

# Afrikapost aktuell

## Chinas Africa Strategy: Masterplan instead of Marshallplan?

*From Laszlo Beer, German Africa Foundation*

In 2018, the People's Republic of China (PRC) announced to invest \$ 60 billion in Africa within the next three years. This package of grants, loans and credits is already the second of this scale and once again illustrates the importance of the African continent for the Asian superpower. Against the backdrop of the growing controversial discussion on the Chinese engagement in Africa, the German Africa Foundation, in cooperation with the Konrad Adenauer Foundation, hosted a panel discussion on „China's Silk Road in Africa - Masterplan instead of Marshall Plan?“, on 24 September this year. Participants were MP Mkhuleko Hlengwa of the Inkatha Freedom Party, South Africa, MP Stefan Rouenhoff of the CDU/CSU parliamentary group of the German Bundestag and Political Counsellor Wang Tianling of the Chinese Embassy to Germany. Furthermore, Tom Bayes from the Mercator Institute for China Studies (merics) contributed a short input. In this article, we take a look at China's Africa policy, take up the key messages of the event and outline the implications for Germany's Africa policy.

### **China as a Global Player in Africa**

Since the beginning of the new millennium, the landscape of geopolitics and economy in Africa is changing. With the PRC, a Global Player who is breaking new ground with its sheer size, hunger for growth, drive for trade and seemingly unlimited funding opportunities has emerged. Today, China is Africa's largest trading partner, a willing investor and a popular lender. The bond between the Asian superpower and the countries of the African continent has grown even more since the Belt and Road Initiative (BRI) was launched in 2013. It is becoming apparent that China's growing presence in Africa is replacing old patterns of political relationships, calling into question the ways in which relations have been

established and partially creating new paths of economic and political cooperation.

### **The Belt and Road Initiative**

The establishment of the BRI follows the ambitious goal to build a global network of transnational and transcontinental economic corridors. Africa plays an important role in the Maritime Silk Road. The plan is to build a tight trade network from the Suez Canal via Djibouti and the East Coast ports around the Horn of Africa to the ports of West Africa. According to the official website of the BRI, 39 African countries are currently participating.<sup>1</sup>

Connecting land routes such as the completed railway line from Djibouti to Addis Ababa, or the planned connection between Dar es Salaam (Tanzania) and Kapiri Mposhi (Zambia) are also part of the initiative. This ambitious project is accompanied by a number of major infrastructure projects, in particular deep-sea ports, railways and energy supply.<sup>2</sup>

China's Africa policy is embedded in the global strategy of the People's Republic. The model of an export and growth-oriented economic policy that has existed since the 1980s is reaching its limits. As a result, new markets need to be opened up, access to resources secured, the industry sector reformed and environmental degradation stopped to set the course for a prosperous economy in the future.<sup>3</sup> The African continent has vast reserves of natural resources, a growing wealthy middle class and a huge investment need. The service sector, telecommunications in particular, is

<sup>1</sup> Belt and Road (2019): Portal

<sup>2</sup> Mercator Institute for China Studies (2018): China creates a global infrastructure network, Interactive map of the Belt and Road Initiative

<sup>3</sup> Menzel, Ulrich (2015): Die Ordnung der Welt. Imperium oder Hegemonie in der Hierarchie der Staatenwelt. 1. Aufl. Berlin: Suhrkamp

growing rapidly<sup>4</sup> in Africa and is considered as a future market by the Chinese industry.<sup>5</sup> Against this background, China's economic interest in the African continent is not only understandable, but also legitimate, as the panelists explained.

### Keypoints of Chinas Africa-Strategy

Counselor Wang stated that China's Africa Policy goes beyond economic aspects. For example, President Xi Jinping announced an additional \$ 60 billion package at the third China-Africa Cooperation (FOCAC) forum in 2018, outlining the future strategy of China's Africa Policy. The financing package includes \$ 15 billion in grants, interest-free and discounted loans, \$ 20 billion in loans, a \$ 10 billion development finance fund, and an additional \$ 5 billion in Chinese imports of processed goods. The announced funds will be allocated to eight initiatives within three years:<sup>6</sup>

<b>Industrialization and Modernization of Agriculture</b>	Promotion of economic and trade zones; Secondment of 500 agricultural experts; Emergency food aid; Sensitization of Chinese companies to social responsibility; Promotion of Sino-African financial institution networking
<b>Infrastructure Funding</b>	Formulation and implementation of an infrastructure plan in cooperation with the African Union (AU) in the fields of transport, energy, telecommunications and transnational water management; Expansion of African air transport capacity; Improvement of access to financial institutions of Asian Infrastructure Investment Bank, New Development Bank and Silk Road Fund
<b>Trade Promotion</b>	Increasing the proportion of processed goods; Free access to China International Import Expo; Branding of African products in China; Supporting the African Free Trade Area and intensifying the dialogue on possible free trade agreements; E-commerce promotion
<b>„Green“ Development</b>	Promote the establishment of a China-Africa Environmental Cooperation Center; Conduct the China-Africa Green Emissary Project to train professionals in environmental protection management; Development promotion of the bamboo and rattan industry; Cooperation on education and public campaign for environmental protection
<b>Capacity Building</b>	Establishment of workshops to provide technical training to the youth; Support the establishment of a China-Africa Innovation Center that aims to promote innovation and entrepreneurship of the youth; Targeted promotion to train 1,000 elites for Africa; provide 50.000 government scholarships and 50 thousand training opportunities to Africa and invite 2,000 young Africans to come to China for exchanges
<b>Healthcare Initiatives</b>	Building the African Center for Disease Control and Prevention and China-Africa Friendship hospitals; Cooperation programs on the prevention and control of emerging and re-emerging communicable diseases; Training of medical specialists; Assist Africa in building centers for disease control and prevention; Providing mobile medical services
<b>Enhancing Exchange</b>	Establishment of research institutes; Deepening of the media cooperation; Expansion of Sino-African tourism
<b>Peace and Security</b>	Establishment of a China-Africa peace and security forum; Capacity enhancement in peacekeeping. Higher contribution to peacekeeping measures; Implementing fifty security assistance programs, Increase of military aid

Own Representation from Mofcom (2018): Elaboration on the Eight Major Initiatives of the FOCAC Beijing Summit

<sup>4</sup> Landry Signé (2019): Africa's emerging economies to take the lead in consumer market growth

<sup>5</sup> Menzel, Ulrich (2015)

<sup>6</sup> Mofcom (2018): Elaboration on the Eight Major Initiatives of the FOCAC Beijing Summit

Although China is expanding its activities in areas such as peace and security as well as health, its Africa Policy remains focused on economic cooperation through large-scale infrastructure projects. The Asian superpower acts, invests, lends and builds. As a result, China belongs to the top five of Africa's investors.<sup>7</sup> Between 2003 and 2017, approximately \$ 43 billion were invested as foreign direct investment. Popular target sectors of Chinese investments are construction, mining, industry, finance and telecommunications.<sup>8</sup>

China's Africa Policy, which perceives its foreign policy towards the African continent as a win-win cooperation, usually takes place bilaterally. Main partners are governments or state-owned companies. Generally, the People's Republic cooperates with every potential partner, regardless of its domestic political situation.

In the period from 2002 to 2018, Africa exported goods worth more than \$ 800 billion to China and in return imported goods for more than \$ 1 trillion. In 2016, the Chinese-African trade volume contained more than \$ 133 billion.<sup>9</sup> Hence, a steady trade deficit is the rule.

To compare, in the same year, goods at the amount of approximately \$ 45 billion were traded between Germany and the African continent.<sup>10</sup> While Africa's exports to the People's Republic are largely composed of raw materials (minerals and fuel), the continent mainly imports consumer goods such as electronic devices and textiles. The imported goods also include capital goods such as machinery and intermediate products.<sup>11</sup>

<sup>7</sup> Status 2017 without Hong Kong the PRC would be the second largest Unctad (2018): World Investment Report 2018  
<sup>8</sup> Johns Hopkins University SAIS China-Africa Research Initiative (2019): China-Africa Foreign Direct Investment Data  
<sup>9</sup> John Hopkins SAIS China-Africa Research Initiative (2018): China Africa Annual Trade Data  
<sup>10</sup> Dyfed Loesche (2017): Der Handel mit Afrika  
<sup>11</sup> World Integrated Trade Solutions: China Products by Sector Export Product Share to Sub-Saharan Africa

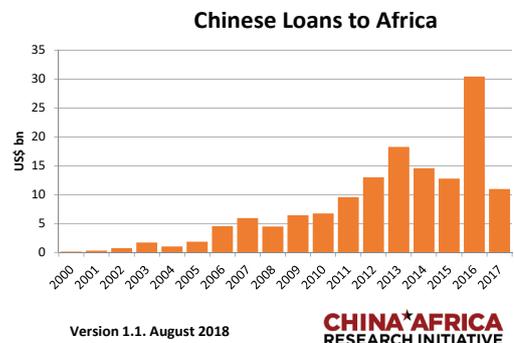
The People's Republic is one of Africa's most important bilateral lenders. The largest beneficiaries of Chinese loans are Angola, Ethiopia, Kenya, Republic of Congo and Zambia. Since 2000, \$ 140 billion have been granted to Africa. These are mainly spent for infrastructure projects in transport (about \$ 38 billion), energy (about \$ 30 billion), as well as mining (about \$ 19 billion).<sup>12</sup>

In the case of China, the line between classic development cooperation (DC) according to the Organisation of Economic Cooperation and Development (OECD) criteria and economic cooperation often blurs. Many of the projects implemented by China are characterized by „mixed“ DC funding that includes loans, export credits and direct investment. Main actors are the two state-owned financial institutions Export-Import Bank (EXIM) and Chinese Development Bank (CDB).<sup>13</sup>

While OECD donors are negotiating repayment modalities and the restructuring of credits and DC funds in the so-called „Paris Club“, <sup>14</sup> the People's Republic is not part of this institutionalized, multilateral global platform. Thus, at international level, repayment and insurance modalities of Chinese loans are hardly made transparent. Consultations with other donors also do not take place.

However, repayments of Chinese loans are often secured by the so-called „Angola Model“.<sup>15</sup> In practice: In return for loans, the People's Republic gets secured access to natural resources, goods, or, as in the case of the Kenyan Standard Gauge Railway from Mombasa to Nairobi, shares in or even control over the built infrastructure projects. These so-called “resource-backed or asset-backed loans” reduce the risk for the PRC in case of insolvency or state illiquidity.

In addition, it offers African countries the chance of borrowing despite lacking the necessary monetary means.



## *Attractiveness of the Chinese Engagement for African Countries*

China is a welcome guest for African governments. Unlike its Western counterparts, the People's Republic raises no questions about respecting human rights, good governance and environmental standards. This makes it an attractive donor, even in times of domestic imbalances.

China does not hide that it is conducting an interest-based dialogue. In exchange for sales markets, investment opportunities and raw materials, it builds railways, power plants, roads and stadiums.

The lack of energy supply and funding opportunities are the main obstacles to economic activity and development in Africa.<sup>16</sup> With its loans and direct investments, China makes a significant contribution to the electrification of Africa. This pragmatic approach is appreciated by many African governments. Hereby, China steps in where others withdraw. Since 2014, the People's Republic has performed more direct investments in Africa than the US.<sup>17</sup>

In addition, since 2011, Chinese direct investment in Africa has more than doubled from \$ 16 billion to \$ 43 billion at a time when the stock of direct investment by traditional investors such as US, UK or France was stagnating.<sup>18</sup>

<sup>16</sup> African Development Bank (2019): African Economic Outlook 2019

<sup>17</sup> Johns Hopkins University SAIS China-Africa Research Initiative (2019): China-Africa Foreign Direct Investment Data  
<sup>18</sup> Unctad (2018): World Investment Report 2018

<sup>12</sup> Johns Hopkins SAIS China-Africa Research Initiative (2018): Annual Chinese Loans to Africa

<sup>13</sup> Johns Hopkins SAIS China-Africa Research Initiative (2018): Annual Chinese Loans to Africa

<sup>14</sup> Club de Paris (2016): What is the Paris Club?

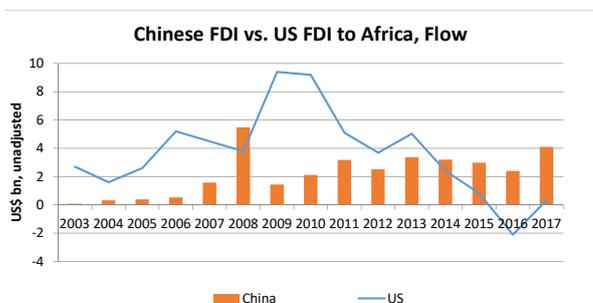
<sup>15</sup> Heiko Stumpf (2018): China ist im südlichen Afrika groß im Geschäft

# China in Afrika

From a diplomatic perspective, China tends to use the „clean hands“ image in its cooperation with Africa. Unlike the Western community, China does not carry the burden of a colonial past and structural adjustment programs. Moreover, there is a perception on the African continent that China is helping Africa in gaining more diplomatic weight on the international stage. „China has brought back on the table the discussion on the inclusion of Africa [...] on the global stage by creating platforms such as BRICS“ said MP Mkhuleko Hlengwa. High-ranking Chinese diplomats visit the African continent very often compared to many other countries, and vice versa. In addition, China is increasing the intercultural exchange with Africa. China is now the second ranking country, behind France, receiving the highest number of African students. Due to a significant increase in recent years, 50,000 young Africans now study at Chinese universities (see graph).<sup>19</sup> The effect of these signs of appreciation should not be underestimated.

## African and International Criticism

Nonetheless, criticism of China's involvement in Africa is increasingly being expressed on the African continent, particularly by opposition parties and civil society. One accusation: China, as emerging global power, uses Africa merely for resource exploitation and as consumer market. In fact, Africa's notorious trade deficit with China points to an unequal trade relation. China exports processed products to Africa and, in return, receives largely unprocessed raw materials and fuel.



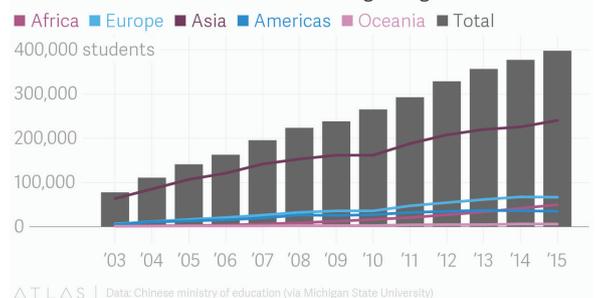
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Moreover, MP Hlengwa criticizes that due to neglecting human rights issues, China's approach often ignores the needs of the local population and only serves the interests of political elites. The model of a "bureaucratic development state" pursues a top-down approach by championing development through a strong state apparatus. According to media reports, African civil societies and political opposition are worried about China inviting African party leaders to annual political trainings, hence, promoting the political system of the People's Republic. It is said that amongst others, representatives from South Africa, Angola and Tanzania have already participated in such seminars.<sup>20</sup>

China's international student numbers are growing fast



ATLAS | Data: Chinese ministry of education (via Michigan State University)

Although China has been a member of the World Trade Organization (WTO) since 2001 and therefore has joined the global liberal trade regime, the People's Republic is eluding past efforts of multilateral institutions and OECD member states to improve accountability. The resulting lack of transparency in matters of lending and debt relief is increasingly being criticized on the African continent. In Kenya, for example, there was public outcry last year, after the media reported that Mombasa's port, like Sri Lanka's, would be fully owned by China Exim Bank should Kenya not be able to pay back its \$ 2 billion loan to China - allegations that official

<sup>20</sup> William Gumede (2018): How China is changing democracy in Africa

<sup>19</sup> Adegoke (2017): China's international student numbers are growing fast

representatives of both countries rejected.<sup>21</sup>

Often, China is accused of luring African countries into a „debt trap“. Angola is the continent’s most highly-indebted country to China, with a debt of more than \$ 20 billion.<sup>22</sup> According to Counselor Wang, however, this is not an explicit intention of the Chinese strategy. Also, MP Hlengwa and Tom Bayes from merics see the reason for debts to China predominantly in structural problems of African countries whose financial systems are unable to cope with the risks associated with Chinese loans. Hence, it seems even more important to fully integrate China in the global financial structure and the Paris Club.

### ***Implications for German Africa Policy***

China’s Africa Strategy is a challenge for Germany’s Africa policy. A norm-based foreign and development policy that promotes democracy, human rights and good governance meets a material-based policy of the People’s Republic.

Undoubtedly, constitutional reforms and the promotion of democratic structures will continue to be indispensable for cooperation between Germany and its African partner states. Not only is the continuation of this policy a cornerstone of German foreign policy, but also do recent developments in countries such as Sudan and Algeria show that Africans demand democracy and accountability from their governments. Finally, good governance and the rule of law have positive effects on a country’s economic development and corporate investment,<sup>23</sup> a proven fact that China, too, should not ignore.

Germany should increasingly demand and promote the integration of China into the Paris Club at the multilateral level. A transparent and sustainable financing model for Africa cannot

work without the participation of China in the future. Counselor Wang envisioned his country’s medium to long-term integration into the Paris Club. Here, it is important to continue the dialogue with the Asian giant.

However, against the backdrop of global challenges, common interests may be explored. For example, it might be possible to enter a dialogue with China on its “Green Development” initiative and identify possibilities for cooperation in this field. The inclusion of social and environmental standards in economic cooperation as well as investments is a path that Germany already has experience in and may share ahead of the increasing importance of environmental and climate change policies.

At the entrepreneurial level, cooperation between German and Chinese companies on the African continent has shown that collaboration can be quite successful. Such cooperation combines the potential of a state-led and risk-prone Chinese Africa Policy with the expertise of German companies and often takes place at the request of African partners.<sup>24</sup> On the other hand, only a small number of German companies can currently make use of such cooperation. First of all, German policy needs to „attract small and medium-sized enterprises to operate on the African market,“ says Stefan Rouenhoff MP. Here, it is crucial to ask, „whether the variety of programs that we have in Germany is actually helpful to achieve great success here.“

In order to increase German investment on the African continent, a realistic dialogue on opportunities and challenges on the continent as well as political support which provides financing possibilities and the protection

<sup>24</sup> Heiko Stumpf (2018): China ist im südlichen Afrika groß im Geschäft

<sup>21</sup> Claire Munde (2018): China will not take over Port of Mombasa, ignore propaganda - Uhuru

<sup>22</sup> Takudzwa Hillary Chiwanza (2018): The Top Ten African Countries With the Largest Chinese Debt

<sup>23</sup> David G. Landry (2019): Comparing the Determinants of Western and Chinese Commercial Ties with Africa

of risks, are needed. Although the current measures of the Federal Government with regard to economic promotion in Africa<sup>25</sup> are heading in the right direction, they have only limited financial resources compared to China.

An intensified multilateral approach by Germany, especially at EU level, would be desirable here. In addition, many of the measures focus predominantly on selected countries of the Compact with Africa Initiative, without including some of the most important destinations of German economic activity.

China's Africa strategy seems to build upon the conformity of political and economic interests, which are, most of the time, communicated openly. A successful German Africa strategy needs the more effective cooperation of the different ministries involved as well as of ministries and the private sector. Moreover, German interests should be communicated more clearly in the sense of an intensified partnership with African countries.

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25 Afrikapost aktuell 01/2019: Aktuelle Afrika-Initiativen der Bundesregierung zur Förderung der wirtschaftlichen Entwicklung