CHINA-AFRICA TRADE AND INVESTMENT RELATIONS: DEVELOPMENT PARTNERSHIP OR NEW COLONIALISM

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ABSTRACT

The unprecedented pace of growth of China-Africa trade and investment relationship in the last two decades has attracted greater intellectual curiosity among social scientists. In 2001, the annual trade volume between the two was estimated to be US$ 10 Billion. This figure has astonishingly increased to US$ 215 Billion by 2016. This growing relationship has been characterised by scholars under three approaches. The first one sees China as a true development partner of Africa. The second approach is that China is an economic competitor of the West in Africa with the ultimate objective of having its own share in exploiting the natural resources of the continent. The third approach is an extreme position of characterizing the engagement as a new colonialism. The paper concludes that China should be seen as a true development partner as opposed to the claims of exploitation and colonization.

KEYWORDS

China, Africa, Trade, New colonialism

1. INTRODUCTION

China's economic growth in the last two decades has been unprecedented. The fastest growing economy driven by industrialization has led China to look for more natural resources. Most of the analysis of this partnership highly focuses on what China gets from the relationship as opposed to what benefit both parties accrue. Instead of being treated as a two-way dynamic in which both parties define their interest and cooperate mutually, the primary focus of the analyses has been the nature of China's interest in exploiting Africa.

There are three major approaches of characterizing Chinese engagement in Africa. The first approach is China as a Development Partner. According to this approach, China's engagement in Africa is driven purely on economic interest to build strong strategic partnership with Africa(Edoho, 2011). Through this partnership, this approach argues, China would be able to serve as a successful economic model that developing African countries should emulate(Alden, 2009). To this effect, the China-Africa partnership is a manifestation of growing South-South Cooperation that would generate win-win situation for both partners. Since both China and Africa face the same economic challenges and identical development goals, the relationship is mutually beneficial because it is constructed on equality of partnership, mutuality of interest and reciprocal respect. This view is strongly promoted by both African and Chinese officials.

The second view is that China is an economic competitor of the West in Africa with the ultimate objective of having its own share in exploiting the natural resources of the continent. This view argues that China does not have the genuine interest of bringing economic development to Africa. This view greatly relies on the Chinese disinterest in promoting good governance, human rights and rule of law in the region as an indication of Chinese true intention (Edoho, 2007). Hence, what drives China to Africa is the same factor that motivated the West, and that is resource exploitation (Rocha, 2007). The long term objective of China's engagement, according to proponents of this view, is to overtake the West as the traditional destination for African oil and gas and other raw materials.

Finally, the third view is an extreme position of characterizing the engagement as a new colonialism labelling China as the new colonizer with the aim of replacing the West and imposing a new colonialism on Africa. This view is the extreme extension of the second view and the main difference is that in this case the Chinese have a hidden intention of establishing a colonial rule in Africa. The proponents of this view mainly rely on the inflow of Chinese workers in Africa especially resource rich sub-Saharan African countries (Mohan & Tan-Mullis, 2009). For instance, in 2011, the then Secretary of State of the United States Hillary Clinton warned against "creeping colonialism" commenting on the Africa-China relations. Admitting the growing trade partnership between the two, the proponents of this view see parallels between the Western colonization and China's drive that began with a positive trade then transformed to slave trade and finally resulted in colonization (Gaye, 2014).

This paper has four parts. First I will briefly introduce China-Africa relations from a historical perspective. The second part discusses trade between China and Africa by assessing Africa's exports to and imports from China. Part three describes investment flows from China to Africa. The fourth part discusses labour perspectives of China-Africa relations focusing on the Chinese companies in Africa. The analysis is primarily based on studies and reports by international organizations, research institutions and other sources of secondary data. This article argues that while there are imbalances in China-Africa relations that could be counterproductive to both in the long run, the characterisation of China's drive as competitor and new colonizer are results of hysteria and exaggeration.

2. CHINA-AFRICA RELATIONS: A BRIEF INTRODUCTION

The Asia-Africa Conference (Bandung Conference) held from 18th to 12th April, 2000 was where the benchmark for China Africa relation was laid out. At the conference China declared its intention to help liberation fighters throughout the world especially Africa. This political support persisted following independence up to the 'Open Up and Reform Policy' of China in the late 70s (Chun, 2012). However, apart from diplomatic relationships and some Chinese investments in Africa, the trade and investment relationship was impeded due to the cold war and China's focus on the industrialized western States.

The formation of Forum on China-Africa Cooperation (FOCAC) in 2000 marked the beginning of unprecedented bilateral engagement between Africa and China. FOCAC serves as "*a platform for collective dialogue and an effective mechanism for enhancing practical cooperation between China and African Countries."*

The pace of China's engagement with Africa has grown phenomenally. In 2003, China has cancelled US $10 billion in debt to 31 African countries. Most regard the post 2000 China Africa elation as a golden era. China unveiled white paper on China's African Policy that provides for four overarching principles that would guide the China-Africa relations.

> *"**Sincerity, Friendship and Equality**- which reiterates the respect for African countries independent choice of the road for development. **Mutual Benefit, Reciprocity and Common Prosperity**- support for Africa's economic development and nation building. **Mutual Support and Close Coordination**- strengthen relationship with Africa in the UN*

and other multilateral institutions. ***Learning from each other and seeking common development-*** *exchanges and cooperation in development and governance." (Chinese Government, 2006)*

China declared 2006 as 'Year of Africa' by putting its relation with Africa as a priority. The 2006 FOCAC Summit was attended by the heads of States and Head of Governments of 48 African countries. During the Summit China laid out its trade and investment expansion plan with Africa including loan and development aid packages (Edoho, 2011). Among the eight point plan was providing preferential loans, doubling the development assistance to African countries within the next three years (by 2009) and adopt a zero-tariff for Least Developed Countries in Africa to open up the Chine market for African exports. The summit also resulted in the establishment of the China-Africa Development Fund, a Chinese government policy Bank with the objective of stimulating investment in infrastructure building in Africa through Chinese companies.

3. China-Africa Trade Relations

Until the early 2000s, the trade volume between China and Africa was insignificant with an annual trade volume of US $ 4.5 Billion in 2000. Following China's intention to advance trade with Africa, China launched FOCAC in 2000 following which the trade volume has grown astonishingly from about US $10 Billion in 2001 to 2000 billion in 2013. In relation to China's share in total trade, Africa's share is still very limited. In 2012, trade with Africa constituted only 5.2% of China's total exports and imports. (Hanauer & Morris, 2014)

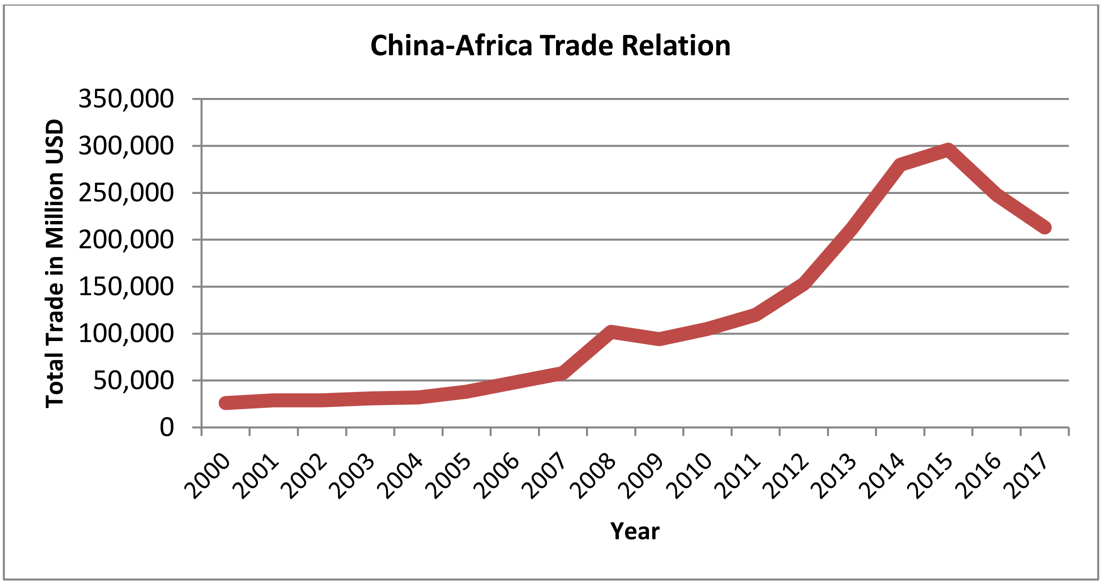

Figure 1. China-Africa Total Trade, 2000-2017

Source: Author

During these periods, African countries have registered remarkable economic growth. While wholly attributing the economic growth to China's engagement could be an overstatement, the contribution of the China-Africa trade partnership to economic growth in Africa is undeniable. (IMF, 2013)

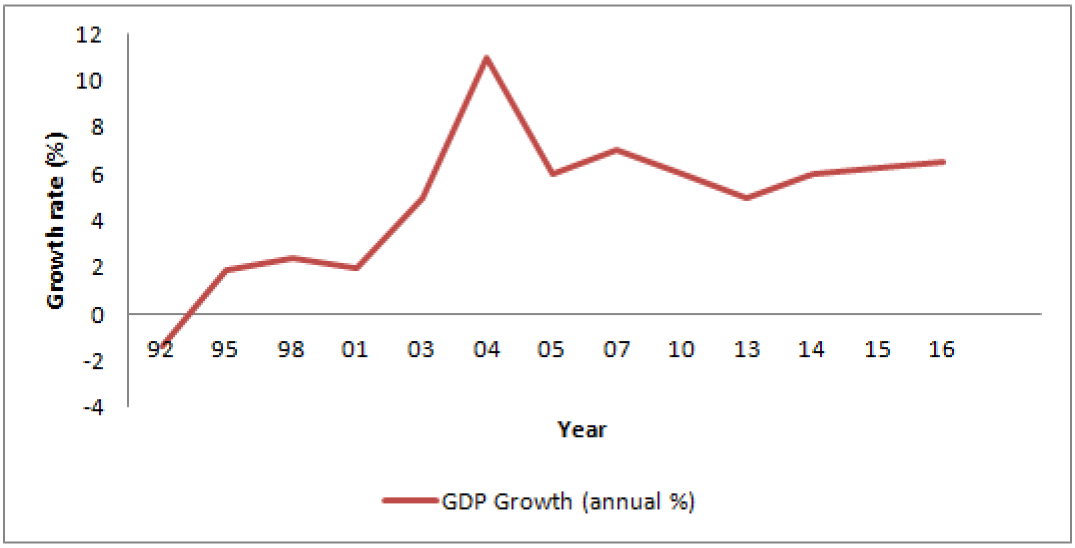

Figure 2. Annual GDP Growth of Africa, 1992-2016

Source: Author

3.1. African Exports to China

The exports from Africa to China are dominated by commodities. Primary goods like oil, gas and minerals constitute the bulk of Africa's exports to China.

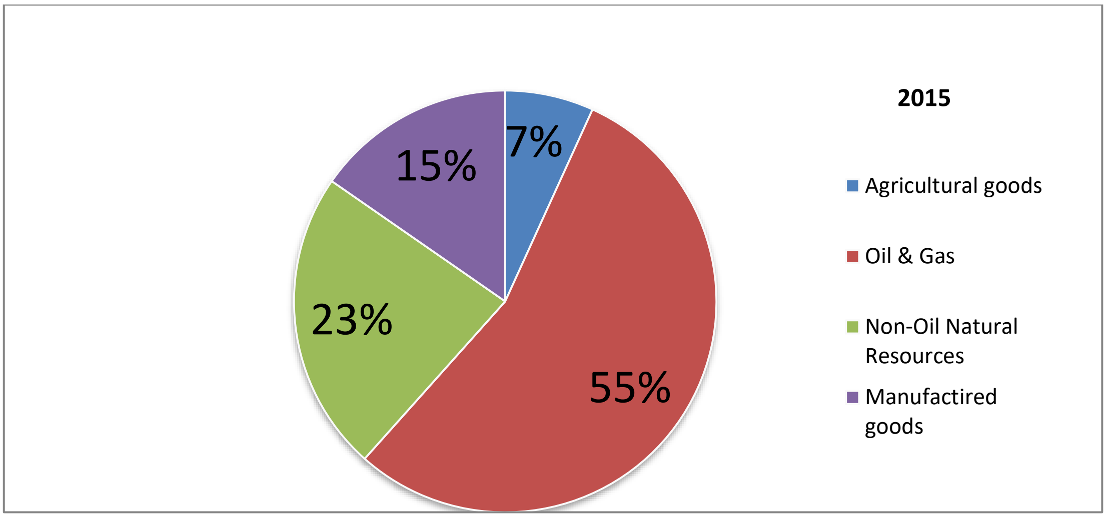

Figure 3. African Export Items to China, 2017

Source: The World Bank

This nature of the commodities to China has been the subject of criticism as a manifestation of Chinese interest only in having access to natural resources. Moreover, the criticism is also exacerbated by the fact that these commodities are geographically limited to some countries so that African exports to China are only limited to some countries. Oil, gas and mineral rich countries like Angola (34.25%), South Africa (19.55%), Sudan (11.05%), Democratic Republic Congo (7.52%) and Equatorial Guinea (4.5%) together accounted for more than 80% of African exports to China between 2000 and 2010 while resource shy countries have a few to export to

China. Though African export is increasing rapidly, China is only the third largest destination for African Markets behind the European Union and US.

Despite the criticisms however, African trade relations are characterized by the same feature with other trading partners like the US and European Union. Most African countries depend on exploiting their resources to create revenues natural resources to generate revenue needed even to run their own government. As a result, Africa's trade is essentially dominated by commodities like gas, oil and minerals with all the trading partners including China.

Destination	Share of commodities in Africa's export
China	59%
EU	77%
US	77%
BRICS (excluding China)	87%
World	69%

Source: UN Comtrade

3.2. African Imports from China

Following the average economic growth of 5% by many countries in the region, Africa needs a reliable partner to enhance its industrial capacity and transform its economy. Africa wants to diversify its trading items and this requires boosting the manufacturing industry in the region. To this effect, Africa needs value-added manufacturing and commodity based industrialization. That is why unlike exports that are primarily commodities, the imports from China are relatively diverse. Capital goods like machinery, telecommunications and vehicles constitute the major import items followed by textiles and transportation.

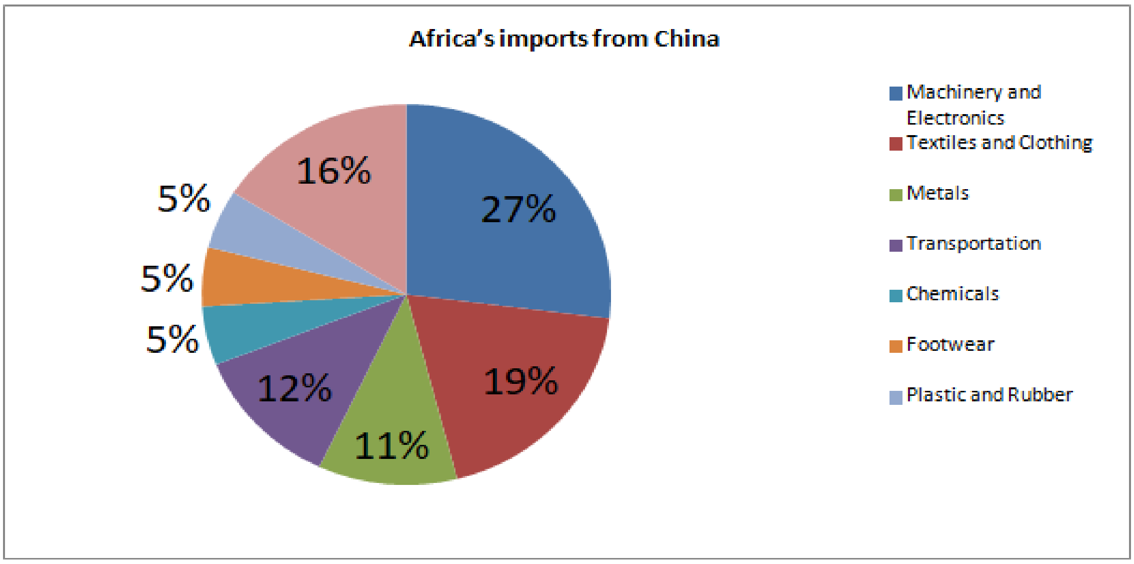

Figure 4. African Import items from China, 2017
Source: The World Bank

However, manufacturing is still very low in Africa. According to the World Bank, despite a slight increase the manufacturing sector only contributed 11% to the GDP growth in Sub-Saharan Africa. This is a 1% increase compared to the preceding years. Africa's ambition to diversify its trading items by enhancing industrial output would certainly increase the volume of machinery and infrastructure items that are primarily imported from China.

Investment in infrastructure will be vital in boosting Africa's manufacturing industry. The poor state of infrastructure in the region increases the cost of manufacturing input by 200%, lowers productivity by 40% thereby making African manufacturers less competitive in the world.

4. Chinese Foreign Direct Investment (FDI) to Africa

Among the growing China-Africa relations is the rapidly growing Foreign Direct Investment especially from China to Africa. This is because FDI demands the establishment of a long-term relationship between the investor and the enterprise where the investor has a lasting interest and influence on the enterprise.

According to the World Investment Report 2015, FDI flows globally declined by 16%. However, the FDI flows to Africa remained virtually constant at US $54 Billion. While the Chinese share of FDI in Africa is growing rapidly, it is still very low. Between 2003 and 2012 China's FDI in Africa grew at an annualized compound rate of 47.8%, with investment stock increasing by 52.5%. China's FDI share is only 7% as of 2014. It is relatively of a small share because China is a late comer in Africa.

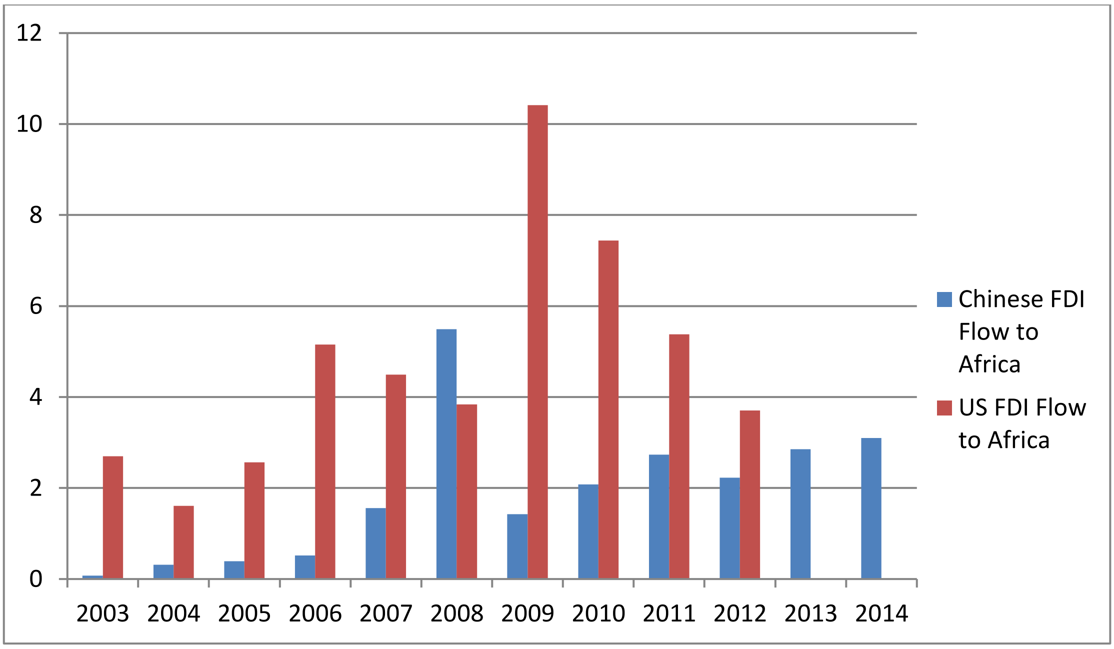

Figure 5. China and US FDI Flow to Africa, 2003-2014

Source: China Africa Research Initiative

The sudden increase in Chinese FDI in 2009 is attributable to the purchase of 20% share in Standard Bank South Africa by the Industrial and Commercial Bank of China (ICBC) for US $5.6 Billion.

Following the global economic crisis of 2008, while some foreign investors left Africa, the Chinese investors expanded their investment encouraged by the Chinese government.

Commercial lending, acquisition and mergers increased especially in oil and other extractive industries that constitute 30% of Chinese FDI stock in Sub-Saharan Africa. (Pigato & Tang, 2015).

Traditionally Chinese FDI has been focused on extractive industries. However, there is a trend of diversifying the FDI focus especially towards manufacturing sector. The increasing investment in manufacturing industries like textiles and apparel, auto and building materials has contributed towards higher value added activities. This is in contrast to the argument on Chinese intention of exploiting the resources in Africa. A recent trend also indicates that among the major FDI recipients from China are non-resource-rich countries in Sub-Saharan Africa such as Ethiopia and Tanzania(World Bank, 2015). For instance, between 2008 and 2013, the manufacturing sector accounted for 76% of the total Chinese investment for operational projects in Ethiopia which makes the sector the top recipient of FDI from China both in terms of number of projects and level of investment.

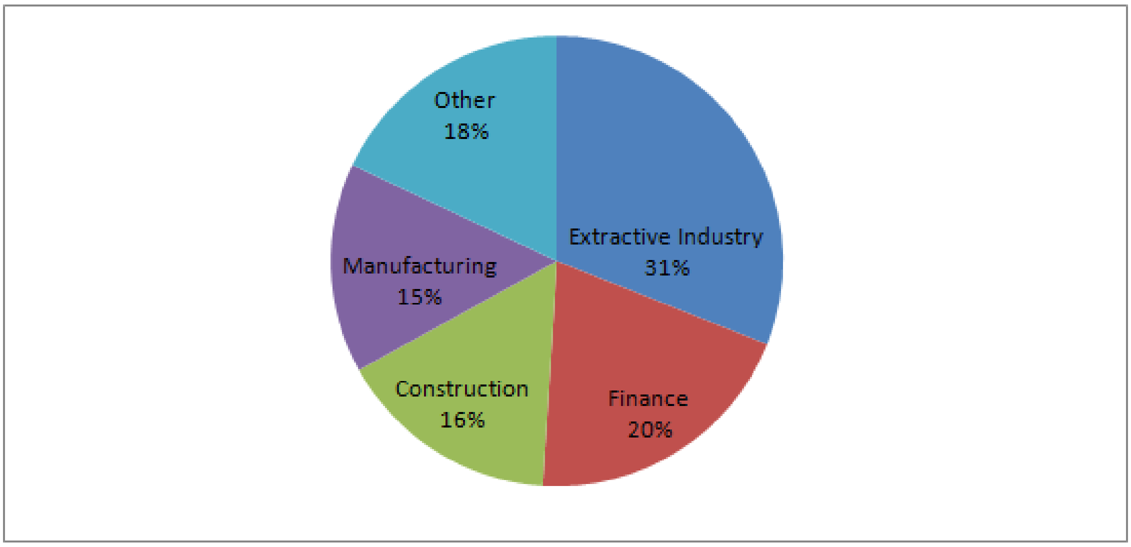

Figure 6. China's FDI to Africa in Sectors

Source: The World Bank

Other sectors include wholesale, retail, agriculture, real estate and commercial activities

5. China In Africa: Labour Perspectives

FDI can positively and negatively impact the job creation in the host country. Positively, FDI creates job opportunities directly for the local population. Negatively, it could impact the job creation especially if the FDI enters the host economy through mergers and acquisition that could result in labour shedding and restructuring (Meibo & Peiqiang, 2013). Among the least studied aspect of the China-Africa relation is the labour perspective of the Chinese investment in Africa. While the Chinese role in filling the financial and technological gaps in Africa is positively seen, the labour relation has built considerable scepticism. Most criticize Chinese investment in Africa claiming that Chinese companies bring their own workers without creating jobs for the local population or facilitating skill transfer. Some critics go further by suggesting that China is using 'Prison Labour' in Africa. However, surveys indicate that Chinese investment creates significant employment for the local population. According to a survey of five African countries in 2011, all the host countries agree that the Chinese investment is positive for local employment. For instance, in 2011, 290 Chinese firms created 35,000 regular jobs and 40, 000 seasonal jobs in Ethiopia.

The 2012 World Bank Survey on Chinese FDI in Ethiopia also indicates similar result. Out of 61 Chinese Companies surveyed in Ethiopia in 2011, 91% of the employees are Ethiopians. Another study on Chinese investment in Kenya found that contrary to the belief that Chinese firms mainly employ workers from China, 78% of full-time and 95% of part-time employees in Chinese companies in 2015 are Kenyans. The study indicated that private enterprises as opposed to State Owned Enterprises tend to employ more local workers. Similarly, large enterprises as opposed to small enterprises employ more local workers (World Bank, 2012).

Localization also differs from country to country. For instance, the share of local workforce in Angola is significantly lower than South Africa due to the former's 27 years of war that resulted in de-skilling. Similarly, the sector of investment also matters in the volume of the local workers employed. While extractive, manufacturing and construction industries have mostly beyond 80% of local employees, telecommunications companies tend to employ larger Chinese workers.

Figure 7. Number of Chinese Workers in Africa between 2009 & 2015

Source: China Africa Research Initiative

Despite the studies indicating the positive impact of Chinese investment in job creation in Africa, there are legitimate concerns on the working conditions and treatment of employees. Chinese firms face significant criticism on the violation of the rights of workers and lower salary especially compared to other foreign companies investing in the region. Foreign TNCs normally provide a salary which is far better than domestic companies in Africa. However, Chinese companies seem to set the standard in light of domestic companies usually providing the basis salary similar to or slightly higher than local companies. This is partly due to Chinese characterization of itself as a developing country that should not be expected to uphold the traditional conditions set by the Western companies (Hanauer & Morris, 2012). Also the fact that most of the companies are SOEs contributes to such strict policy in working conditions. A

World Bank Survey on Chinese FDI in Ethiopia found that Chinese companies pay an average salary of US $85 which is slightly higher than what the local companies pay (US$ 75) in 2011(World Bank, 2012). In addition to remuneration, Chinese companies are often accused of violating labour conditions in Africa. Some of the Chinese owned companies engaged in extractive industries in Zambia and South Africa have been accused of failing to protect safety conditions enshrined in national and international labour standards (Human Rights Watch, 2012). Similarly, Chinese companies are accused of flouting basic labour protections that allow workers to form or join trade unions. The absence of employment contracts and arbitrary determination of wages have also been raised as a concern in some Chinese companies. However, there is a significant variation between countries, sectors and individual companies. A case study of 10 African countries in 2009 found that while there are Chinese companies that violate labour standards, other Chinese companies can be exemplary in terms if working conditions. As per the study, Chinese companies are often characterized by tense labour relations, hostile attitudes towards trade unions and poor working conditions.
Despite the accusations of labour violations, studies indicate that China enjoys higher favourability ratings in Africa. The 2015 Pew Survey found that almost 70% of the participants in Africa see China's influence in the region favourably.

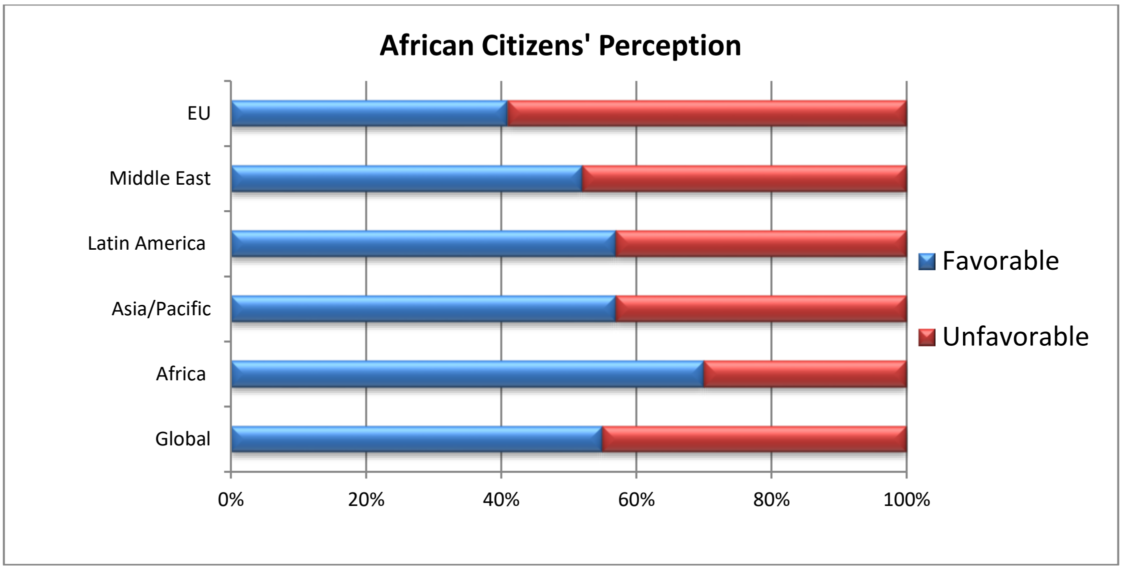

Figure 8. Pew Attitude Survey on China's Favourability across the world

Source: Global Attitudes Survey, Pew Research Centre, Spring 2015

Source: Global Attitudes Survey, Pew Research Centre, Spring 2015However, when it comes to the respect for personal freedoms, only 36% of the participants believe China respects personal freedoms while 39% believe the opposite. This is an indication that China needs to address, inter alia, the serious allegations on labour rights concerning its engagements in Africa.

CONCLUSION

The scholarship on China's engagement in Africa is marred by characterizations as development partner, resource competitor or new colonizer. The assessment of the above three elements (trade, investment and labour) provides for a mixed result on the nature of the partnership. While trade is virtually balanced, it is not well diversified. While the FDI is rapidly growing, it remains to be one of the lowest compared to other regions. While Chinese firms do create a significant number of jobs, there are legitimate questions on the working conditions and treatment of local workers.

Africa's engagement with the rest of the world is similar. Both Africa's exports and the FDI from the West are concentrated in natural resources. However, there are fundamental differences between the approach by China and the West in relation to the terms of engagement. The four overarching principles of engagement of China were vital in deconstructing the prevalent 'White Man's Burden' that describes the West's attitude towards Africa. China has presented itself as an equal partner respecting the 'independent choice' of African countries as opposed to dictating the behaviour of the countries in light of special values. This positive image was vital in building trust by giving African governments the sense of equal say in the partnership.

This trust is reflected in the post 2000 trade and investment relationship between China and Africa. In addition to being the major trading partner of Africa, China has become the major source of import for Africa's manufacturing needs. The growing trade is supplemented by a rapidly growing FDI. However, there are challenges in terms of diversification in both trade and investment relationships. There are fundamental asymmetries in some cases. Unlike the growing Chinese FDI into Africa, there is a very limited Africa's FDI into China. There are asymmetries concerning the sectoral engagement of Chinese companies despite the recent attempt in diversification. These asymmetries are essential to the level of prowess that the two enjoy. While China has become a global economic power, Africa is largely less developed. These symmetries will continue to exist. However, China understands the value of maintaining a strong relationship with Africa. In addition to the natural resources that China needs, Africa is a viable emerging market for China's over manufactured goods.

The empirical evidence attests no intention of Chinese colonization. But China can be a competitor of natural resources because that is what Africa relies on. China's interest in natural resources is not different than other trading partners. But surely China is a development partner. Africa has shown significant progress since China's extensive engagement in trade, investment and infrastructure building.

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