



Financial Flows

China's growing footprint in Africa

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China's growing footprint in Africa

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Briefly

The victory of the Chinese Communist Party over the Western-backed Kuomintang (Nationalist Party) in 1949 meant that China's foreign policy was inevitably shaped by its efforts to deter and eject French colonial and US military forces from Asia and to oppose and weaken its opponents where possible. This has also been felt in Africa, from as early as 1964.[1]

In addition to the political and military support that China provided to various liberation parties in Africa during their struggles for independence, its best known early infrastructure project is probably the TAZARA railway line, built to reduce landlocked Zambia's economic dependence on export infrastructure linkages through Rhodesia (now Zimbabwe) and South Africa. The single-track line of approximately 1 860 km connected Zambia to the port of Dar es Salaam in Tanzania and was completed in 1975 at a cost of about US\$406 million (US\$2.67 billion today)—provided as an interest-free loan to Zambia and Tanzania.[2] The expenditures of TAZARA and other solidarity projects placed a huge burden on the Chinese economy, with foreign aid amounting to 5.9% of total government spending from 1971 to 1975, peaking at 6.9% in 1973.[3]

Subsequent years saw China transform from a poverty-stricken developing country to a global power, today challenging the influence and dominance of the US. Reform of the institutions involved in FDI and aid followed. The process commenced in 1994, with China reforming the institutions tasked with administering its outward investment and aid by establishing two new policy banks, the Export-Import Bank of China and the China Development Bank, which provide most of China's overseas development loans. Some years later, in 2018, China established the China International Development Cooperation Agency (CIDCA) to coordinate aid and, early in 2021, published a White Paper on development cooperation that sets out its belief in support of endogenous growth. However, unlike most Western countries, Chinese development assistance is managed by several different government departments, with the bulk handled by the Ministry of Commerce.[4]

Since 1995, China has run a year-on-year positive trade balance that from 2004 to 2009 increased tenfold. Between 2008 and 2019, the Export-Import Bank of China and the China Development Bank lent US\$462 billion, just short of the US\$467 billion extended by the World Bank, according to data from Boston University, although only a modest portion of this went to Africa.[5]

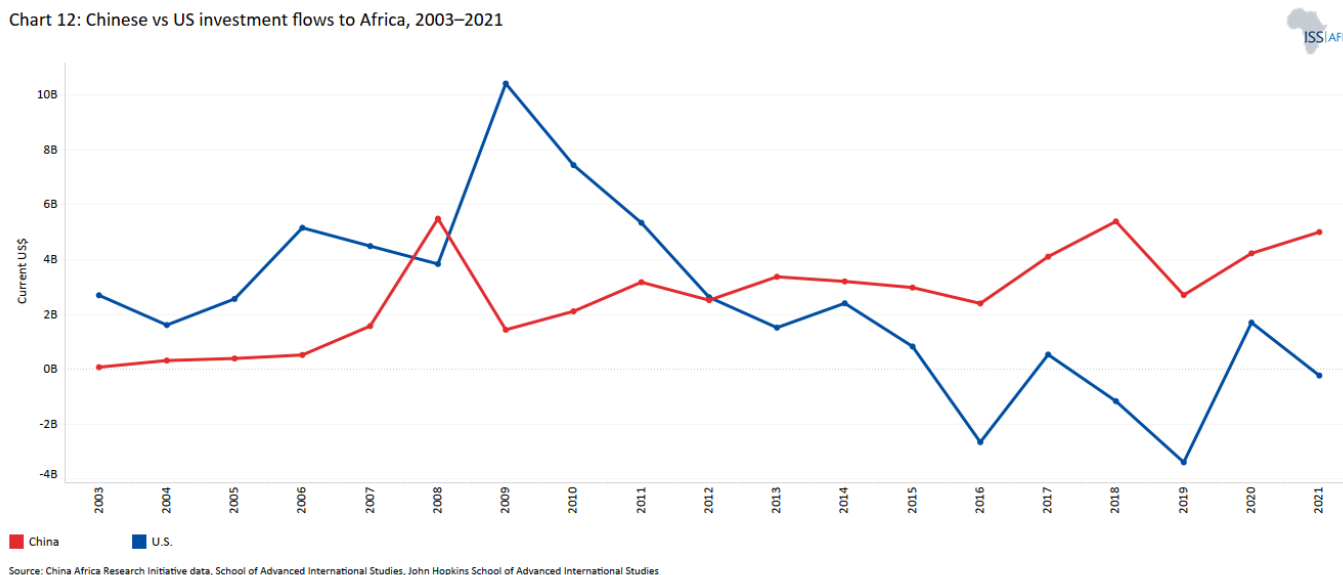
Data on the extent of FDI and aid from China is opaque (not unlike those of Western institutions in the case of the former category), though there are signs of recent improvement in the quality of data. China is not a member of the Paris Club (an informal group of creditor nations) or the OECD, which collects data on lending by official creditors. For example, half of China's loans to developing countries are apparently unreported.[6] Recent research shows that the Chinese state and its subsidiaries have provided about US\$1.5 trillion in loans and trade credits to 150 countries, making China the world's largest official creditor.[7] Africa is the third largest destination for Chinese investment after Asia and Europe although recent trends are sharply downward. From 2005 to mid-2022, the combined value of China's global investment and construction exceeded US\$2.25 trillion, with US\$311.9 billion in sub-Saharan Africa.[8] However, its lending practices and collaboration with these institutions have steadily intensified.

The partnership between China and Africa has progressively deepened since the establishment of the Forum on China-Africa Cooperation in 2000. Today, the forum serves as a vehicle for strategic collaboration in trade, investment and

finance, as well as being a basis for diplomatic and political collaboration. With the ongoing privatisation of the Chinese economy, the number of Chinese firms active on the continent increases yearly. In 2017, McKinsey estimated that more than 10 000 privately owned small Chinese companies operate in Africa indicating that Chinese investment in Africa is more market-driven than commonly understood. The official data from China’s Ministry of Commerce is about a third of that.[9]

Chart 12 presents the divergent trends in investment flows to Africa from China and the US. Chinese FDI flows to Africa have exceeded those from the US since 2013, as US FDI flows have generally declined since 2010.

Chart 12: Chinese vs US investment flows to Africa, 2003–2021



China’s demand for commodities, its positive balance of payments and ability to extend credit, and its coordinated effort to export its surplus construction capacity (which eventually culminated in the Belt and Road Initiative) have benefited Africa greatly, despite the continent not originally being included in the scheme:

- China has since become the biggest single-country financier and builder of infrastructure projects in Africa, having spent about US\$11.5 billion per year from 2012 to 2018.[10] The country, therefore, fulfilled an important role in helping to close Africa’s gap in infrastructure, which the African Development Bank estimates at between US\$130 billion and US\$170 billion annually.[11] Recent indications are that investments are shifting from physical infrastructure to smaller, more profitable projects with private financing, such as toll roads. That is in contrast to its previous investment in large, fully state-financed infrastructure projects, which in some cases have contributed significantly to African countries’ national debt. China’s current lending level to African countries has also declined sharply, now only at 10% of its 2016 peak.
- Chinese firms have also contributed to establishing complete industrial chains in some African countries. To this end, ‘China has created 25 economic and trade cooperation zones in 16 African countries. The zones, registered with China’s Ministry of Commerce, had attracted 623 businesses with a total investment of \$7.35bn at the end of 2020’.[12]
- In 2020, the Chinese ambassador to South Africa estimated the stock of Chinese FDI in Africa at US\$110 billion (much larger than most other estimates).
- According to the China–Africa Business Council,[13] the total investment flows to Africa peaked at US\$53.9 billion in 2018 and stood at US\$29.6 billion in 2020.

Chinese lending to Africa

Accessing data from the Chinese Loans to Africa database, Jason Mitchell[14] writes that Chinese financiers signed 1 188 loan commitments valued at US\$160 billion with African governments and their state-owned enterprises between 2000 and 2020, predominately in transportation, power generation, mining and telecommunications. The top loan recipient countries over that 20-year period were Angola, Cameroon, Ethiopia, Kenya, Nigeria and Zambia. The largest recent recipients included Ghana, South Africa and Côte d'Ivoire. The biggest African debtors to China include Angola (which owes \$42.6 billion), Ethiopia (\$13.7 billion), Zambia (\$9.8 billion) and Kenya (\$9.2 billion), all of whom are now in debt distress.

Since COVID-19 there are clear signs that the pace of Chinese loans to Africa has declined sharply, largely due to the restructuring of the Chinese economy, slower growth, its reduced demand for some commodities and concerns about the ability of many African countries to service their obligations. China has worked hard to secure access to strategic resources such as cobalt, lithium and rare earths that is needed for the production of batteries and computer chips and its investments are now smaller and careful under the slogan "small is beautiful". According to the China Africa Research Initiative at Johns Hopkins University, Chinese lending to Africa slowed from about US\$9 billion in 2018 to less than US\$5 billion in 2021.[15] By 2020, China accounted for 12% of Africa's US\$696 billion of external debt, with 22 African countries heading towards debt distress.[16]

Chinese overseas lending differs from capital outflows from the US and Europe in three important respects:

- The majority comes from the government and various state-owned entities.
- Its lending generally occurs at market rates and the conditions are opaque. In contrast, the World Bank typically lends to Africa at concessional (i.e. below-market interest) rates and provides longer maturities.
- Chinese loans are often backed by collateral and barter-trade type of arrangements, meaning that debt repayments are secured by revenues, such as those coming from commodity exports and by providing in-kind services of Chinese companies instead of payment.[17]

Chinese flexibility in accepting unconventional collateral, airports, harbours and mines as security has raised alarm bells in conservative circles in the US, who see this as a ploy through which China can lay its hands on strategic infrastructure with potential security implications. But this is seldom a concern in Africa and not borne out by deeper analysis. However, there have been some cases in which African governments have entered into expensive prestige projects (such as the airport in Lusaka) and overpriced projects (such as the 472 km Mombasa-Nairobi standard gauge line), with subsequent negative consequences.

A concern that has often been repeated in mainstream media is that many of the large Chinese construction (and other) projects provide little work for locals. That may have been the situation several years ago, but field research in Ethiopia and Angola indicates that: national labour participation is substantially higher than generally assumed in Western media; wages in Chinese firms abroad are largely similar to other firms in the same sector; and Chinese firms contribute as much to training and skills development as other companies in the same sector.[18] It is estimated that every US\$1 billion investment in infrastructure made by Chinese firms has created roughly 110 000 jobs in Egypt, Morocco and Tunisia.[19]

Then there is the issue of the quality of infrastructure, and the extent to which China is 'exporting corruption' in the manner in which it uses development assistance to buy influence (and contracts) from African leaders. The obvious challenge here, compared to the situation in the US and Europe, is that Chinese public-sector companies and financial institutions cannot be held to account domestically in China through shareholder activism or public disclosure.

These concerns are accentuated by Chinese contracts typically containing stringent confidentiality clauses that bar borrowers from revealing the terms or even the existence of the debt. The cancellation, acceleration and stabilisation

clauses potentially allow China to influence the debtors' domestic and foreign policies, including commentary from government officials and in government-controlled media, particularly concerning mentions or dealings with Taiwan and Tibet and human rights issues such as voting in the Human Rights Committee in Geneva.[20]

Large Chinese loans do not come with a requirement to discuss matters around the rule of law, good governance or human rights, as expected by the IMF and the World Bank. China does not share the views and approaches of the West in terms of rule of law and transparency, or of competitive tendering as an antidote to corruption and what has generally become known as 'standards of good governance'. It, therefore, has no qualms about offering inducements to ensure favourable consideration of contracts.[21] As one example, the decision by Uganda's President Yoweri Museveni to intervene in a bidding process for a contract to surface the highway linking Kampala to Jinja in favour of his preferred Chinese contractor, therefore, came as no surprise.[22]

A study of 100 debt contracts with foreign governments thus finds that China uses 'creative design to manage credit risks and overcome enforcement hurdles, presenting China as a muscular and commercially savvy lender to the developing world.'[23]

Today, Africa's dependence on China is such that its future prospects are closely tied to that country's prospects. If China stumbles, it will have a massive impact on Africa. This dependence on China makes many African governments essentially powerless when it comes to issues such as responding to Chinese involvement in illegal mining and fishing in Africa. For example, the Ghanaian government has been the subject of much criticism by the population and opposition leaders for its inability to end illegal Chinese gold mining in the country or the extent to which it is exploiting Ghana's fish resources.[24]

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