



The African Union

Topic C: Chinese Economic Influence

Aubrey Blanche

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# Chinese Economic Influence

## Introduction

The weakness of the African economies allows for willing investor nations to play a strong role in the region's development. In modern Africa, no outside country is playing a larger role than China. Backed by the world's second largest economy and almost three times as much total wealth as all Africa combined, China's willingness to invest

in Africa makes the Chinese a strong economic factor on the continent; in 2005 alone Chinese firms invested \$30 billion in Africa. While this investment provides Africa with greatly needed capital, it comes at significant political cost.

During the 1960s, China's main role in Africa was preventing the recognition of Taiwan to shore up the nation's United Nations credentials while also competing with Russia and the Western

powers to gain recognition as a major player in geopolitics. While these are still goals of the Chinese government, they have also adopted a new agenda. With a large and rapidly developing population, China is in need of natural resources such as oil and copper, both of which are abundant in Africa. China's willingness to support corrupt and violent regimes helps the Chinese in two ways; first, they become the sole outside economic presence in a nation, allowing them to take advantage of the



nation's natural resources, and second, they gain the support of such regimes, who help push the Chinese agenda internationally in bodies such as the United Nations.

The presence of the Chinese in Africa has both positive and negative effects on African nations. On the positive side, the Chinese provide foreign investment, which the government can use to improve the nation's infrastructure and provide much-needed social services. In addition, the Chinese export numerous goods at cheap prices, often providing necessities to people who would have little other means of obtaining such items. On the other hand, Chinese exports sell very well in Africa, which often stifles local industries and puts many Africans out of work. Of even greater importance the Chinese often provide support to totalitarian regimes that violate the basic human rights of their people. No country has greater influence, for better or for worse, in Africa.

### Background

Every great European power had some sort of colonial dominion in Africa, the remnants of which are seen today: the hybrid language of Afrikaans and scars of apartheid left over from Dutch domination of South Africa, the linguistic legacy of the French presence in West Africa, and the literary and political consequences of the Belgian occupation of the Congo are all prime examples.

Most are familiar with Western domination of Africa, but in recent years an Eastern power has been encroaching on Africa. China's economic and increasingly political support of African nations--most notably in East Africa--plays an ever-increasing role in the way in which the countries of the African Union relate to each other and the rest of the world.

China has always been a country interested in exploring other continents, if not absorbing the cultures they found there. There is documented evidence that the Chinese began exploring



outside their borders as early as the second century BCE, and continued energetically until about the 15th century CE. They first encountered Africa by way of the Persian Gulf and Egypt, but soon moved down the coast and explored a substantial portion of East Africa, setting up trade routes that would be utilized for hundreds of years. China's chief trade partner in these endeavors was Ethiopia, which often served as a middleman for Egyptian and Middle Eastern goods.

Trade eventually fell off as China itself was colonized by Western powers. The incursion of outsiders encouraged Chinese isolationism and kept China out of Africa for roughly 500 years.

The beginning of Chinese involvement in Africa in modern times has often been partially attributed to the diaspora of a large number of Chinese citizens after the 1949 civil war. After the "opening" of China to capitalist ideas and foreign expansion, Africa became an important venue for investment. The natural resources present on the African continent are economically appealing to China, and the cheap goods that China can provide to the economically disadvantaged populations of Africa make the relationship mutually beneficial. In addition to goods, the Chinese are able to provide skilled workers to East African countries, with the hope that these skilled workers could help to build African industry.

But many problems have arisen from this exploitation of African resources by China. The once great forests of Gabon have been substantially depleted because of rapid over-harvesting and a lack of government oversight of forestry practices. Under the system originally established, less than 1% of the rain forests of Gabon were protected. While Gabon is only one example, it is illustrative of the large problem endemic to the African continent.

With weak central governments often providing poor oversight of resource management, China has been able to extract an increasing amount of resources from the continent. While metals



and wood--important for building and creating industrial goods such as charcoal--were significant, in recent years oil has become the good of choice for China to import from Africa.

The extraction of oil for Chinese use has focused mostly on Nigeria and Angola, the African nations with the largest supplies of easily reachable (and cheap) fossil fuels. China has also been able to utilize the economic output of politically unstable countries such as Sudan, which exports as much as 60% of its oil to China. Experts are divided as to whether the increased capital available to such countries contributes to political instability or helps to increase the economic viability of the common man by effectively decreasing the power of the ruling elite in those countries.

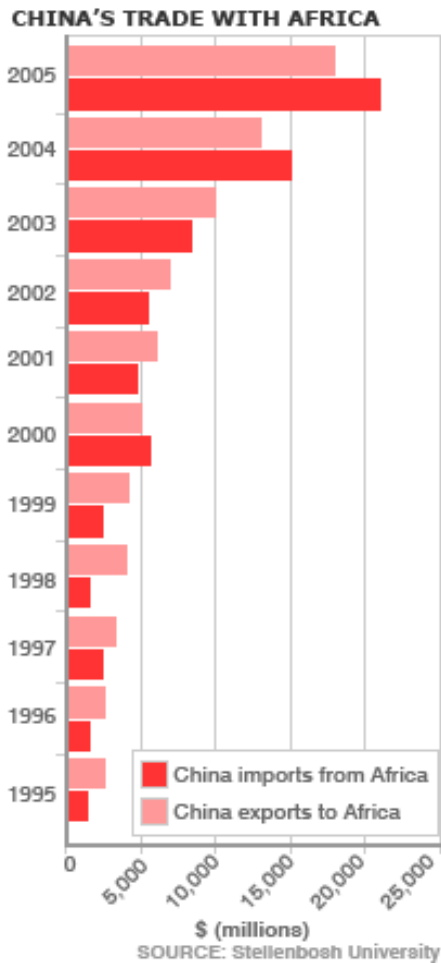
In return for the cheap resources enjoyed by China, the country has been able to provide services to African nations. In addition to the highly skilled engineers and technicians educated in China, low-cost Chinese workers have been utilized to build infrastructure, especially in East Africa.

The problem that this arrangement presents is that it inhibits domestic economic growth. By giving even menial jobs to foreign workers, it keeps the unemployment rates of native Africans artificially high, and decreases their buying power on a per capita basis. Many argue that the use of Chinese workers thus negates the benefits that African nations receive from importing cheap Chinese goods, because their own workers don't possess the capital to purchase them.



## Current Status

In recent years, China has taken proactive steps toward increasing its influence in Africa, and China's growing presence on the continent can be seen by examining trade numbers. Since 2001, the total trade between China and Africa has increased tenfold. Ethiopia, for example, exported \$132 million in goods to and imported \$432 million in goods from China in 2006. As seen in the figure, trade has increased exponentially, especially with a Chinese commitment, made in 2006, to double bilateral trade to \$100 billion.



Oil is at the crux of the continent's relationship with China; it represents 60% of the total value of China's imports from Africa. As China's demand for oil increases (it is the second largest consumer of oil in the world), the country looks to Africa to supply its needs. China currently imports about a third of its oil supply from Africa; the United States imports a roughly equal proportion of its oil needs from Africa. While Africa is only responsible for 9% of the world's oil, the continent is seen as having great potential for untapped oil, a fact not lost on China.



Chinese companies have even invested in Algeria's hydrocarbon industries, a potential energy source. The China National Oil & Gas Exploration & Development Corporation (CNODC) has spent \$350 million to build an oil refinery in southwest Algeria. In 2002, China worked alongside the Algerian company Sonatrach to develop the Zarzaitine oil field, with the Chinese government footing 75% of the \$525 million cost. China has begun importing 7% of its oil from Sudan and has invested \$3 billion in oil refineries and pipelines since 1999<sup>5</sup>. In July 2005, PetroChina purchased nearly 11 million barrels of oil from the Nigerian National Petroleum Corporation, at a cost of \$800

million<sup>v</sup>. China National Offshore Oil Corporation (CNOOC) has bought a stake in a Nigerian oil and gas field for \$2.27 billion with promises of contributing a further \$2.25 billion.

China has also served as a financier and donor to Africa. In November 2009, China pledged \$10 billion in low interest loans, lower duties on African products, and 100 clean-energy projects. As

Table 1  
**Aid, trade, and investment**  
The level of transactions between Africa and China has burgeoned since the turn of the century.  
(billion dollars)

	2001	2006
<b>Total trade</b>	10.8	55.5
African exports	4.8	28.8
African imports	6.0	26.7
<b>Official development assistance (ODA)</b>	...	2.3
Chinese ODA	...	1.0
Chinese debt relief	1.3	1.3
<b>Foreign direct investment (FDI)</b>		
Chinese FDI to Africa	...	0.9
African FDI to China	0.3	1.1
<b>Contracted projects</b>		
Chinese projects in Africa	1.8	9.5

Sources: Trade data are from China customs statistics. All other data are from Wang (2007).  
Note: ... denotes not available.

seen in the figure, investment and trade outpace direct aid; China's aid to Africa was \$1-\$1.5 billion in 2004-2005<sup>ii</sup>. China has cancelled the debts of many countries; in 2002, China cancelled \$1.3 billion in African debt, and in 2006, the government pledged to cancel another 10 billion yuan from 33 of the continent's least developed and most heavily indebted countries. The Export-Import Bank of China (China Exim Bank) has loaned \$20 billion since 2005 to African countries<sup>6</sup>. In 2006, there were 259 projects funded by the bank, of which 79% were infrastructure construction (railroads, dams, power plants, mines, oil facilities). As seen in the figure, the majority of Chinese infrastructure

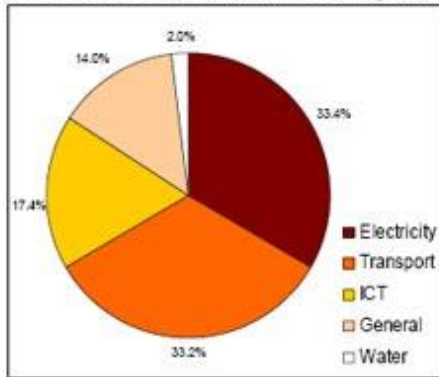


investments in Sub-Saharan Africa are concentrated on electricity and transport. China's direct investment in Africa has totaled \$6.6 billion. In 2006, the Industrial and Commercial Bank of China purchased 20% of the largest bank in South Africa, Standard Bank Group of Africa, for \$5.6 billion.

China's investment and interest in Africa have not been met with only accolades and praise. China's "no strings attached" aid and willingness to trade with unsavory nations have earned widespread criticism. For example, China is Sudan's largest buyer of oil despite the well-publicized allegations of human rights violations in Darfur. Activists have also urged China to cease selling

arms to Sudan and pressure Sudan to allow peacekeepers into the country. On 9 October 2009, China International Fund (CIF) struck a \$7 billion deal with Guinea that will allow the company to gain access to the country's vast mineral resources; this agreement came only eleven days after Guinea's ruling junta killed 157 people and injured 1,200 more in suppressing a protest by members of

**Figure 6: Confirmed Chinese infrastructure finance commitments in Sub-Saharan Africa by sector, 2001-07**



Source: World Bank-PPIAF Chinese Projects Database, 2007.

an opposition political party, an attack that the International Criminal Court is investigating as a crime against humanity. The same company, in conjunction with the Algerian owned Sonangol, has plans to invest in other projects in Guinea as well. Critics claim that China's investment in Guinea leads tacit support to the ruthlessness and corruption of the Guinean government.

Chinese guns and arms trade to African countries has sparked rebuke from the international community as well. Chinese arms sales to Africa increased by \$500 million, 15.4% percent, from 2003 to 2006, with buyers including Sudan, Equatorial Guinea, and Zimbabwe. In 2004, a \$240



million bargain was struck between President of Zimbabwe Robert Mugabe and the Chinese government, which included the delivery of 100 military vehicles to the Zimbabwean military. China was also criticized for installing surveillance equipment in Zimbabwe, allowing the government to spy on its citizens, and systems that blocked anti-government media reports during the 2005 parliamentary elections. In Ethiopia, China is widely praised for helping fix the country's roads and investing in the telecommunications sector, but heavily criticized for installing surveillance equipment that allows the Ethiopian government to monitor opposition leaders' cell phone calls and emails.

Furthermore, Chinese projects have not necessarily been unequivocally good for local businesses and communities. Chinese companies frequently undersell local African companies by offering goods at lower prices, which shuts down African factories and contributes to unemployment. Even infrastructure projects have not always been purely beneficial; the Merowe Dam in Sudan is predicted to displace 50,000 people. Residents were forced to locate to desert lands which have no water for farming, farmable land, or infrastructure. People who opposed and protested against the forced relocation were often jailed, with some peaceful opposition farmers even being shot. Environmental effects were also not taken into consideration; neither was the possibility that the dam may increase the prevalence of diseases that require slow or stagnant water to propagate, including Africa's deadliest disease, malaria. Because the dam will decrease the water flow downstream, farmers who live downstream will have difficulty irrigating their crops.

China's involvement in Africa raises many questions. Investment, trade, and aid are definitely necessary for the continent. However, human rights violations, the arms trade, and concerns that China will be yet another colonial power must be addressed.



### Question to Consider

1. What are the most pressing economic problems in your country?
2. How are these problems being exacerbated and/or helped by the intervention of China?
3. In what ways can the African Union encourage domestic solutions to national economic problems?
4. What types of infrastructure are needed in African countries, and to what extent do the local populations have the training and knowledge to provide these for themselves?
5. What should the role of the international community be in encouraging national economic development, and what should be the limits of their involvement?
6. What other countries have provided major investment in African economies, and how do these compare to Chinese investment?
7. What existing programs and investment schemes could be expanded to help African nations become independently economically solvent?

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