SINO-AFRICAN RELATIONS: GOING BEYOND ENERGY RESOURCES

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Executive Summary

1. China is readjusting its approach to Africa and intends to improve its image there as was reflected by Chinese President Hu Jintao's recent visit to four African countries – Mali, Senegal, Tanzania and Mauritius.

2. These four African countries are neither big, powerful countries nor heavyweight producers of oil and other important minerals. The presidential tour was to demonstrate China's embrace of big and small states alike, and prove Beijing's sincerity in consolidating long-term friendship with the continent.

3. China's interests in Africa were not confined to natural resources, as the official *People's Daily* said: "Sino-African relations are not, as some have misrepresented, just energy and resource relations – that is, 'neo-colonialism' by China in Africa". China's goal is to create a level of economic interdependence that will lead to greater trade and comprehensive economic linkages.

4. Many western analysts see China's trade with Africa as benefiting China only; however, growth has been unprecedented and continuous, and beneficial to both sides. In 2008, trade between the two sides increased from US$3 billion in 1995 to a record US$106.8 billion, with China registering a trade deficit of US$5.2 billion.

5. Although China's imports from Africa are still dominated by crude oil and some raw minerals, China has been making efforts to diversify its imports from Africa. China is stepping efforts to liberalize its market for more African commodities by cutting tariffs on 194 products such as textiles, agricultural and aquatic products and minerals from more than 30 of the least developed African countries.

6. China’s investment in Africa has been growing rapidly as well, especially after 2006. From 2003 to 2007, China’s FDI (non-financial sectors) increased from US$74.8 million to US$1574.3 million, with accumulation at US$4461.8 million. These investment projects covered areas including trade, resource exploration, transportation infrastructure and agriculture.

7. Nevertheless, China-Africa relations cannot be overemphasized. China will remain a newcomer in the western dominated market in Africa, and the long-term outlook for China’s role in Africa is not clear.

8. For instance, in 2007, the U.S. bought 31 percent of Africa’s oil, Europe got 31 percent and China 12 percent; Chinese investment in the oil industry in Africa is less than one-sixteenth of that invested by Western oil companies.

9. China’s aid to Africa is also easily dwarfed by that of western countries. Between 2000 and 2006, U.S. economic aid to sub-Saharan African increased from US$2.1 billion to US$5.4 billion. In 2006, European countries gave US$21.9 billion to Africa, and the United Kingdom on its own gave US$5.2 billion to Africa.

10. Nonetheless, China’s ventures in Africa have been generally accepted by their local governments and people, and China’s image there has been improving. In the coming years, China will continue to take necessary measures to push bilateral economic and trade cooperation, and to further build a long-term “win-win” relationship with African countries on the basis of mutual respect and understanding.

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Hu's resent trip to Africa

1.1 Chinese President Hu Jintao recently paid a five-day visit to four African countries – Mali, Senegal, Tanzania and Mauritius (See map). This was his second trip to the continent to boost closer and sincere cooperation after the 2006 Beijing Summit of the Forum on China-Africa Cooperation.

1.2 It is evident that Hu's trip which followed Premier Wen Jiabao's visit to Europe and simultaneously with Vice President Xi Jinping's trip to Latin America were timed to take advantage of the geopolitical vacuum created by a US that is bogged down by massive domestic economic woes. "This multi-pronged foreign policy initiative would enable China to seize the high vantage point in handling the future world order".[1] China wants to have its voice heard, improve its image and establish a new-type strategic partnership with Africa based on mutual political trust, economic reciprocity and mutual cooperation.

1.3 All four countries of Hu's trip to Africa are neither big, powerful countries nor heavyweight producers of oil and other important minerals. China's goal is to create a level of economic interdependence that will lead to greater trade and more comprehensive economic linkages between China and the African continent. According to the Chinese Foreign Ministry, "the main point of the presidential tour was precisely to demonstrate China's embrace of big and

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[1] Willy Lam. *Beijing Launches Diplomatic Blitz to Steal Obama's Thunder*, China Brief, Volume IX, Issue 2, February 20, 2009.

small states alike, and prove Beijing's sincerity in consolidating long-term friendship with Africa as a whole".[2]

1.4 China's interest in Africa was not confined to natural resources, as the official *People's Daily* said: "Sino-African relations are not, as some have misrepresented, just energy and resource relations – that is, 'neo-colonialism' by China in Africa".[3] In an effort to reassure beneficiaries of Chinese aid that economic recession would not affect the country's foreign aid program, President Hu told Tanzanian President Jakaya Mrisho Kikwet that "China will fulfill its pledges and never decrease its aid to Africa". "President Hu's demonstration of Chinese largesse will serve to placate anti-China feelings among African communities, which are complaining about 'exploitation' by the fast-growing number of Chinese owners of mines and factories."[4]

Long-term "Win-Win" China-African relations

2.1 Historically, China and Africa have been friends. Official friendship dates back to the founding of new China. At that time, China cultivated friendship with a number of African countries and provided moral, financial and political support for their fight for independence in spite of its own difficulties and poverty. Formal establishment of diplomatic relationship followed the Bangdung conference of 1955 in Indonesia.

2.2 The Bangdung conference brought together Asian and African states, most of which were newly independent ones. The conference's stated aims were to promote Afro-Asian economic and cultural cooperation and to oppose colonialism or neocolonialism. Since then, relations between the two continents at both bilateral and multilateral levels have blossomed. It was after this conference that Egypt became the first African country to establish formal

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2 *China Daily*, February 14, 2009.

3 Xinhua News Agency, February 9, 2009; *People's Daily*, February 13, 2009.

4 Willy Lam. *Beijing Launches Diplomatic Blitz to Steal Obama's Thunder*, China Brief, Volume IX, Issue 2, February 20, 2009.

relationship with China in 1956. Today, about 45 African countries have formal diplomatic relations with China.

2.3 With globalization and partly global political dynamics, China is more proactive in its relationship with Africa. Its growth and economic development has also fuelled its growing demand for energy and raw materials (which Africa can provide). China imports about 30 per cent of its oil from Africa, 4 percent of its iron ore from South Africa, and 35 percent of its manganese from Gabon, Ghana and South Africa.[5]

2.4 As China's influence in Africa increased, its activities there were widely seen by Western and some African countries as negative and a "threat", thus forcing China to readjust its policies and approaches to ensure that the bilateral economic cooperation are mutually beneficial and flourishing in the long run.

2.5 As part of China's new strategy for Africa, China created the Forum on China-Africa Cooperation (FOCAC) in 2000. In November 2006, the FOCAC Summit was held in Beijing, and the theme was friendship, peace, development and cooperation. In this Beijing Summit, China devised an eight-measure policy to enhance economic and trade cooperation with Africa, including assistance, preferential finance, construction of a conference centre for the African Union, debt cancellation, more African market share in China, professional training and establishment of trade and economic zones in Africa. It was after this Summit that the bilateral economic relations entered a new stage.

<u>Bilateral trade</u>

2.6 Although many western analysts believe that China's trade with Africa benefits only China, unprecedented and continuous growth in trade has proven to be beneficial to both sides. In 1995, the trade volume was about US$3

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[5] Wang Zhengxu, China's Growing Influence in Africa, EAI Background Brief No. 320, February 8, 2007.

billion; it rose exponentially to US$74 billion in 2007 to hit a high of US$109 billion in 2008, representing a 45 percent increase from a year earlier (Table 1); China even had a trade deficit of US$5 billion, compared with a surplus of US$940 million in 2007.[6]

2.7 China's top five trading partners in Africa are Angola, South Africa, Sudan, Nigeria and Egypt, accounting for more than 60 percent of China's total trade with the continent in 2008. China has surpassed France to become Africa's second largest trade partner behind USA. According to an estimate by the Chinese Academy of Social Sciences, trade with China has contributed 20 percent of the continent's growth.

TABLE 1 CHINA'S TRADE BALANCE WITH AFRICA (US$ BILLION)

Region	**2006**				**2007**				**2008. 1-10**			
	Total	**Export**	**Import**	**Balance**	**Total**	**Export**	**Import**	**Balance**	**Total**	**Export**	**Import**	**Balance**
Africa	55.4	26.7	28.8	-2.1	73.7	37.3	36.4	0.9	92.7	42.2	50.5	-8.3
Top 10 countries												
Angola	11.8	0.9	10.9		14.1	1.2	12.9		22.9	2.3	20.6	
South Africa	9.9	5.8	4.1		14.0	7.4	6.6		15.2	7.3	7.9	
Sudan	3.4	1.4	1.9		5.7	1.5	4.2		7.1	1.6	5.5	
Nigeria	3.1	2.9	0.3		4.3	3.8	0.5		6.1	5.6	0.5	
Egypt	3.2	3.0	0.2		4.7	4.4	0.2		5.3	4.9	0.4	
Congo	3.0	0.2	2.8		3.3	0.4	2.8		3.9	0.5	3.4	
Libya	2.4	0.7	1.7		2.4	0.9	1.5		3.9	1.3	2.6	
Algeria	2.1	2.0	0.1		3.9	2.7	1.2		3.8	3.1	0.7	
Morocco	1.9	1.6	0.3		2.6	2.2	0.4		2.4	2.0	0.4	
Guinea	0.3	0.2	0.1		0.4	0.3	0.1		2.3	0.1	2.2	

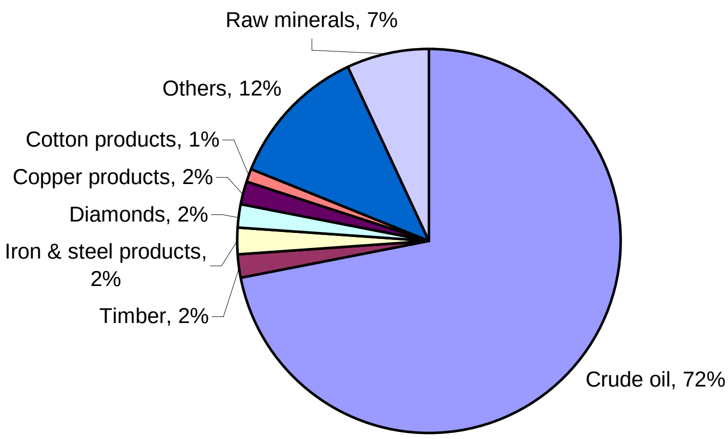
Source: China Statistic Yearbook, 2008, p.717. The figure of 2008 is from MOFCOM.

2.8 In terms of commodity structures, although China's imports from Africa are still dominated by crude oil and some raw minerals (as shown in Figure 1, crude oil accounted for 72 percent of China's total imports from Africa in 2007), China has been making efforts to diversify its imports from Africa. China is stepping efforts to liberalize its market for more African commodities by cutting tariffs on 194 products such as textiles, agricultural and aquatic

6 *China-Africa Trade Up 45% in 2008 to $107, China Daily*, 2009-2-11.

products and minerals from more than 30 least developed African countries.[7] Currently, 27 least developed African countries enjoy zero-tariffs on 466 tax-index commodities. By the end of 2007, the accumulated import value of these preferential treated commodities, including some African tropic crops such as sesame and coffee, reached US$54 million.[8]

FIGURE 1 COMMODITY STRUCTURES OF CHINA'S IMPORTS FROM AFRICA, 2007



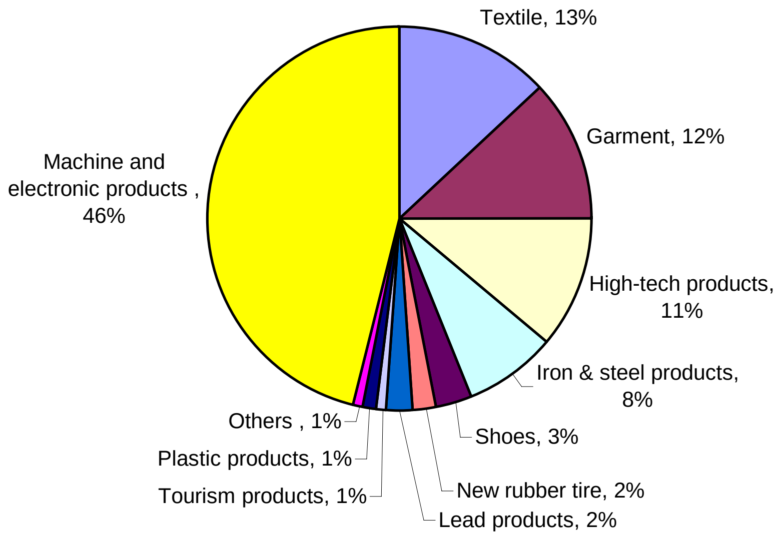
Source: The China Commerce Yearbook, 2008.

2.9 Compared to import structures, China's exports to Africa are more diversified. In 2007, machine and electronic products accounted for 46 percent of its total exports to Africa while textiles and garments accounted for 25 percent and high-tech products accounted for 11 percent (Figure 2).

7 *China Offers Zero-Tariffs on Products From Senegal*, Xinhua, 8 July 2006.

8 The China Commerce Yearbook, 2008.

FIGURE 2 COMMODITY STRUCTURES OF CHINA'S EXPORTS TO AFRICA, 2007



Source: The China Commerce Yearbook, 2008.

<u>Investment</u>

2.10 China’s investment in Africa has been growing rapidly as well, especially after 2006. From 2003 to 2007, China’s IMF (non-financial sectors) increased from US$74.8 million to US$1574.3 million, and an accumulation of US$4461.8 million (Table 2). These investment projects covered areas including trade, resource exploration, transportation infrastructure and agriculture. China has signed *Bilateral Investment Promotion and Protection Agreement* with 29 African countries, and signed *Avoidance of Double Taxation Agreements* with 9 African countries. These agreements will continuously encourage Chinese enterprises to make their way to Africa.

TABLE 2 CHINA'S INVESTMENT IN AFRICA (NON-FINANCIAL SECTORS) (US$ MILLION)

	2003	**2004**	**2005**	**2006**	**2007**	**Accumulation**
Africa	74.8	317.4	391.7	519.9	1574.3	4461.8
Top 10 African countries						
South Africa	8.9	17.8	47.5	40.7	454.1	702.4
Nigeria	24.4	45.5	53.3	67.8	390.4	630.3
Sudan	-	146.7	91.1	508	65.4	574.9
Zambia	5.5	2.2	10.1	87.4	119.3	429.4
Algeria	2.5	11.2	84.9	98.9	145.9	393.9
Egypt	2.1	5.7	13.3	8.9	25	131.6
Mauritius	10.3	0.4	2	16.6	156	116
Tanzania	-	1.6	1	12.5	-3.8	111
Ethiopia	1	0.4	5	24	13.3	109
Congo	0.06	12	5.1	36.7	57.3	104

Source: The China Commerce Yearbook, 2008, p.216.

2.11 It is evident that China's investments in Africa have contributed immensely to the economic development of this continent. For instance, China's investments and technical assistance in Sudan have helped turn this country from an oil importer to an oil exporter. From 1996 to 2006, the output of crude oil in Sudan greatly increased from 0.2 million tons to 19.6 million tons;[9] not only did it bring in large revenue for the country, it also significantly contributed to the availability of oil in the world market.

2.12 Private enterprises have played a remarkable role in China's investment in Africa. After the global financial crisis has affected the world's major economies, Africa has become a new and attractive place for investment. Chinese private enterprises began investing in Africa one after another, rushing for gold in "the last virgin land on the planet". Considering resources and market demands of African countries, investments made by Chinese private enterprises have followed a diversified trend. These companies prefer to develop the drinking water industry in countries that are weak in water

[9] BP Statistics Review of World Energy, June 2007.

treatment technology, and establish projects such as fruit processing and juice production in areas where fruits are abundant.

2.13 To encourage Chinese enterprises to further invest in Africa, the Chinese government has established a China-Africa Fund with an initial sum of US$1 billion. As of the end of 2008, the Fund had invested about US$400 million in 20 projects, generating investments in Africa by Chinese enterprises to about US$2 billion.[10]

Economic and technological cooperation

2.14 According to the Chinese Ministry of Commerce, in 2007, Chinese enterprises signed contracted projects and labor services contracts with African countries amounting to US$29 billion, and the turnover was US$13 billion. By the end of 2007, the accumulated value of such contracted projects and labor services contracts reached US$100 billion, and the turnover was US$51 billion. Currently, the number of engineers and workers engaged in these contracted projects totaled 114 000.[11] These projects and labor services are in various areas, including house construction, petrochemical industry, mining industry, water resources, transportation infrastructure and so on.

2.15 These achievements should be attributed to the good performance and reputation of Chinese enterprises (especially those state-owned enterprises) in Africa. Chinese enterprises are known for their reliability in completing many construction contracts on time. In some African countries, such as Botswana, Chinese enterprises won 80 percent of the contracts that they bid for. Their winning bids are based on competitive pricing offered and efficient project completion.

2.16 It should be noted that although China-Africa economic relations have been making great progress these years, the significance of the relations cannot be

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10 *China signs US$260m airport deal with Mauritius, China Daily*, February 19, 2009.

11 The China Commerce Yearbook, 2008, p.684.

overemphasized. China's activities there are still limited and facing some challenges. China remains a newcomer in the western dominated market in Africa, and the long-term outlook for China's role in Africa is not clear.

2.17 For example, in terms of bilateral trade, according to IMF, the total China-Africa bilateral trade value in 2006 (US$49 billion) accounted for 8.5 percent of Africa's total foreign trade (US$568 billion), while in the same year, US accounted for 15 percent (US$86 billion) and EU 38 percent (US$214 billion).[12]

2.18 According to a World Bank Report, in 2007, the US bought 31 percent of Africa's oil, Europe 31 percent and China 12 percent, while Chinese investment in the oil industry in Africa is less than one-sixteenth of that invested by Western oil companies.[13] China's national oil companies (NOCs) currently are minor actors among the foreign investors in Africa's largest reserve holders, including Libya, Nigeria, Algeria and Angola. China's NOCs lag behind international oil companies (IOCs) in terms of their African assets' value and production. The commercial value of the oil investments of China's NOCs in Africa is just 8 percent of the combined commercial value of the IOCs' investments in Africa and 3 percent of all investments in African oil.[14] In 2006, the total African output of the Chinese NOCs (267 000 barrels of oil equivalent per day) was only one third of that produced by ExxonMobil (4.1 million boe/d) – the largest foreign producer in Africa.[15]

2.19 China's aid to Africa is also easily dwarfed by that of western countries. Between 2000 and 2006, US economic aid to sub-Saharan African increased from US$2.1 billion to US$5.4 billion. In 2006, European countries gave

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[12] *IMF, Direction of Trade Statistics*, Yearbook, 2007.

[13] *China Daily*, February 11, 2009.

[14] Erica S. Downs. *The Fact and Fiction of Sino-African Energy Relations*. China Security, Vol. 3 Summer 2007.

[15] Erica S. Downs. *The Fact and Fiction of Sino-African Energy Relations*. China Security, Vol. 3 Summer 2007.

US$21.9 billion to Africa, and the United Kingdom on its own gave US$5.2 billion.[16] These years, Japan also increased its aid to Africa in competition with China. Japan's former Prime Minister Fukuda Yasuo announced at the Fourth Tokyo International Conference on African Development in May 2008 that Japan would double its Official Development Aid (ODA) to Africa in the next five years, bringing annual aid from the current US$900 million to US$1.8 billion by 2012.[17]

2.20 China's ventures in Africa still meet with some pressure from the West. For example, China's biggest investment deal in Africa valued at US$9 billion is faltering as western donors pressured for a renegotiation of a minerals-for-infrastructure contract in the Democratic Republic of Congo. Under this deal, a consortium of state-owned Chinese companies agreed to build roads, railways, hospitals and universities in return for the right to develop a copper and cobalt mine. But led by the Paris Club of creditors and the IMF, pressures to alter the deal has come from western donors that will not offer relief to the historic debt of US$11 billion of the cash-strapped government of President Joseph Kabila if it accepts Chinese financing on commercial terms.[18]

Extension of China's strategy in Africa

3.1 Post-colonial Africa is often seen as burdened by civil wars, epidemics, and venal regimes, and is termed a "hopeless continent". On the other hand, China always looks at African countries as "brothers" and "sisters", celebrates Africa's culture and achievement which are implicitly denigrated in the West, and sees opportunities for long term partnership and growth. The extent to which China embraces Africa was shown at the FOCAC meeting in November 2006.

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16 Homi Kharas. *A Reality Check on African Aid*, The Brookings Institute, February 20, 2008.

17 Ramesh Jaura. *Japan Seeks to Outbid China in Quest for African Support,* Inter Press Service, May 29, 2008.

18 Barney Jopson. Congo pressed over China deal. http://www.ftchinese.com/story.php?storyid =001024803 February 10, 2009.

3.2 At this summit meeting, China announced that over the period of 2007-2009, it would establish a US$ 3 billion preferential loan package and a US$ 2 billion preferential buyer's credit for Africans; it would double aid to Africa, cancel all debts owed by African countries that were due in 2005, and establish a US$ 5 billion China-Africa Development Fund to provide Chinese companies investing in Africa with a start-up capital.

3.3 Since 2007, China has signed bilateral aid accords with 48 African countries and loan agreements with 22 African countries. China plans a 200 percent increase this year in the value of aid to Africa, compared with 2006. China's assistance to Africa, without any attached political preconditions, has greatly enhanced African countries' self-esteem and their self-development capability.

3.4 In contrast, Western aid comes mostly with preconditions. For instance, about 80 percent of US grants and contracts to developing countries must be used to buy goods and services from US firms. About 90 percent of Italy's aid benefits Italian companies; 60-65 percent of Canada's aid and much that of Germany, Japan and France are all tied to purchase from donor states.[19] A United Nations study found such ties cut by up to 25-40 percent the value of aid to African countries which are required to buy non-competitively priced imports from donor countries.

3.5 In developing its relations with African countries, China has deliberately avoided a singular focus on oil supplies to include a range of economic exchanges. China is in joint venture with the African Development Bank and Western African Development Bank, and has built its more expansive engagement in Africa within the FOCAC framework. Currently, the construction of economic and trade zones or duty free trade zones in Africa is progressing smoothly, including the Zambia-China Economic and Trade Cooperation Zone, the Guangdong Economic and Trade Cooperation Zone in Nigeria and the Lekky Duty Free Trade Zone in Nigeria, the Egypt-Suez Economic and Trade Zone and Ethiopian Orient Industrial Park.

19 Sogge, D. *Give and Take: What's the Matter With Foreign Aid?* New York: Zed Books, 2002.

3.6 In his trip to Mauritius on February 17 this year, President Hu Jintao pledged to speed up construction of the China-funded US$730 million Economic and Trade Zone north of the capital. This project is expected to create up to 40 000 jobs and up to US$210 million of exports per year, or almost 10 percent of Mauritius's external sales in 2007.[20]

3.7 Meanwhile, China has established institutional mechanisms, such as bilateral committees between China and African countries, and political consultation between foreign ministries of the two sides to conduct dialogue and consultation in a flexible and pragmatic manner. Cultural exchanges have also been active and fruitful between the two sides. African songs and dances have gained their audience in China and China's Confucius Institute has also taken root in Africa since its first landing in the University of Nairobi, Kenya, in December 2005.

3.8 China's economic reform and development model has proved to be attractive to many African countries. China's financial system has played an effective role in developing their undeveloped areas while its reform experience in other social fields, its relatively advanced technological advancement and culture have been emulated by African countries as well. China as a forerunner of economic reform can transfer its expertise in creative development to African countries. All this would further bolster China's image as a constructive and positive partner with African countries and extend China's strategy in Africa.

3.9 Strategically, all these endeavors are meant to reinforce Beijing's efforts at establishing closer relations with Africa and a new type of strategic partnership based on mutual political trust, economic reciprocity and mutual cooperation. African countries hope that China will take the lead in building a new and more equitable international economic order from which all nations, including African countries can benefit.

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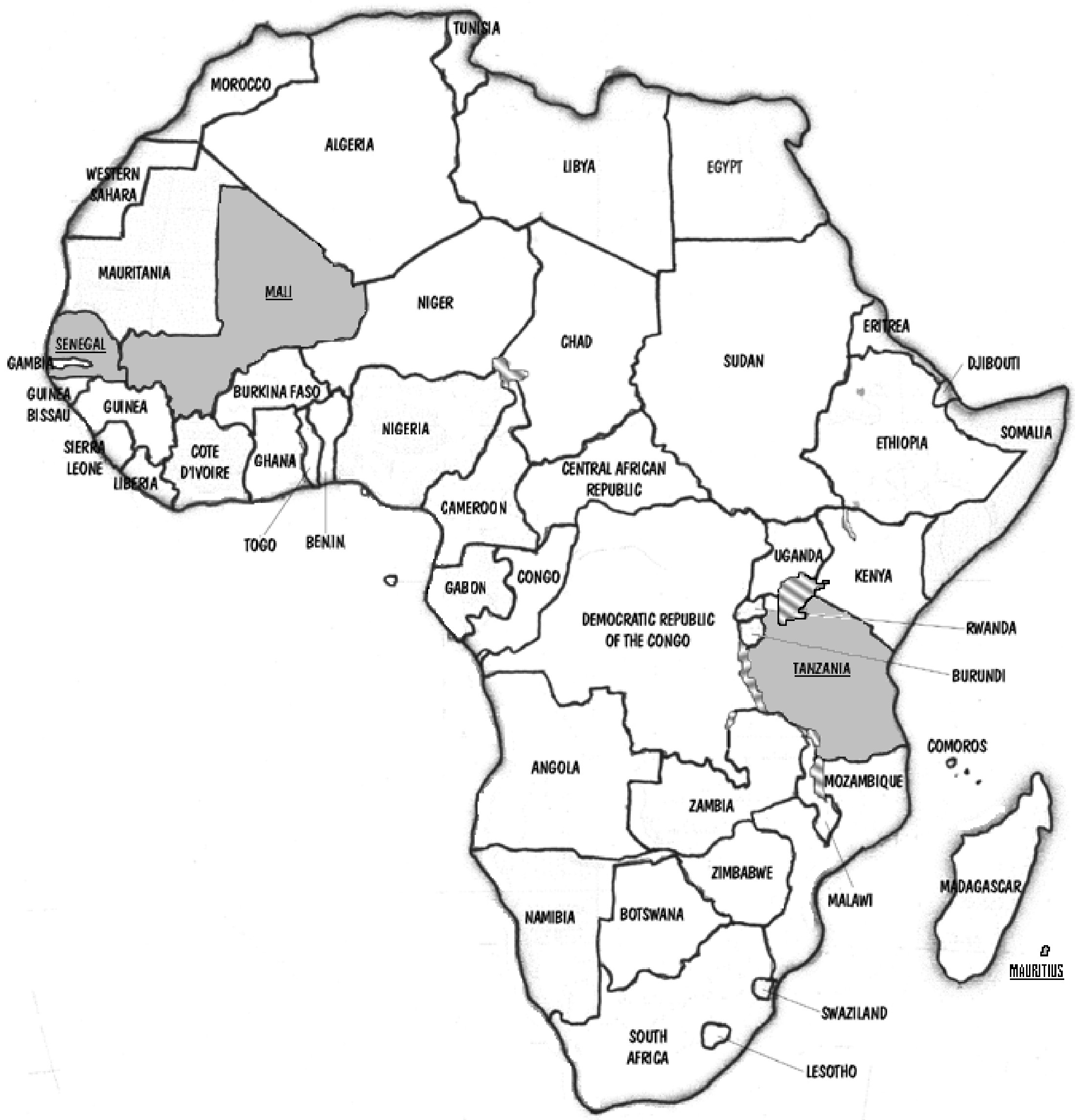
20 *China signs US$260m airport deal with Mauritius, China Daily*, February 19, 2009.

3.10 In the near term, China will continue to take necessary measures to push for bilateral economic and trade cooperation, and further build a “win-win” relationship with African countries on the basis of mutual respect and understanding. All these indicate that Beijing has launched a more comprehensive and ambitious program to court Africa as a whole and integrate it into the world market. Whether such a relationship can be achieved in the long run will depend on China’s ability to manage its activities and diplomacy smartly in Africa, and its eventual rise in the global arena.

MAP FOUR AFRICAN COUNTRIES VISITED BY HU JINTAO FROM FEBRUARY 12 to 17, 2009



Note:
Four African countries visited by President Hu Jintao (shaded in the map):
Mali, Senegal, Tanzania and Mauritius