude oil supplier, though its share in China’s imports is declining: in 2016 China’s most important suppliers were Angola (12%), Sudan, and the Republic of the Congo (2% each) [Russell, 2017; Workman, 2018].

China imports mainly minerals, metals, and fuels, as well as wood and textiles in exchange for various types of machines and transportation equipment, metals as well as textiles and clothing. The structure of trade is changing as China moves up the value chain and African partners urge for processing sector development. The trade volume and structure seem more profitable for China than for its African partners, though the scale of the gains is rather inconsiderable for a trade giant like China.

3. Investment

Due to unparalleled foreign-exchange reserves of USD 3.14 tn [Bloomberg, 2018], China has been extensively active investing abroad. According to China’s Ministry of Commerce, overseas direct investment (ODI) flow to Africa has continued to grow since 2004 at a compound average growth rate of 18%, though the volume of Chinese ODI flow reached the peak of USD 5.5 bn in 2008 (2.4 bn in 2016).

China’s ODI flow and stock concentrates in Asia (67% in 2016) with only 3% located in Africa (USD 39.9 bn). Investments in Africa equalled the investment in Germany but accounted for only 1.84% of its ODI flow to Asia. Top African destinations of Chinese ODI in 2016 were South Africa (16.3%), Algeria, and Nigeria.
(6.4% each). However, since 2011 detailed data covers only six African countries: Algeria, Guinea, Madagascar, Nigeria, South Africa, and Sudan, so there is no information about other partners.

According to the National Bureau of Statistics of China (NBS), Africa’s share in China’s ODI flow remains relatively modest and falling: from the peak of 9.8% in 2008 to 1.22% in 2016. Yet China’s share in global ODI inflow to Africa remains stable at about 4% since 2014. Recent changes in ODI flow mirror the uncertainty of Africa’s traditional investors (the US, the EU) and new partners (China) on account of Brexit, economic slowdown, as well as policy changes under President Donald Trump [Ernst&Young, 2017].

A UNCTAD dataset published in 2014 gives detailed information on bilateral investment, yet in a very narrow time span (2001–2012). In 2012, China had ODI
stock of USD 37.2 bn which accounted for 27% of all Asian ODI stock in Africa. According to NBS, China’s ODI stock in 2016 reached USD 40 bn.

China had the most geographically diversified investment basket (42 African countries), although it concentrated in mineral rich countries, such as Nigeria, Algeria, Angola, Sudan, and South Africa. Chinese investors are present even in the least attractive and small countries (including DR Congo, Guinea, Equatorial Guinea, Gambia, Chad, Ethiopia, or Eritrea), where there are no investments of global corporations, mostly due to political instability. The value of Chinese capital is comparable in some countries (including Angola) or even higher (Nigeria) than the funds invested by, i.a., the US, which strengthens its strategic position.

China’s ODI in Africa covers purchases of fixed assets and concentrates on key-sector of minerals and energy resources but also on agriculture in countries such as Kenya [Xinhua, 2017a]. According to some authors, Chinese companies bring capital investment, management know-how, and entrepreneurial energy to
help accelerate the progress of Africa’s economies [Jayaram et al., 2017]. In 2017, 
China funded 47 large projects (15.5%) but constructed 85 projects (67 in 2016) 
[Deloitte, 2017, p. 11], which confirms its interest in construction services rather 
than long-term investment. The scale of investment will most likely be reduced 
due to new regulations on direct investment that came into force on 1 March 2018. 
The rules impose controls on Chinese investment in sensitive industries (e.g. real 
estate, hotels) or countries (countries at war, with no diplomatic ties with China, 
or with internationally restricted investment) in order to stop the outflow of financial 
resources [He, 2018].

4. Other financial engagement

There is a classic confusion between investing, financing, and providing services for the implementation of projects [Pairault, 2018] that puts all these activities in one basket. Yet only investing gives real money inflow to African countries. Other activities, on the contrary, increase financial outflows from the continent.

The government in Beijing seems to consider its international development finance program to be a sensitive area, a “state secret” [Brautigam, 2009, p. 2], therefore there is no comprehensive data of the projects funded. External sources collecting data (e.g. AidData, CARI-SAIS, Land Matrix) sometimes overestimate the numbers as they rely on media information about agreements signed even though not all deals enter into force. While loans are relatively well described, the missing data problem refers to educational cooperation (scholarships) or technical assistance. This “lack of transparency” [Pehnelt, 2007, p. 2] hinders accurate analysis.

4.1 Services provision (contracted projects)

Contracted projects are overseas construction ventures done by Chinese enterprises involving financial commitments only for African countries. The volume of Chinese contracted projects in Africa was rising since 2007 to reach the peak of USD 54.8 bn in 2015. Next year the volume lowered to 51.5 bn, still being more than twentyfold higher than the volume of Chinese ODI on the continent.

Chinese companies operating in Africa remain one of the least known aspects of this economic cooperation. Even their exact number is unknown. In a report published in June 2017, McKinsey analysts presumed there were more than 10,000 Chinese-owned firms operating in Africa [Sun et al., 2017]. The companies are usually small, privately-owned, and market-driven investments that concentrate in the manufacturing sector, services, trade, and real estate largely covering the needs of the African market. The McKinsey report estimates the Chinese cover 50% of Africa’s internationally contracted construction market [Sun et al., 2017].
The great majority draws from the local labour market up to 90% of employees *ipso facto* raising the training skills level of African workers. They are praised by trade partners for their flexibility, efficiency in cost structures, and fast delivery.

China plays an important role in financing regional infrastructure: transportation (roads, railways, ports, and airports), mining, telecommunications, agriculture, healthcare, education, and sport facilities. Examples of contracted projects are numerous, to mention only the deep water port worth USD 3.3 bn commissioned by Algeria in 2016 [Xinhua, 2016]. Chinese contractors also built a 3.2 bn standard gauge railway in Kenya, and a 4 bn light rail connecting the capitals of Djibouti and Ethiopia.

4.2 Financial assistance

Since 2000, China has been very active as a loan provider to a great majority of African partners. Yet data on financial assistance is non-existent, as China provides no information about its bilateral financial cooperation, nor does it participate in any creditor reporting system. According to SAIS-CARI dataset, in the period 2000–2015 China has given 46 African governments loans worth almost USD 95 bn. The volume peaked in 2013, reaching 16.7 bn, but in 2015 the bilateral loans to Africa amounted to 11.8 bn, representing a decrease of 12.5% in real terms from the previous year. Only five countries: Angola, Ethiopia, Kenya, Sudan, and Cameroon, consumed 52.2% of all loans. Angola received 20.4% of all disbursements (19.2 bn).

The volume is confirmed by another dataset created by the College of William and Mary [Dreher et al., 2017]. The structure of China’s aid portfolio consists of
regular market-terms loans or export credits, with only a small number of assistance in OECD terms [Dreher et al., 2017, p. 2; OECD, 2018]. Figure 10 presents the distribution of these categories of Chinese official finance over time.

![Figure 10. China’s loans to Africa (USD bn)](source: Own elaboration based on: [SAIS-CARI, 2018].)

China’s aid is distributed by different channels, e.g., during official visits or Forum on China Africa Cooperation meetings. According to Chi Jianxin, chairman of the China-Africa Development Fund, the fund has already invested more than USD 3.2 bn, and after the projects are completed, it will channel more than 20 bn to Africa [Xinhua, 2017b]. Assistance is considered attractive by African countries as there are few or no political strings attached [Xiaojun Li, 2017, p. 202] and the loans are often redeemed. Another key advantage is the fact that the Chinese assistance is usually available on the spot, without time-consuming and demanding condi-
tions, as China focuses on tangible projects and has preference for infrastructure over governance projects.

There are different entities engaged in aid disbursement. The biggest lenders are Exim Bank and CDB (66.8% and 13%, respectively, out of USD 94.4 bn). China’s aid allocation follows need-based, commercial, and geopolitical motives [Dreher et al., 2015]. The loans are concentrated in transportation (31.8%), power (24.2%), mining (9.7%), communication (7.2%), water, government, and industry. There were no loans for environmental or humanitarian goals.

Along with money come Chinese enterprises and contractors. The number of Chinese dispatched labour mirrors the general tendency: in 2016 in Asia there were twice as many Chinese workers as in Africa (140,888 to 71,548) [Sun et al., 2017, p. 10]. Rising numbers of local employees and managerial staff implicate a positive trend, so do subcontracts with Chinese firms.

4.3. Agricultural cooperation

China is also an important agricultural investor in Africa, though it usually satisfies with leasing land rather than buying. Western media usually overestimate Chinese investments, calling it “land grab” of Africa. Closer analysis proves the preponderance of European investors encouraged by the biofuels limits introduced in the EU [Brautigam, 2015, p. 3; Krukowska, 2015].

Table 1. China’s large-scale land acquisitions in Africa until 2014 (thousand ha)

<table>
<thead>
<tr>
<th>Country</th>
<th>Land Matrix</th>
<th>GRAIN</th>
<th>SAIS-CARI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>0</td>
<td>54.500</td>
<td>0</td>
</tr>
<tr>
<td>Benin</td>
<td>10</td>
<td>4.800</td>
<td>5.200</td>
</tr>
<tr>
<td>Cameroon</td>
<td>0.120</td>
<td>55.000</td>
<td>104.655</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>0</td>
<td>0</td>
<td>1.580</td>
</tr>
<tr>
<td>DRC</td>
<td>285.667</td>
<td>1.046</td>
<td>0.740</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Gambia</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Ghana</td>
<td>0.5</td>
<td>0</td>
<td>0.500</td>
</tr>
<tr>
<td>Guinea</td>
<td>0</td>
<td>0</td>
<td>2.400</td>
</tr>
<tr>
<td>Madagascar</td>
<td>23.964</td>
<td>10</td>
<td>30.470</td>
</tr>
<tr>
<td>Mali</td>
<td>20</td>
<td>25.700</td>
<td>26.174</td>
</tr>
<tr>
<td>Mozambique</td>
<td>31.024</td>
<td>21.333</td>
<td>30.524</td>
</tr>
<tr>
<td>Namibia</td>
<td>0</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.325</td>
<td>1.875</td>
<td>2.025</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>7.345</td>
<td>31.846</td>
<td>1.845</td>
</tr>
<tr>
<td>South Africa</td>
<td>0</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Sudan</td>
<td>11.667</td>
<td>0</td>
<td>1.727</td>
</tr>
</tbody>
</table>
According to GRAIN and SAIS-CARI datasets, China has leased or acquired about 0.25 bn ha of arable land in 22 African countries. The Land Matrix nearly doubles the volume of Chinese acquisitions to over 435 mn ha. All three datasets show great discrepancies, yet we may notice that there are countries recurring in at least two datasets: Cameroon, Mozambique, Mali, and Madagascar. Most Chinese large-scale land acquisitions are located in East, West, and Central Africa. The land is usually used for crop production: oil palm, soybeans, sugarcane, rubber, rice, corn, vegetables, cotton, and wheat, usually sold on local markets.

It must be emphasized that China’s engagement in agricultural sector is multifaceted: China has long been developing hybrid-rice farms or sending food to Africa [Brautigam, 2015, p. 3].

5. Implications of Sino-African economic cooperation

Chinese engagement in Africa rises many questions concerning its motives and consequences. In Africa, the overall attitude towards Chinese partners is rather positive. In a poll conducted in 2016 in 36 countries by a research network Afrobarometer, almost two-thirds (63%) of Africans view China’s economic and political influence as somewhat or very positive [Lekorwe et al., 2016].

Yet there are some negative aspects of this cooperation. Critical voices emphasize corruption, China’s poor compliance with safety standards, unfair business and labour practices, and violations of local laws by illegal extraction of minerals or ivory smuggling [Albert, 2017]. Questions are also raised about environmental impact of China’s investment as African partners too often put short-term financial benefits above long-term environment protection due to financial shortages or poor environment protection awareness [Shinn, 2016]. China’s disregard for good governance principles has long been stigmatised by Western democracies [The Economist, 2009; Naim, 2009]. There is evidence that China’s aid undermines democratising efforts of Western donors directly by many cases of choosing Chi-
nese unconditional loans rather than Western demanding loans [Duke, 2011], and indirectly by influencing Western financial institutions (e.g. World Bank) to lower the conditions [Hernandez, 2016]. Countries enjoying extensive financial cooperation with China will eventually have to pay the debts and, due to large amounts lent, they might have problems with debts service and recurrent expenditures. The example is Kenya, which between July and September 2017 paid China – its largest bilateral lender – 70.69% of total repayments to bilateral creditors, amounting to 48.26% of what the country used on servicing foreign debt [Munda, 2018]. And this list is incomplete as some consequences remain unknown.

Less obvious are the positive effects. Beijing gets access to African natural resources and has managed to create a coalition of friendly countries in international organisations [Dreher et al., 2015]. China’s generosity is helpful in soft power enhancement, being the proof of its superpower features. Regarding the African partners, Chinese aid promotes both short- and long-term economic growth by funding the bases of development such as transportation lines, as well as processing sector and social investments. Yet due to Beijing’s non-interference policy, repressive governments have no reason or incentive to reform as there is no foreign pressure. China always assures that its cooperation with Africa is based on a win-win approach; however, there are doubts over the equality of partnership and the share of profits, which are raised mostly by Western countries [State Department, 2018].

Conclusions

Since the early 2000s, China has strengthened its position as an important economic and financial partner of African countries. The relationship is unequal as cooperation with Africa is only a small part of China’s overseas activity though some African partners became dependent on Chinese investors. Due to scarce or unreliable information we are unaware of the total scope of China’s engagement, and full consequences of its commitment remain unknown.

Bilateral economic relations between China and Africa constitute a classic economic cooperation. Compared to traditional Western partners, China has very narrow interests and objectives related to economic issues rather than environmental or humanitarian goals. China’s overseas development activities can ease key constraints to economic growth and spur growth acceleration across Africa. The Chinese involvement has mostly positive effects for African partners: customers, workers, entrepreneurs, and governments. Despite the recent economic slowdown, as long as China develops its Belt and Road Initiative and upholds Africa within its interests, the cooperation will most probably be continued.
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