

North Asia's Engagement of Africa - China

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China occupies a prominent role in the economy of most African countries. In less than two decades, China became one of the most important trading partners and largest financier of infrastructure projects in Africa. From its early diplomatic efforts during the Cold War to derail any influence Taiwan and the Soviet Union could have on the continent, China shifted gears at the beginning of this century to focus on trade and economic development. Today, China's investments in Africa are spread through a range of sectors, taking on the most grandiose infrastructure projects that were put aside since Africa's colonial times. For all this, China's influence on the continent is unrivalled and only seems to grow.

Africa as China's battleground against Taiwan and the Soviet Union

In the decades since 1949, international relations between China and Africa developed following the independence of African states. China wished to prevent the expansion of Taiwan's influence abroad, pushing a One China agenda and curbing international relations between the island and the rest of the world. African support was also key for China's goal of ultimately gaining entry to the United Nations (UN). Countries in Africa became independent during this time and were facing extensive social and political upheaval. With African nations comprising one-third of the UN members by the mid- 1960s, Africa became a necessary ground for China's international recognition goals.

China's diplomacy towards Africa from the 1960s to the end of 1970s was mostly at an ideological level. China presented itself as anti-imperialist and as an ally against colonialism. Ironically, in the short time span of 20 years since independence spread across Africa, China managed to shift the support of most African countries from initially accepting Taiwan's independence from China, to supporting a One China policy. China got the recently independent African countries to withdraw their support for Taiwan's own independence. In the early 1960s, 56% of the already independent African states had recognized Taiwan. By the end of 1970s and after China gained a seat at the UN Security Council, only 9% of African countries recognized Taiwan's independence.

Country support to either China or Taiwan by African countries had switched depending on what best suited the supporting countries economically or politically. In fact, nine countries – Benin, Burkina Faso, Chad, Gambia, Lesotho, Liberia, Niger, Senegal and Central African Republic – have switched sides more than once, with the latter switching five times since 1962.¹

Growing conflict between China and the Soviet Union during the same period also propelled the Asian nation on its diplomatic efforts in Africa. The continent became a battleground for proxy wars between the Soviet Union and China, with each state supporting opposing sides of post-independence conflicts in Africa. The civil wars that devastated Angola, Mozambique and Zimbabwe, and the Ogaden War between Somalia and Ethiopia, are some examples of proxy wars where China and the Soviet Union supported opposite sides.

Aside from ideological influence, China's presence in Africa through foreign aid and commercial exchanges remained negligible until the end of the Cold War. From that point onwards, China retreated from

¹ [Understanding Sino-African Relations: Neocolonialism or a New Era? \(Timothy S. Rich and Sterling Recker, Journal of International and Area Studies Vol. 20, No. 1 \(June 2013\), pp. 61-76\)](#)

ideological frontlines and focused on economic development, which essentially was what gave the Asian nation legitimacy in the post-Cold War international arena.

China and Africa as business partners

The richness of Africa’s natural resources was very attractive to China as it needed a constant inflow of raw material feedstock to fuel its growing manufacturing sector. Africa, with its large population, could also become a buyer of Chinese manufactured finished goods.

From the African perspective, doing business with China was an imperative. In the post-independence environment, African countries did not easily attract external investment. Most of its external trading was still done with their former colonial masters in Europe. China could provide a form of diversification on this aspect. In addition to that, the sheer size of the Chinese domestic market offered an unmatched opportunity for African countries to grow their exports.

Following the example of Japan, which as early as 1993 started organizing the Tokyo International Conference on African Development (TICAD), China organized a similar event in Beijing, in 2000. The Forum on China-Africa Cooperation (FOCAC) marked the beginning of the era of modern relations between China and African countries, with a focus on economic development rather than the spread of Communist ideology. The forum is hosted every 3 years, alternatively in Africa or in China, but mostly in the latter. Since the inception of FOCAC, international co-operation and economic and social affairs between the parties have increased significantly.

Africa’s largest investor

Since the beginning of this century, China has significantly increased its lending to African countries, from US\$130 million in loans in 2000 to over US\$30 billion in 2016 alone (Figure 1). About 80% of these loans were utilised in the infrastructure, power and mining sectors, summing US\$100 billion between 2000 and 2016. During the same period, Chinese loans towards humanitarian areas such as education and health, totalled US\$2 billion (Figure 2).

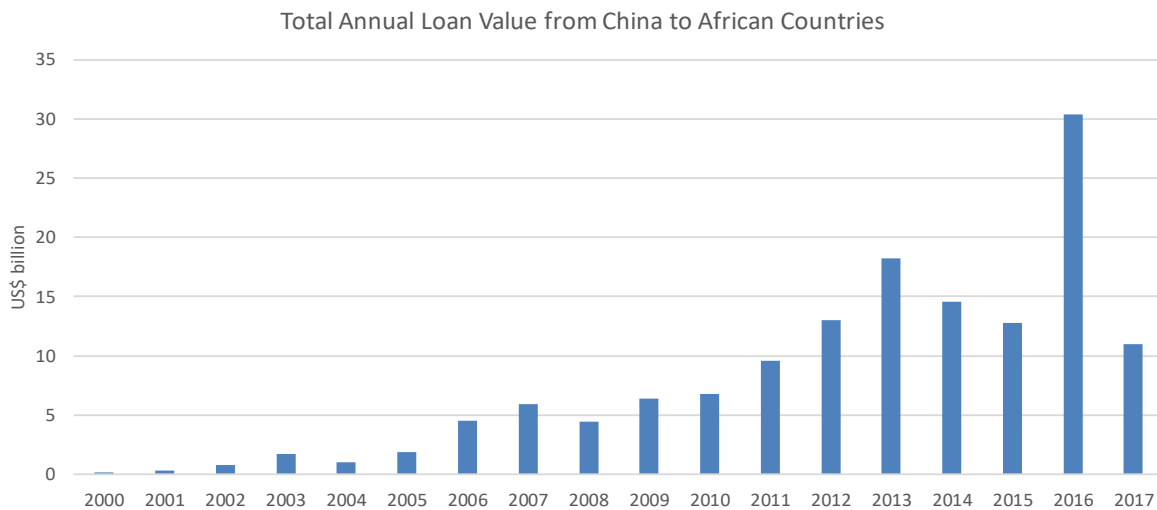


Figure 1 - Total Annual Loan Value from China to African Countries.²

² Johns Hopkins SAIS China-Africa Research Initiative (Sep 2018)

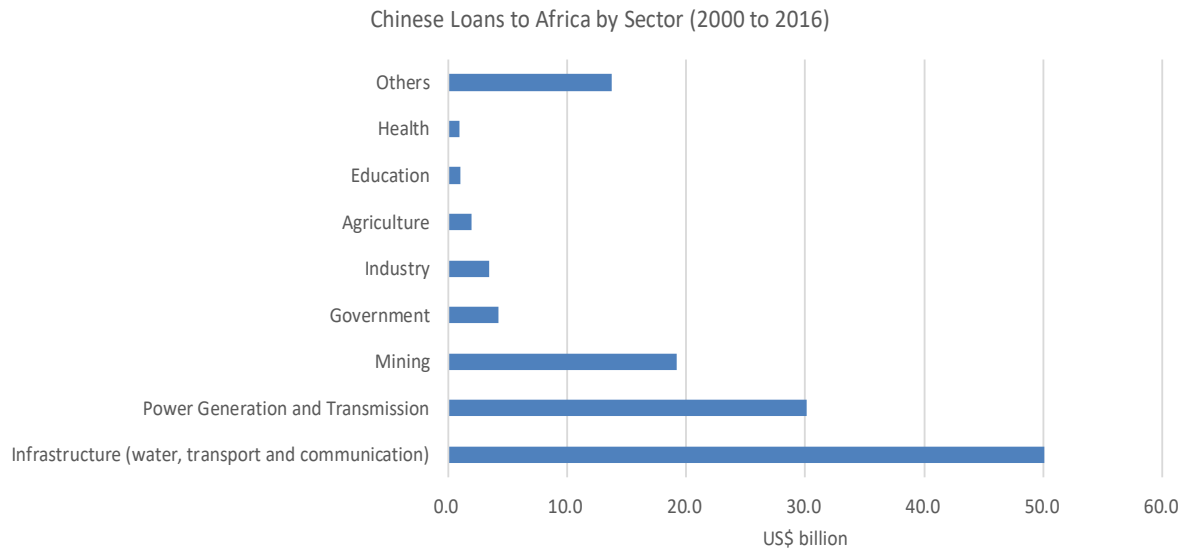


Figure 2 - Chinese Loans to Africa by Sector (2000 to 2016).³

China is now the single largest financier of infrastructure in Africa, having surpassed the African Development Bank, the European Commission, the European Investment Bank, the International Finance Corporation, the World Bank and the Group of Seven (G7) countries combined.⁴ The Export-Import Bank of China announced in November 2013 that by 2025, China will have provided Africa with US\$1 trillion in financing, including direct investment, soft loans and commercial loans.⁵ Following this forecast, in 2015, China pledged US\$60 billion in loans to Africa, and after the latest FOCAC, in April 2018, President Xi Jinping announced another US\$60 billion to Africa in loans and other financing.⁶

This appetite for debt among African governments comes as the proceeds of commodity sales dwindled and economic growth slowed. African governments have had to borrow more to fill the gap in their budgets. An impetus for African countries to boost infrastructure, improve the investment climate on the continent, facilitate economic growth and attract investments have also helped raise the amount of borrowing by African nations. International investors seeking markets with higher returns are looking at Africa as the new frontier. The rapidly growing population with increased requirements for goods and services and an emergent middle class with growing spending power, have attracted many foreign investors. It is in this context that China becomes important. With its deep pockets and in line with its ambitious infrastructure-driven Belt and Road Initiative (BRI), China has made infrastructure financing a key source of Sino-African debt.

The BRI can be considered as one of the largest infrastructure and investment projects in history. It covers more than 68 countries, includes 65% of the world's population and 40% of the global GDP as of 2017. In its totality, it consists of US\$900 billion of planned investments, making it probably the grandest investment drive put forward by a single country.⁷ Some commentators are of the opinion that the total spend of the BRI will eventually, by 2049, fall within the range of US\$4 trillion and US\$8 trillion.⁸

³ Johns Hopkins SAIS China-Africa Research Initiative (Sep 2018)

⁴ [Should Africa be wary of Chinese debt? \(BBC News, Sep 2018\)](#)

⁵ [China to provide Africa with US\\$1tr financing \(South China Morning Post, Nov 2013\)](#)

⁶ [China Promises Africa Debt Relief as Xi Counters Aid Criticism \(Bloomberg, Sep 2018\)](#)

⁷ [China Says It's Building the New Silk Road. Here Are Five Things to Know Ahead of a Key Summit \(Time, May 2017\)](#)

⁸ [Greening the Belt and Road Initiative \(World Wide Fund for Nature WWF\)](#)

The BRI (initially known as One Belt One Road, or OBOR) is a revival of the iconic land and maritime Silk Road trade routes and infrastructure network spanning East Asia to Western Europe and South through Africa. It consists of roads, railways, ports, pipelines, highways and every piece of infrastructure that can help improve trading between China and its business partners in Asia, Europe and Africa.

While projects under the BRI umbrella in Africa mainly encompass countries in East Africa, the Chinese investment arms spread through most of the continent. The reach and size of such have driven many African countries into risky levels of debt. In 2018, even countries with small economies, such as Zimbabwe and Namibia, have discussed participation in the BRI with President Xi Jinping of China. Other countries in West Africa have also indicated their interest in becoming a participant in the BRI.

Rising Debt

The growing amount of funds lent to African countries in recent years is reflected in the rise of their debt-to-GDP ratio, which is an indicator of a country's ability to pay back its debts. The higher the debt-to-GDP ratio, the more likely a country is to default. In 2017, the average debt-to-GDP ratio of African countries reached 57%. Although this figure is smaller than levels observed between 1990s and early 2000s, it is a 20% increase from 5 years ago, which shows a dangerous upward trend.⁹ In fact, as recently as in April 2018, the IMF warned that at least 40% of low-income countries in the region are either in debt distress or at high risk of it. Chad, Eritrea, Mozambique, Congo Republic, South Sudan and Zimbabwe were considered to be in debt distress at the end of 2017, while Zambia and Ethiopia were downgraded to "high risk of debt distress."¹⁰

Zambia

Zambia, for example, currently has an outstanding public and publicly guaranteed (PPG) external debt of nearly US\$8 billion (36.5% of GDP) compared to US\$1.9 billion (8.4% of GDP) at the end of 2011. Of the current debt, US\$771 million is guaranteed by Zambia's state-owned electricity utility company ZESCO and state-owned telecommunication company ZAMTEL. According to the IMF, Zambia faces a high risk of external debt distress, with the external debt-to-GDP ratio breaching the 40% threshold during 2019-23.¹¹ The extended period over which Zambia's external debt-to-GDP ratio is forecasted to remain over a safe threshold, makes the country more sensitive to external shocks, which could possibly drive the economy into recession.

China's loans are centrepiece in the growth of Zambia's external debt. China now holds perhaps a quarter to a third of Zambia's external debt.¹² It has financed the upgrade of the Kafue Gorge hydropower plant through private channels, which reduces the transparency of the terms of the loan to the general public. In the past, much of the money was owed to the World Bank, the IMF and the Paris Club, an informal group of Western government creditors. This gave the funds the power to demand prudent economic reforms as a condition for help. Now China's influence has risen, and it puts much less emphasis on good governance. This situation can be improved if the country pursues fiscal consolidation, restrains itself from more non-concessional borrowing, and improves its debt and public investment management. In a bad case scenario where Zambia cannot honour its debts, the country may see the control of its state power

⁹ [The Debt Challenge to African Growth \(IMF, May 2018\)](#)

¹⁰ [Should Africa be wary of Chinese debt? \(BBC News, Sep 2018\)](#)

¹¹ [Zambia Staff Report on the 2017 Article IV Consultation— Debt Sustainability Analysis \(IMF, Sep 2017\)](#)

¹² [Zambia's looming debt crisis is a warning for the rest of Africa \(The Economist, Sep 2018\)](#)

utility company ZESCO or the state-owned telecommunication company ZAMTEL handed to China as collateral.

Why is African's Debt Increasing?

Among the factors that contributed to the ballooning debt levels in Africa, was the weakening of commodity prices of recent years. This was especially noticeable in crude oil prices, which remained low during 2014 to 2016 and severely affected the economy of nations such as Angola and Nigeria. These countries depend on oil export revenues to keep their economies running and pay their debt. Angola, which exports over 50% of its crude oil production to China¹³, accumulated 30% of all government loans China has made to Africa between 2000 and 2017.¹⁴

Exchange rate depreciation also affected the ability of African countries to repay Chinese debt. Since most of the loans – including from China – to African countries are denominated in US dollar, the loss of value of African currencies means that these loans become more expensive to repay. However, this particular issue may start to change as African governments, central banks and China are studying the use of the Chinese yuan as reserve currency for Africa.¹⁵ This shows the growing significance of Chinese relations with the continent.

Finally, another reason for the growing debt levels in African countries, where infrastructure is mostly financed by Chinese loans, is the lower than expected return on investment in some projects. However, it may still be early to judge the returns of large infrastructure projects such as ports and roads as they depend on further socio-economic development.

The Interesting Case of China's Influence in Djibouti

Djibouti is seemingly another example of how Chinese investment has taken a country hostage. Since the public sector engaged in large, externally-financed infrastructure projects, Djibouti's external public debt-to-GDP ratio increased from 50% in 2014 to 85% in 2016.¹⁶

In 2013, the government contracted large loans to finance the construction of the 756km Addis Ababa–Djibouti railway, connecting landlocked Ethiopia to the Arabian Sea, through Djibouti. The US\$4 billion railway was inaugurated in January 2018 and was completely built with Chinese money.¹⁷ However, the case of Chinese influence in Djibouti goes deeper than that.

Djibouti is located in the Horn of Africa, at a strategic site at the entrance to the Red Sea, where the strait of Bab-el-Mandeb separates Djibouti from Yemen on the Arabian Peninsula (Figure 3). In 2017, 17,845 vessels carrying 97.6 million tons of cargo crossed this narrow 20km-wide gap.¹⁸ About 4.8 million barrels of oil are transported through the strait per day and the location is key for accessing the European and North African markets.¹⁹

¹³ [China-Angola Investment Model \(MDPI Sustainability, 2018\)](#)

¹⁴ Johns Hopkins SAIS China-Africa Research Initiative (Sep 2018)

¹⁵ [Top finance officials discuss possible use of Chinese yuan as reserve currency for eastern, southern Africa \(Xinhua News, May 2018\)](#)

¹⁶ [Djibouti Staff Report for the 2016 Article IV Consultation—Debt Sustainability Analysis \(IMF, Feb 2017\)](#)

¹⁷ [Chinese-built Ethiopia-Djibouti railway begins commercial operations \(Xinhua News, Jan 2018\)](#)

¹⁸ [Suez Canal records highest ever revenues for 2017-18, official Egypt Independent, Jun 2018\)](#)

¹⁹ [Bab el-Mandeb: The U.S. Ignores the Most Dangerous Strait in the World at Its Peril \(The National Interest, Jun 2018\)](#)



Figure 3 - Djibouti Strategic Location

The geographic and economic importance of Djibouti drove China's investment in this tiny country of less than one million people. Besides the Addis Ababa-Djibouti railway, China funded a US\$322 million water pipeline system that transports drinking water from Ethiopia to Djibouti;²⁰ a US\$450 million airport in the city of Bicidley, south of Djibouti's capital;²¹ and it has plans to build a US\$4 billion natural gas complex with a cross-country gas pipeline, a natural gas liquefaction plant and an export terminal that will serve as a hub to sell liquid natural gas (LNG) from Ethiopia to the world.²²

In 2018, Djibouti hosted the first Africa Economic Forum and Exhibition, which gathered over 800 business leaders, private sector investors and government economic officials from across Africa and China.²³ But more importantly, Djibouti is where China chose to build its first military base overseas. With a price tag of US\$590 million, China's naval facility will join other countries that have already taken notice of Djibouti's sweet spot location. The country also hosts the largest US military base in Africa and leases out space for the Japan Self Defence Force, for the French Foreign Legion and it will soon have a Saudi military base.²⁴

More recently, a dispute arose about Djibouti's Doraleh Container Terminal (DCT) after the government unilaterally terminated the contract for the port's operation, which was managed by Dubai firm DP World. The concession was ended in February 2018 during a prolonged dispute over the operation of the facility, going back to 2012. DP World claims that the port's seizure is illegal and has begun new arbitration

²⁰ [China funds cross-border water project in Djibouti, Ethiopia \(China Aid Data\)](#)

²¹ [China rapidly expands port, military base in Djibouti \(UPI, Apr 2017\)](#)

²² [Djibouti signs preliminary deal with China's POLY-GCL for \\$4 bln gas project \(Reuters, Nov 2017\)](#)

²³ [First Africa Economic Forum in Djibouti: Private sector investment in sustainable infrastructures key to achieve the Sustainable Development Goals \(Arab States, Jul 2018\)](#)

²⁴ [AFRICOM Chief Warns of Chinese Control at Port of Djibouti \(The Maritime Executive, May 2018\)](#)

proceedings before the London Court of International Arbitration. The port handles around one million containers per year and seven million metric tons of cargo.²⁵

Djibouti is expected to hand over control of the facility to Chinese companies amidst warming ties from all the investments China is making in the country. If that goes ahead, it will cement China's influence in this region to a greater extent. China would be able to restrict access to the port, which could affect resupplying the U.S. base in the country and the ability of American Navy ships to refuel there. The U.S. military base in Djibouti is home to about 4,000 personnel, including special operations forces, and it serves as a launch pad for operations in Yemen and Somalia.²⁶

A white paper published in 2015 by the Chinese government lays out a broad military strategy for the country upholding a "holistic view of national security, balancing internal and external security". This was the first time that Chinese interests in the far seas were elevated to the level of national security.

The white paper states that "armed forces will actively participate in both regional and international security cooperation and effectively secure China's overseas interests." It presents a strategy that combines the defence of offshore waters with the protection of open seas, by building an "efficient marine combat force structure" and by directly stating that the traditional mentality that land outweighs sea must be abandoned.²⁷

Building a base in Djibouti makes perfect sense in this context as it helps China secure its interests in the region. By acting in various regions, China is better positioned than the U.S. to spread its influence along such an important naval route as the Red Sea, which connects the Indian Ocean to the Mediterranean Sea.

Infrastructure Builder

Since long before launching its grandiose BRI in 2013, China was already engaged in large infrastructure projects in Africa. The first of the type was the TAZARA Railway, linking Zambia to Tanzania, inaugurated in 1975. From that time to now, China has funded more than 6,200km of railways and over 5,000km of roads in Africa, according to China's foreign minister Wang Yi.²⁸

China's bets on Kenya and Tanzania

A bit south from Djibouti, the US\$3.2 billion 472km railway connecting Kenya's port city of Mombasa and its capital, Nairobi, has been operating since May 2017. China funded the project through concessionary loans with a 10-year grace period and repayment over 30 to 40 years. Similar to the Ethiopia-Djibouti railway, this one will also be operated and managed by Chinese employees before passing the baton to local management.²⁹

Soon after the Mombasa-Nairobi railway started operating, China agreed to lend a further US\$3.6 billion to Kenya to extend the railway to the city of Kisumu, at Lake Victoria. The railway lines are planned to

²⁵ [China Merchants to revamp old port of Djibouti \(JOC, Jul 2018\)](#)

²⁶ ['Significant' consequences if China takes key port in Djibouti: U.S. general \(Reuters, Mar 2018\)](#)

²⁷ [China's Military Strategy \(The State Council Information Office of the People's Republic of China, May 2015\)](#)

²⁸ [What to know about China's ties with Africa, from aid to infrastructure \(South China Morning Post, Jul 2018\)](#)

²⁹ [Kenya opens Nairobi-Mombasa Madaraka Express railway \(BBC News, May 2017\)](#)

eventually connect landlocked South Sudan, eastern Democratic Republic of Congo, Rwanda, Burundi and Ethiopia to the Indian Ocean.

Also in Kenya, the Lamu port deal was signed by the Kenya Ports Authority and China Communications Construction Company in 2014. After much delay, it is expected to have the first of its planned 32 berths ready by December 2018.^{30,31} The port is just a small part of the US\$24 billion Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) corridor project, which comprises roads and railways connecting the port to Ethiopia and South Sudan. A Standard Gauge Railway of 1,720km will connect Lamu to Juba, the capital of South Sudan, and a two-lane highway will link the port to the cities of Isiolo, in the heart of Kenya, and Nakodok, on the border with South Sudan. Airports will be built in Lamu, Isiolo and in Lokichogio.

Directly competing with Kenya to become the main port in East Africa, Tanzania is planning to build a state-of-the-art port in Bagamoyo, not so far from Dar es Salaam (Figure 4). In May, China announced it was making good progress on negotiations with the Tanzanian government for the US\$10 billion Bagamoyo mega-port and special economic zone, paving the way for the long-delayed construction work to begin.³² China also invested US\$154 million to expand the Dar es Salaam port from its current container throughput of 20 million tons per year to 28 million tons by 2020.³³

It is interesting to note that by betting on both Kenya and Tanzania, the only sure winner of this “race” to become the gateway to East Africa, is China.

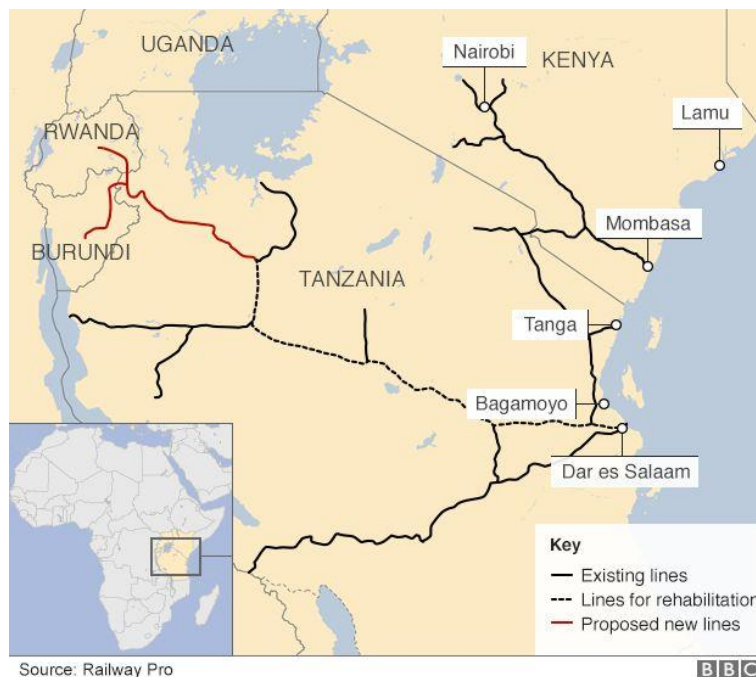


Figure 4 - China is investing in the main East African exporting corridors³⁴

³⁰ [Chinese-built Lamu port on course to transform Kenya, E. Africa \(Xinhua News, Jul 2015\)](#)

³¹ [First Lamu Port Berth to be complete by December \(Construction Review Online, Jul 2018\)](#)

³² [China-Tanzania talks over Bagamoyo port project in progress: envoy \(Xinhua News, May 2018\)](#)

³³ [Tanzania signs \\$154 million contract with Chinese firm to expand main port \(Reuters, Jun 2017\)](#)

³⁴ [The race to become East Africa's biggest port \(BBC News, Jun 2016\)](#)

Besides railways, roads and ports, another sector of the African economy that has caught China's interest is power generation and transmission. In the period between 2000 and 2015, Chinese contractors were responsible for 30% of the new power generation infrastructure being built in Sub-Saharan Africa. Between 2010 and 2020, China has and is tackling over 200 projects, from coal to renewables, with a total of 17 gigawatts (GW) of generation capacity in the region, which is equivalent to 10% of the existing installed capacity in Sub-Saharan Africa.

In power transmission and distribution, Chinese companies are active in the entire power-grid chain, from cross-border transmission lines, like between Ethiopia and Kenya, to local urban and rural distribution networks, such as in Angola or Equatorial Guinea.

Between 2010 and 2015, foreign direct investment (FDI) from China in the Sub-Saharan Africa power sector, which includes power generation, transmission and distribution, amounted to US\$13 billion, or around 20% of all investments in the sector in the region.

China ODA to Africa

China's strategy in Africa is centred on providing economic opportunity while ignoring systemic problems such as human rights violations and other social and political abuses observed across the continent. This strategy has been successful so far and it means China favours investing in projects that have clear and tangible returns rather than in official development assistance (ODA). In comparison, while the U.S. spent US\$31.4 billion on ODA in 2015,³⁵ China devoted only US\$2.9 billion in aid globally during that year.³⁶ In 2013, 46% of China's foreign aid was directed at Africa.³⁷

In absolute terms, China's foreign aid is significant. However, the idea that China does not invest in advancing humanitarian projects probably comes from the fact that proportionally to its gross national income (GNI), China's development assistance is really small, as less than 0.03% of China's GNI was being used in foreign aid in 2015.³⁸ In comparison, China's foreign aid in 2015 was about the same size as Denmark's that year; however, for Denmark that amount constitutes 0.85% of its GNI.³⁹

Instead of ODA, a preferred way China chooses to provide assistance to Africa is through debt relief. During the second FOCAC, in 2003, China signed protocols on debt relief and debt cancellation with 31 of the poorest countries in Africa, summing 10.5 billion Yuan (US\$1.7 billion in current dollars).⁴⁰ In 2006, China added another US\$1.4 billion in debt cancellation to African nations,⁴¹ and again in 2009.⁴² In 2015, China provided US\$5 billion of grants in zero interest loans and US\$35 billion in concessional loans.⁴³ Finally, in September, after FOCAC 2018, China said it would provide US\$15 billion of aid, interest-free loans and concessional loans to African countries.⁴⁴

³⁵ [Net ODA \(OECD data, 2018\)](#)

³⁶ Johns Hopkins SAIS China-Africa Research Initiative (Sep 2018)

³⁷ [China vs. Africa: Give it a fish and teach it to fish \(Sina Finance, May 2013\)](#)

³⁸ [GNI current US\\$ \(World Bank data\)](#)

³⁹ [Net ODA Data \(OECD Data\)](#)

⁴⁰ [Forum on China-Africa Cooperation-Addis Ababa Action Plan \(2004-2006\) \(Ministry of Foreign Affairs of the People's Republic of China, 2004\)](#)

⁴¹ [How and why China became Africa's biggest aid donor \(The Conversation, Apr 2016\)](#)

⁴² [Forum on China-Africa Cooperation \(FOCAC\) \(Ministry of Foreign Affairs of the People's Republic of China, Sep 2012\)](#)

⁴³ [China's Xi pledges US\\$60 billion for development in Africa \(The Straits Times, Dec 2015\)](#)

⁴⁴ [China's Xi offers another US\\$60 billion to Africa, but says no to 'vanity' projects \(Channel NewsAsia, Sep 2018\)](#)

By choosing debt relief instead of development assistance, China does not attach itself to humanitarian projects that could ultimately bring socio-political aspects to a negotiation table. Debt relief also does not necessarily come for free. Often it means the borrower gets the option to repay its debt with natural resources or through the transfer of ownership stakes in newly constructed infrastructure projects.

South Sudan, Oil and China

A different stance was taken in South Sudan though. China's involvement in what originally was only one country, Sudan, began in the late 1990s, with the goal of developing the country's oil industry while most of the West had worked to isolate the Sudanese government for human rights abuses and support for terrorism. Less daunted by security and political risks than most companies, the China National Petroleum Corporation (CNPC) acquired a 40% stake in South Sudan's biggest oil fields and invested billions in oil-related infrastructure. Other Chinese companies followed suit, leading to closer bilateral political and diplomatic ties between Sudan and China. Following South Sudan's secession in 2011, Chinese companies, entrepreneurs, and small business owners soon descended on the new country, anticipating a rush of infrastructure projects, a flood of Chinese financing and few competitors, Western or otherwise.⁴⁵

In 2012, there were as many as 10,000 Chinese nationals working in South Sudan, where most of the oil reserves are concentrated, and more than 100 Chinese companies registered, most of them private firms.⁴⁶ However, a civil war broke out the following year, disrupting oil production. China, having heavily invested in the new nation, assumed a pivotal role in mediating a peace deal.

Behind the scenes, Chinese diplomats became key players in facilitating a 2015 deal to cease fighting and to establish a transitional government that would bring stability to the region. However, China underestimated the complexity of the conflict. Just a few months after the deal was reached, rebels took over the oil fields. Tens of thousands were killed, and more than a million became refugees, helping make South Sudan home to one of the biggest refugee crises in Africa today.

That was the first crisis diplomacy China faced and it certainly completely failed. Currently, China decided to take the backseat, leaving the mediator's role to the African Union and the Intergovernmental Authority on Development.⁴⁷ Today, the Chinese embassy in South Sudan estimates that of about 140 Chinese businesses in South Sudan, only half are still active and less than 500 Chinese expatriates remain in the country.

An Unmatchable Trading Partner

China is Africa's main trading partner, having reached this position in less than a decade since the promotion of the FOCAC in 2000. In that year, the trade of goods between Africa and China amounted close to US\$10 billion. In 2017, this figure reached an impressive US\$170 billion, a 14% increase on the previous year's figures, according to Chinese government data.⁴⁸

While China mainly imports mineral resources, oil and semi-processed raw materials from Africa, most of its exports to the continent comprise of manufactured goods. Hence, the trade balance between African countries and China fluctuates according to commodity prices: when commodity prices are high, Africa

⁴⁵ [China's Foreign Policy Experiment in South Sudan \(International Crisis Group, Jul 2017\)](#)

⁴⁶ [There's at least one place in Africa where China's "win win" diplomacy is failing \(Quartz Africa, Nov 2017\)](#)

⁴⁷ [China used to stay out of other nations' politics. But not here. \(The Washington Post, Jul 2018\)](#)

⁴⁸ [China, Africa trade volume rises 14% to \\$170b \(China Daily, Aug 2018\)](#)

runs an even balance or possibly a surplus, but when commodity prices are low, such as in 2015 and 2016, Africa runs a trade deficit (Figure 5).

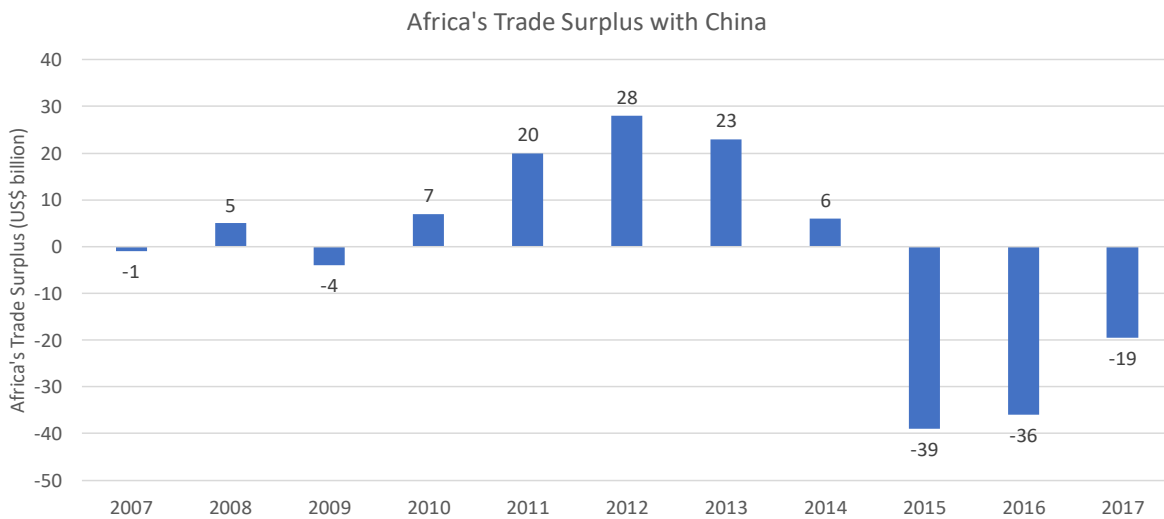


Figure 5 - Africa's Trade Surplus with China. ^{49,50}

China adopts a non-confrontational approach on issues such as human rights and in dealing with non-democratic regimes. This opens a much broader range of countries and governments Chinese businesses can deal with as compared to European Union companies, for example. As a result, China trades with all African countries.

In a report released in June 2017, McKinsey & Company estimated that Chinese companies currently manage 12% of Africa's industrial production – valued at approximately US\$500 billion a year in total – and are responsible for nearly 50% of Africa's internationally contracted construction market.⁵¹ The report also adds that most of Chinese companies operating in Africa are primarily focused on serving the needs of Africa's fast-growing markets rather than on exports.

Made in Ethiopia, by China

However, this is not the case in Ethiopia. Attracted by cheap labour and tax breaks, factories that once were located in China are expanding their businesses in this East African country. Since 2014, Ethiopia has opened 4 giant publicly-owned industrial parks and it plans to open 8 more by 2020. According to the Ethiopian Investment Commission, the country will shift away from a strictly rural economy by adding 2 million jobs in manufacturing by 2025, with the help of heavy Chinese investment. The Hawassa Industrial Park had 56 identical hangar-sized sheds devoted to textile production built within 9 months by a state-owned Chinese company at a price tag of US\$250 million.⁵²

Ethiopia has embraced a labour-intensive, export-oriented manufacturing industry catering to developed markets, producing for brands like Guess, Calvin Klein, H&M, Levi Strass and clothes that are sold at

⁴⁹ [China, Africa trade volume rises 14% to \\$170b \(China Daily, Aug 2018\)](#)

⁵⁰ [Statistics on China-Africa Bilateral Trade in 2017 \(Ministry of Commerce of PRC, Jan 2018\)](#)

⁵¹ [Dance of the lions and dragons \(McKinsey&Company, Jun 2017\)](#)

⁵² [China Is Turning Ethiopia Into a Giant Fast-Fashion Factory \(Bloomberg Businessweek, Mar 2018\)](#)

Walmart stores in the U.S. Currently, most of the raw material used in these factories has to be imported due to the lack of domestic sourcing. The final products used to take a long route via roads to the port in neighbouring Djibouti, from where they are exported. This route was shortened when the Chinese-funded Addis Ababa-Djibouti railway began transporting cargo.

Labour costs and tax breaks may not be the only factors attracting Chinese factories to set up shop in Ethiopia. In late August 2018, the Trump administration raised a 10% tariff on imports of around 1,000 types of Chinese textile and apparel products, totalling US\$4 billion.⁵³ To circumvent such additional costs, Chinese sellers are making use of the preferential treatment handed to African manufacturers through the African Growth and Opportunity Act (AGOA) by re-routing Chinese textile exports through African countries.

Signed into law by the Clinton administration in 2000 and extended by Obama in 2015 for an additional 10 years, AGOA was designed to provide African manufacturers with tariff-free access to the US market in an attempt to bolster flagging trade with the continent. Defenders argue that the legislation has proved a dynamic employment vehicle in signatory countries, driving the creation of as many as 350,000 direct jobs in Africa by removing tariffs on some 6,500 products, including vehicles, garments and metalwork.⁵⁴

The claims that China is just using countries such as Ethiopia as a stepping stone to reach the American market are, however, simplistic and short-sighted. The Chinese shoe manufacturer Huajian Group opened its first factory in Ethiopia in 2012 and currently employs over 3,500 locals. The company has plans to invest US\$2 billion and create 30,000 jobs in Ethiopia by 2020, turning the country into a shoe manufacturing base for exports to the U.S. and Europe.⁵⁵

Similarly, Chinese companies that build factories in Africa and employ local workers are inevitably bringing manufacturing expertise that the continent previously lacked. Chinese firms, initially attracted by cheap labour, will still need to adhere to standards of quality control and high productivity if they want to stay competitive in a globalized market. In this process, African employees get trained and have the opportunity to move to local competitors for higher wages. In doing so, knowledge is disseminated, fuelling the development of a domestic manufacturing sector.

South Africa and China

South Africa is China's largest trading partner on the African continent and is the second-largest FDI recipient from China, after Nigeria. Diplomatic relations between China and South Africa began 20 years ago through the hands of Nelson Mandela, but bilateral trade only started accelerating by 2009. Today, trade between the countries amounts to US\$39.17 billion and includes a diverse range of products.

In September 2017, South Africa became the first African country to export beef to China.⁵⁶ China also buys South African wine, which is considered a mid-price option for consumers in the Chinese market. The South African brand "La Motte", which has a French-sounding name that implies high quality wine,

⁵³ [Tariff concerns hang over New York textile trade show \(The Telegraph, Aug 2018\)](#)

⁵⁴ ['Does AGOA unfairly benefit Chinese firms?' \(African Business Magazine, Feb 2017\)](#)

⁵⁵ [Trump factory jobs sent to China may never come back \(AFP, Oct 2016\)](#)

⁵⁶ [South Africa and China are beneficial partners \(Pretoria News, Feb 2018\)](#)

for example, is sold to middle and upper class Chinese consumers. The company has more customers in China than in its home country.⁵⁷ South African wines are responsible for 2% of all wine imports in China.⁵⁸

Besides buying South African goods, China invests heavily in South Africa's manufacturing sector. Chinese major appliances company Hisense has built a manufacturing base in South Africa, producing 400,000 refrigerators and televisions a year. The company has created 700 direct and 2,000 indirect jobs locally and has a large market share in the South African appliances market.

State-owned Chinese automotive company, FAW Group Corporation, in 2014 built a vehicle assembly plant in the Coega Special Economic Zone, located in the Nelson Mandela Bay Metropolitan Municipality.⁵⁹ It produced 1,200 vehicles and employed 230 local workers in 2016. The same complex also houses the Beijing Automobile International Corporation (BAIC), another state-owned Chinese car manufacturer. The company has invested R11 billion (US\$785 million) on a plant that will produce 3 types of cars for the South African market.⁶⁰ The plant will start operations in December 2018 and it expects to create 800 jobs.⁶¹

China is also present in the South African mining sector. In 2013, a consortium led by the Industrial Development Corporation (IDC) of South Africa and China's Hebei Iron & Steel Group purchased the Palabora Mining Company (PMC) in Limpopo. The consortium decided to further develop Palabora's copper and manganite mines, extending mining operation for further 20 years. The company employs 2,400 locals working in the mines.⁶²

On the renewables sector, Chinese major solar technology company, JA Solar, is building a 86-MW solar plant, the Orange project, in the Northern Cape province together with two South African partners: Solar Capital and Black Enterprise Empowerment. The plant is expected to start producing electricity to the grid soon.⁶³

Also in the Northern Cape province, Chinese Longyuan Power Group Corporation, the world's largest wind-power developer, has built two large-scale windfarms with 100 MW and 144 MW capacity. The plants started operating in November 2017 and created 700 direct and indirect jobs.⁶⁴

China is present in the South African banking sector, represented by the Bank of China and the China Construction Bank. The two banks together hold assets of more than R80 billion (US\$5.7 billion) in South Africa.⁶⁵ In 2008, one of China's biggest lenders, ICBC, acquired a 20% stake in South African Standard Bank, worth of R5.6 billion (US\$400 million) and became its single largest shareholder. This was the biggest foreign acquisition by a Chinese commercial bank at the time.⁶⁶

⁵⁷ [Is South Africa a gateway for China's investment in Africa? \(Natalie Mao, May 2017\)](#)

⁵⁸ [China's love affair with wine, and how SA can benefit \(Farmer's Weekly, Aug 2017\)](#)

⁵⁹ [Coega Development Corporation website](#)

⁶⁰ [BAIC Group announces R11-billion SA plant set to go live in 2018 Q4 - Job boost for locals, vehicle production to begin \(Wheels24, Jul 2018\)](#)

⁶¹ [Who Is BAIC? \(BAIC International Corporation\)](#)

⁶² [Palabora Mining Company \(PMC\) \(Mining Global, Jul 2015\)](#)

⁶³ [NERSA Public Hearing \(Solar Capital\)](#)

⁶⁴ [De Aar wind-power projects start feeding electricity to Northern Cape \(Sunday Times, Nov 2017\)](#)

⁶⁵ [Two state-owned Chinese banks are neck-and-neck with Capitec as they race to catch up to SA's big 5 \(Business Insider, May 2018\)](#)

⁶⁶ [ICBC to buy \\$5.6 billion stake in South African bank \(The New York Times, Oct 2007\)](#)

In July 2018, China announced it would be investing US\$14.7 billion in South Africa. Among the deals, there is a US\$2.5 billion loan to South Africa's state-run power company Eskom, which is burdened by massive debts and embroiled in graft allegations involving Zuma's government.⁶⁷

On diplomatic relations, South Africa and China cooperate in the global arena by framing the participation of both countries on shared multilateral platforms. They also provide mutual support on multiple initiatives in global forums such as the BRICS, the UN and the G20.

Final Remarks

From infrastructure investments and concessional loans, in recent years China has expanded its reach in Africa towards more diverse fronts to include investments in the local industry and military support. China's considerable investments in Africa bring the possibility of economic transformation by boosting an industrial revolution on the continent and by creating avenues for export diversification. For this to happen, both African countries and China need to maximize the development impact of their partnership. There are successful experiences to build on, and African countries are interested to learn from China's own experience of generating growth and reducing poverty.

Africa has a lot to do in order to fully reap the benefits of Chinese investments though. It should begin by improving its institutions and rule of law, and by creating a transparent and corruption-free business environment. Improvements in the business climate will not only attract Chinese investments, but will also elevate Africa to a position of receiving global investments.

Partnerships between Chinese and African firms through joint ventures have the potential to spread technology, advanced skills and knowledge transfers, and develop pathways for African countries to participate in global value chains. The benefits are countless. On the other hand, African countries need to remain attentive to their sovereignty and never forget that China's primary focus is to advance its own national interests, both political and economic. Pure altruism does not drive national strategies.

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⁶⁷ [China to invest US\\$14 billion in South Africa \(Straits Times, Jul 2018\)](#)