Story
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CHINA'S GROWING ECONOMIC DOMINANCE IS PLAYING OUT ON A GRAND SCALE IN AFRICA.

DANCING WITH THE DRAGON

AFRICA MAY BE seen as a new frontier land of opportunity, but it seems it's mainly Chinese rather than Western businesses staking their claims to the resource-rich continent. The political and social volatility of some African nations has seen Western companies take a cautious approach to them – but for China, investing in Africa is part of a much bigger strategy. Some commentators see growth in Africa as a way for China to stake out its growing economic dominance and to further promote the yuan as a global currency.

China's main interests in Africa are securing natural resources, particularly oil and strategic minerals, and tapping an emerging market that has great long-term potential. With 70 per cent of its population aged under 35, Africa will enjoy an extraordinary demographic dividend as this new generation drives development.

Chinese foreign direct investment (FDI) on the continent increased six-fold from US$392 million in 2005 to US$2.5 billion in 2012, according to China's Ministry of Commerce, which puts it in the top five foreign investors, behind France, the United States and Malaysia. By the end of 2011, Chinese FDI stock in Africa stood at US$16 billion. In 2012 Sino-African trade reached nearly US$200 billion and experts predict it could soar to US$385 billion by 2015. By comparison, trade between the US and Africa was just under US$110 billion in 2012.

"The rapid rise of China's economy and its output of so many low-cost products have given the country an enormous advantage over the West," says David Shinn, a professor at George Washington University's Elliott School of International Affairs and former US ambassador to Burkina Faso and Ethiopia. "Furthermore, many Chinese companies are owned by the state and have access to a level of financing that private Western companies simply do not have."

Using state-owned institutions, China has provided more financing for Africa in recent years than any other country. This is usually in the form of loans paid back in natural resources, such as oil and strategic minerals. In Angola alone, Chinese firms have agreed to deals worth around US$13 billion, reports Thomson Reuters. China has also ingratiated itself with African governments by providing >

Sino-powered economic growth?

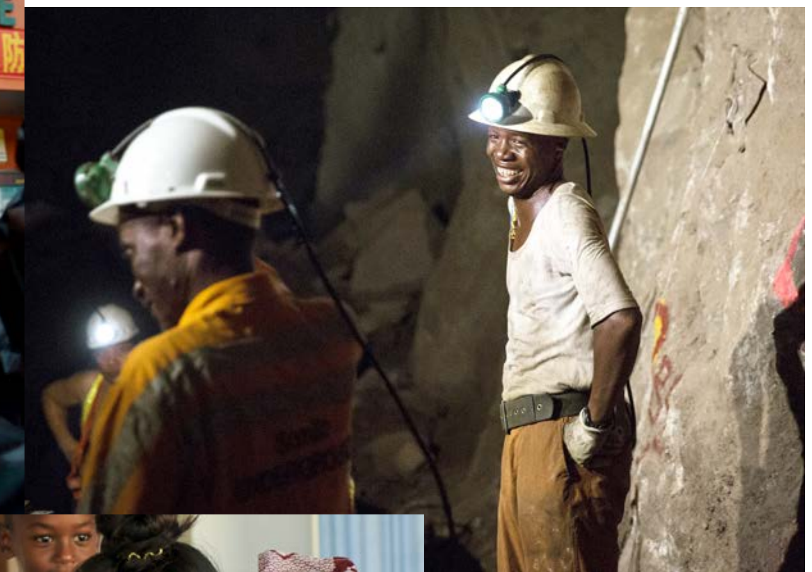
Those who decry China's presence in Africa should take a hard look at the continent's recent economic history. Before China became seriously involved, African economies suffered from heavily fluctuating commodity prices. Manufactured goods had to be imported from developed countries, frequently at a cripplingly high price.

Africa is experiencing its longest period of uninterrupted economic growth since the 1960s. Between 2000 and 2009 – the period when China and Africa's trade really took off – Africa maintained an average annual GDP growth of more than 3 per cent, and it bounced back quickly from the recent global economic crisis.

Chinese investment is transforming countries such as Ethiopia, where annual economic growth has recently averaged over 10 per cent. According to a World Bank survey, China's FDI in Ethiopia went from practically zero in 2004 to US$74 million in 2009 and US$58.5 million in 2010. If Ethiopia keeps growing at these levels, it could attain middle-income status by 2025.

schools, hospitals, roads, training and education – its so-called "soft power" initiatives. But despite its apparent success, China's involvement in Africa has drawn criticism from many quarters. While Chinese partnerships were initially welcomed by African governments and populations, the quality of the services they received and the way some Chinese companies have operated have steadily eroded support and generated mistrust.

Last year Sanusi Lamido Sanusi, governor of the Central Bank of Nigeria, wrote: "China takes our primary goods and sells us manufactured ones. This was also the essence of colonialism … Africa is now willingly opening itself up to a new form of imperialism." Is China becoming Africa's new colonial master? A far more pertinent question for the 54 nations of Africa might be: will China's interest lead to sustainable development for a continent with so many socio-economic challenges?



CHINA IS NOT THE ONLY PLAYER

It's important to note that despite the burgeoning trade figures, China is not cornering the African market. The US and other Western countries already have far more FDI in Africa than China, mostly because they started investing much earlier.

There could be massive opportunities for Western and Japanese firms to benefit from the "China effect", either by partnering with Chinese firms in Africa or investing in fast-growing economies that have taken off thanks to China. Rising economic powers such as South Korea, Malaysia and Turkey, as well as India and Brazil, are also on the prowl.

Mixed receptions: clockwise from top left, a Zambian woman outside a cheap clothing outlet in Guangzhou, which has one of the largest African populations in Asia; gold miners in Mali; a Chinese-operated clinic in Equatorial Guinea; Nigeria's president, Goodluck Jonathan, meets US President Barack Obama in New York.

Savvy Western companies – from supermarkets Carrefour and Wal-Mart to computer chip maker Intel and PR giant Hill + Knowlton Strategies – have already expanded their African operations.

"There is plenty of room for increased Western investment in Africa," says Alex Vines, who heads the Africa research program at the Chatham House policy institute in London. "This is slowly happening. French FDI is growing, as is European and US-Africa trade. In 2011 US retailer Wal-Mart bought 51 per cent of South Africa's Massmart for US$2.4 billion. While Japanese business has traditionally been very risk-averse, big companies such as Mitsui have recently become much more ambitious, encouraged by the Japanese Government."

In recent years Western economic involvement in Africa has been bogged down by a slower, more deliberate model that, despite its best intentions, is not always effective. By contrast, China's hunger for Africa's raw resources has seen Beijing take a more relaxed approach to investment.

"Given China's thrust, the West knows that it has to create a hybrid system that produces both ribbon-cuttings, but that also addresses long-term issues with legitimacy, transparency and institutional capacity," says Chris Walker, key consultant at Consultancy Africa Intelligence (CAI) in Washington DC. "Barack Obama's recently announced Power Africa initiative for sub-Saharan electrification is a good example of that new direction, complete with its capacity-building 'delivery units'."

As Africa's middle class grows and infrastructure becomes less of an issue, the continent's list of partners will undoubtedly grow longer.

"There is evidence that African countries are now able to say 'no' to Chinese companies on a more regular basis," says Merlin Linehan, founder of the London-based China in Africa consultancy. "For example, the Gabon and Chad governments recently revoked contracts with Chinese oil firms, partly in the knowledge there were potential partners waiting in the wings."

ON THE MINERS' BACK

China's push into Africa is having a knock-on effect in many areas of the global economy, particularly in mining. With mineral products comprising almost 80 per cent of China's imports from Africa, China is strengthening its mining foothold across the continent at the expense of other major resource companies. Australia's miners, who were once leaders in African resource development, will have to exploit Sino-Australian partnerships to the fullest extent to avoid becoming a downgraded member of the resource triangle. China's demand for iron ore imports is expected to rise to 1 billion tonnes by 2018, according to Australia's Bureau of Resources and Energy Economics.

In an interview with *Mining Weekly* magazine [in October last year], West African Iron Ore CEO Guy Duport said there were a minimum of 20 potential mines that could open in West Africa – in Liberia, Guinea, Sierra Leone and Mauritania – from 2015 to 2020. He believed additional interest in West Africa from miners such as BHP Billiton, Rio Tinto, Glencore Xstrata and Brazilian company Vale highlighted the emergence of the world's next significant iron ore region.

With global demand for iron ore predicted to double by 2030, "it is unlikely that Australia and Brazil will be able to meet demand," Duport says. "West Africa, however, looks capable of filling this deficit."

India and Europe, as well as China, are big buyers of Africa's raw resources, but an over-reliance on primary commodity exports by some African countries has meant that economic growth has not necessarily led to job creation. In some countries, it has actually resulted in rising inequality over the past decade. Until the continent has more nations like South Africa, which produces higher-value processed goods, this will continue to be a problem.

Jonathan Bhalla, research manager at the Africa Research Institute in London, says: "Many African countries remain rooted at the bottom of the value chain, but you can't blame China for this. The problem is frequently the lack of a coherent strategy for economic growth." Of course, focusing on manufactured exports is not the only answer to sustainable African development. The continent's labour-intensive exports must also deliver broad-based growth. Mali's mangoes, Rwanda's coffee, Ghana's cocoa and Kenya's horticulture are success stories that need to be repeated on a wider scale.

So what is holding Africa back? Deeply factionalised politics may be one reason, with many countries embroiled in internal power struggles that hamper economic planning. Regional co-operation is also frequently stalled by long-standing suspicions and rivalries.

"People tend to overstate pan-African solidarity," Bhalla says. "While there are regional trade blocs such as the Economic Community of West African States, they're not negotiating effectively with China. For its part, China prefers to focus on bilateral trade, which is hardly surprising. They can usually get a better deal and have far fewer political machinations to deal with."

LABOUR PAINS

China may have brought cheap consumer goods, hospitals and roads to Africa over the past decade, but the continent's leaders are increasingly pushing for it to provide more of what many Africans need most: employment.

Building healthy construction, manufacturing and service sectors is critical to providing jobs and improving incomes. However many African leaders are still signing contracts to import Chinese labour for construction projects. Frequently the Chinese companies push for these clauses in an attempt to address their own rising unemployment figures.

Africans who need jobs continue to raise their voices. "Africa's youth are looking for leadership on the jobs issue above all others," says Walker. "The population explosion in Sub-Saharan Africa means that suppression will only work for so long. Together with African politicians, China's entrepreneurs and corporate leaders have a critical role to play in addressing this problem."

Ultimately, the transformation of Africa into a market for higher value goods will require raising people's incomes. A CAI report showed that in 2009, 32 million or 2 per cent of the African population earned between US$10 and US$100 per day. For the 60 per cent who make US$2 a day or less, opportunities to improve living standards can't come fast enough.

A CHANGING RELATIONSHIP

The nature of China's relationship with Africa will change dramatically in the next decade, with Beijing more dependent than ever on the continent's national and regional stability. "As Chinese interests become more and more entrenched in Africa, Beijing will find it harder and harder to maintain relationships based on pure economics," Bhalla observes. "China's investments in Africa have already proven risky for its nationals. Five Chinese oil workers were kidnapped and killed in Sudan in 2008, and 29 were kidnapped in 2012. In 2011 China was forced to evacuate [more than 30,000] workers from Libya after oil facilities were attacked in the country's civil war."

When Beijing sent naval vessels to the Indian Ocean to combat Somali pirates in 2008, it signalled China's increasingly strategic role on the continent. But if and when China's soft power toughens up, the transition will be governed, as always, by a pragmatic approach to doing business.

"Africa will witness further economic diversification as China takes advantage of its labour capital," Chris Walker says. "More countries will join China in the investment rush. Above all, Africa's development will be increasingly important in the growth of the global economy, not just China's." ■

Hard talk

When doing business with Chinese companies, some African states have undoubtedly been short-changed. Rules exist in many African countries to protect workers and the environment, but they are rarely enforced and some Chinese entrepreneurs have taken advantage of that, *The Economist* reported recently.

Yet there are signs that a growing number of African countries are wising up in their dealings with China. "As they consider Chinese investment offers, more and more African countries seem to be more selective, especially when it comes to oil and minerals," Professor David Shinn says. "Nigeria has long been challenging for China, and Angola, Zambia and Chad have recently been seeking better deals."

"In the past African countries would simply invite Chinese companies in to extract their oil," adds Jonathan Bhalla. "These days more and more are demanding the construction of a local refinery as part of the deal."

The onus is firmly on African countries to diversify their economies beyond commodities and to negotiate assertively with Beijing, rather than being dazzled by China's deep pockets. "Today, many African countries still need to build up their negotiating capacity. Until they do that, the suspicion that they're getting the thin end of the wedge will remain," Bhalla says.

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