

Impact of China on Sub-Saharan Africa: Opportunities and Challenges

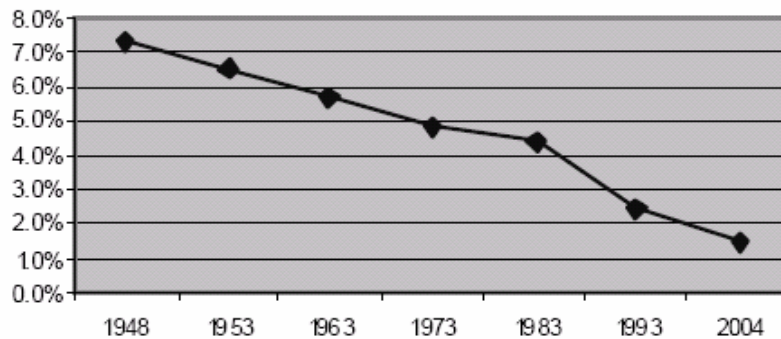
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China established formal links with Africa after the Bandung Conference in 1955. In the past 50 years, China-Africa relation can be described in two phases. From 1955 to 1980, China's economic activities in Africa mainly include official development aid (ODA) and official trade. Since China started the open and reform policy in 1979, China's economy achieved great growth and its trade with SSA increased very fast even when Africa's trade share in the world decreased. With the effort of the leaders, China-Africa cooperation established a solid foundation in politics and economy. The relation is described by the leaders as friends, partners and brothers. The Forum on China-Africa Cooperation (FOCAC) established in 2000 turned a new page of China-Africa cooperation. Since then, the trade between the two sides increased much faster, and China's economic assistance to Africa also increased. In recent years, China paid more attention to invest out; Africa is one of the most important destinations of Chinese investment.

Sub-Saharan Africa (SSA) is trying hard in the social and economic development. The cooperation between China and SSA has been strengthened. The main economic sectors that Chinese companies involved include agriculture, manufacturing, solid minerals, oil and gas and infrastructure. The impact of China to SSA is transmitted mainly through trade, aid and investment. In brief, China's existence in SSA can be described as a seller, a buyer, a supporter, an assistant, and an investor. As a seller, China exported cheaper products to Africa, which save money for consumers; as a buyer, because of China's import, the price of Africa's products increased significantly. China's assistance and the investment from China play very important role in the development of SSA. Of course, as there are many differences in SSA countries, the nature, structure and significance of these impacts vary across countries.

1. Trade between China and Sub-Saharan Africa

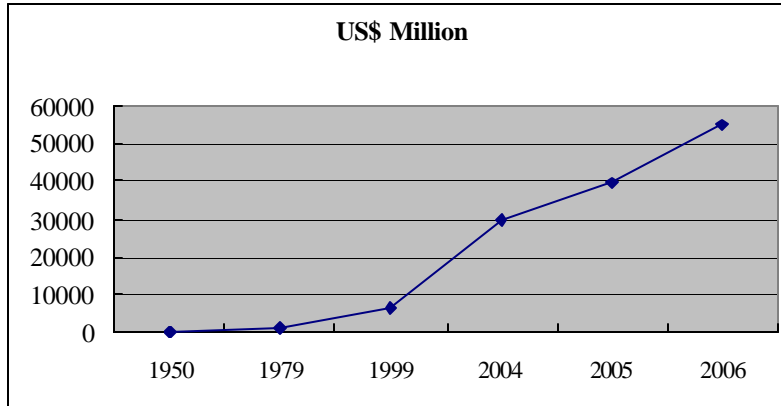
Africa's Share of World Exports



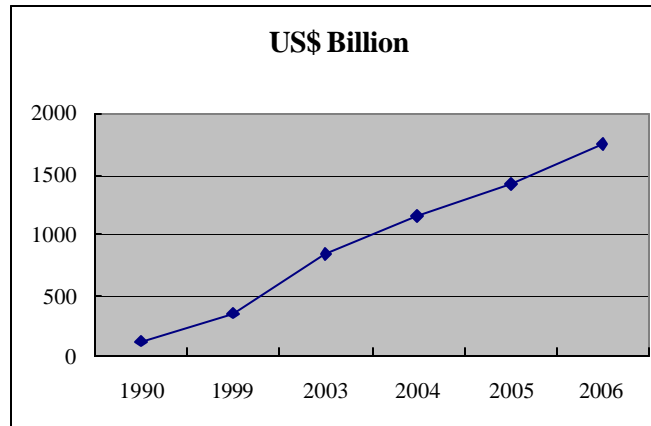
Source: IMF Direction of Trade Statistics (2005).

China's Trade with Africa (1950-2006)

Source: Customs of China.



China's Foreign Trade (1990-2006) Source: Customs of China.



In 2005, Chinese President Hu Jintao declared at UN meeting to reduce or eliminate the tariff on 195 products from 39 least developed countries which had diplomatic relations with China. 190 tariff lines from 25 African countries joined the treatment. This caused China's trade with the 25 African beneficiaries increased 47.2% to US\$5803 million in 2005 from the US\$3943 million in 2004. In 2006, 28 African countries joined the treatment which increased China's imports from Africa significantly. Products of 440 tariff lines will join the treatment soon. This policy offered more opportunities for Sub-Saharan countries to export more products to China.

China's Trade with Africa (2004-2006)

US\$ Million

Year	Total	Change	Export	Change	Import	Change	Balance
2004	29946	58.90%	13820	35.70%	15650	87.10%	-1830
2005	39747	35.90%	18683	35.20%	21063	34.60%	-2380

2006 55000 40.00% 26700 43.00% 28800 37.00% -2100

For a long time, China's import from Africa was much less than its exports from Africa. In recent years, Africa had surplus. As China's import from the 7 countries including Sudan and Congo, shared 86.2% of its total imports from Africa, most of them still had deficit in bilateral trade with China. China's export to 12 African countries also shared 80% of its total export to Africa.

China's Export to Africa in 2006 (US\$ Million)

Country	China's Export	Share%	Balance
Africa	26,690	100	-2,084
1.South Africa	5,768	21.6	1,679
2.Egypt	2,976	11.2	2,759
3.Nigeria	2,853	10.7	2,576
4.Algeria	1,948	7.3	1,804
5.Morocco	1,570	5.9	1,210
6.Benin	1,452	5.4	1,363
7.Sudan	1,410	5.3	-533
8.Ghana	803	3.0	723
9.Togo	704	2.6	683
10.Gabon	639	2.4	-753
11.Kenya	622	2.3	597
12.Liberia	530	2.0	528
Subtotal	21,275	79.7	-
The rest of Africa	5,415	20.3	-

China's Import from Africa in 2006 (US\$ Million)

Country	China's Import	Share%	Balance
Africa	28,774	100	-2,084
1.Angola	10,933	38	-10,039
2.South Africa	4,088	14.2	1,679
3.Congo	2,791	9.7	-2,549
4.Equatorial Guinea	2,538	8.8	-2,497
5.Sudan	1,943	6.8	-533
6.Libya	1,694	5.9	-990
7.Gabon	817	2.8	-753
Subtotal	24,804	86.2	-
The rest of Africa	3,970	13.8	-

For Sub-Saharan countries, China had deficit of US\$7.2 billion in the trade between the two sides. China's export to 11 countries shared 82.8% of the total, while China's import from 5 SSA countries shares 84.5% of its total import from SSA. China's export to South Africa shared 30.1% while its import from Angola shared 41.6%. Angola had surplus of US\$ 10 billion in the trade with China while China had surplus in the trade with most other SSA countries, especially in the trade with Nigeria, South Africa, Benin, Nigeria, and so on.

China's Export to Sub-Saharan Africa in 2006 (US\$ Million)

Country	Export	Share	Balance
Sub-Saharan Africa	19,135.4	100.0	-7,174.8
South Africa	5,767.8	30.1	1,679.4
Nigeria	2,853.3	14.9	2,575.6
Benin	1,451.9	7.6	1,362.5
Sudan	1,410.3	7.4	-533.2
Angola	894.2	4.7	-10,039.1
Ghana	803.0	4.2	723.3
Togo	704.1	3.7	682.5
Kenya	621.4	3.2	597.0
Liberia	529.8	2.8	527.9
Ethiopia	431.0	2.3	299.1
Tanzania	382.9	2.0	230.2
Sutotal	15,849.7	82.8	-
The other SSA	3303.7	17.2	-

China's Import from Sub-Saharan Africa in 2006 (US\$ Million, %)

Country	Import	Share	Balance
Sub-Saharan Africa	26,310.2	100.0	-7,174.8
Angola	10,933.3	41.6	-10,039.1
South Africa	4,088.4	15.5	1,679.4
Congo	2,790.7	10.7	-2,549.2
Equatorial Guinea	2,537.6	9.6	-2,496.5
Sudan	1,943.5	3.6	-533.2
Sub-total	22,239.5	84.5	-
The other SSA	4070.7	15.5	-

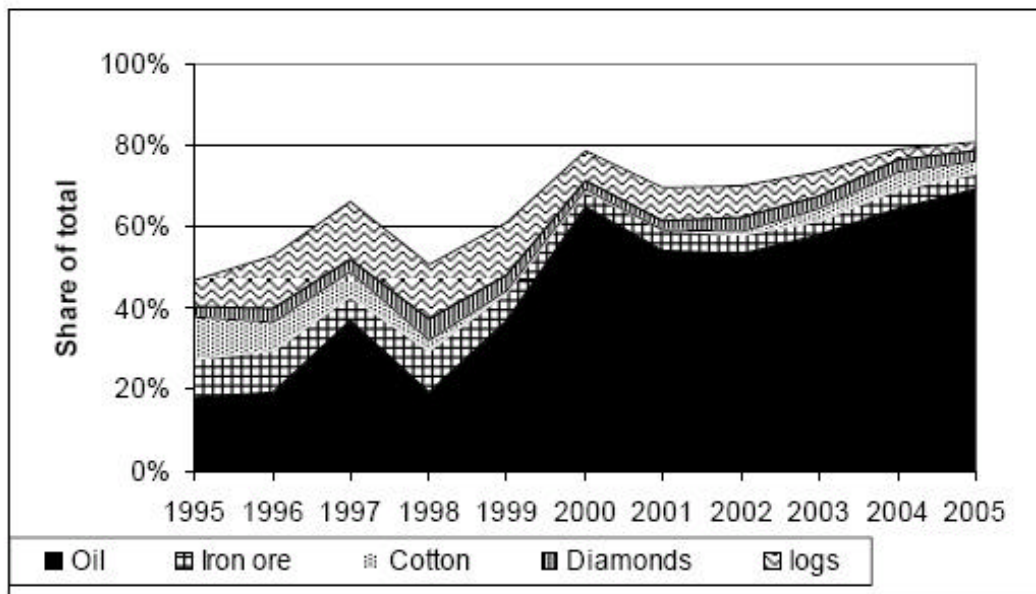
In general, the total trade between China and Africa is still limited as both sides still depend on the market of Europe and North America. China's export to Africa shared less than 3% of its total export to the world, much less than its export (2005) to Asia (56.8%), Europe (18.4%) and North America (16.2%) and Latin-America (3.5%).

China's Trade with the world in 2006 (US\$ million, %)

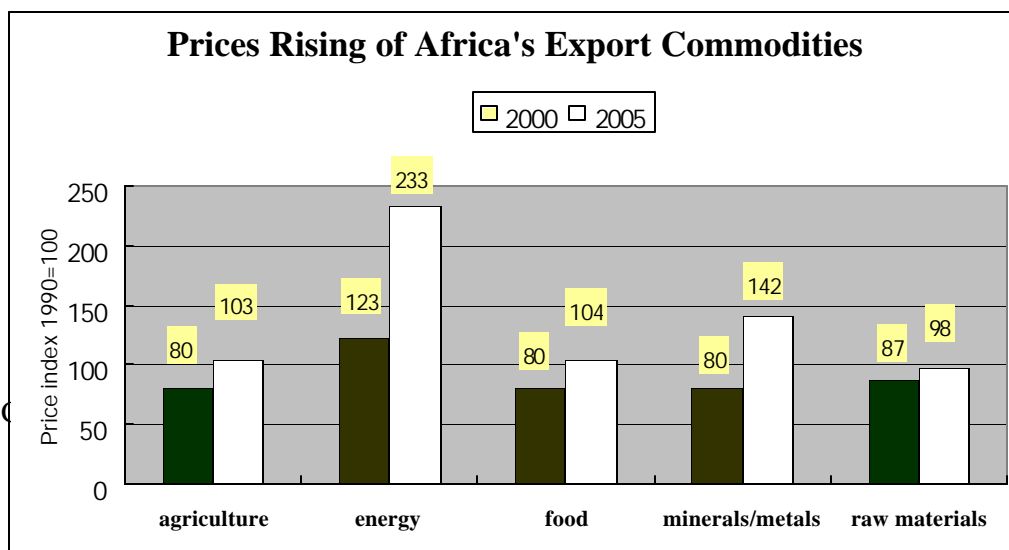
Country	Total	Export	Import	Balance	Change (%)		
					Total	Export	Import
Total	1,760,686.5	969,072.8	791,613.6	177,459.2	23.8	27.2	20
APEC	1,227,304.3	644,660.1	582,644.2	62,015.9	20.8	23.4	18.1
Asia	981,339.5	0	525,503.8	-69,668.2	21.5	24.4	19
ASEAN	160,839.7	71,313.7	89,526.0	-18,212.2	23.4	28.8	19.4
Europe	330,229.0	215,371.5	114,857.6	100,513.9	26	30	19.1

EU	272,302.3	181,983.4	90,319.0	91,664.4	25.3	26.6	22.7
North America	286,061.5	219,137.3	66,924.2	152,213.1	23.9	25.5	19.2
Latin-America	70,217.6	36,028.7	34,188.9	1,839.9	39.1	52.1	27.6
Africa	55,464.1	26,690.1	28,774.0	-2,083.9	39.6	42.9	36.6
Oceania	37,330.8	16,009.5	21,321.3	-5,311.8	20.8	24.2	18.4
North Africa	10,018.5	7,554.7	2,463.8	5,090.9	68.8	45.2	34
Sub-Saharan Africa	45,445.6	19,135.4	26,310.2	-7,174.8	39.0	41.9	36.9

The above tables also show that the trade between China and different African countries are quite different. This tells us that China's trade impact to each African country were different although all of them got benefit in the trade with China. Those with big surplus had more advantages and got more benefit accordingly.



Source; Derived from Sandrey (2006)



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developing countries even when China's economy was very weak. At the food-short time of China's agriculture production drop in 1959 and 1960, Chinese government provided food to Guinea (10 thousand tons of rice) and Congo (10 thousand tons of wheat and rice). In 1964, former Premier Zhou Enlai visited Africa and proposed eight principles on China's economic assistance. China never interfere the internal affairs of the recipient countries. This confirmed the trust each other. After that, China donated many infrastructures, agricultural and industrial projects urgently demanded by African countries. Most of them were built with interest-free loans provided by Chinese government. Interest-free loans were the main ways of China's aid to the other developing countries including Sub-Saharan countries. According to the Chinese government, the projects involved in agriculture (137), infrastructure (133), transportation (railway, road), hydroelectric station, drink water wells drilling (600), medicine (20 hospitals, other 30 hospitals were committed in 2006 to be built), education (11 schools), manufacturing, food processing, textiles (7), machinery, engineering (21 stadiums and 5 gyms). Railway between Tanzania and Zambia (1860 km), railway in Botswana (373 km), 15 roads (3407 km) in Somalia, Madagascan, Ethiopia, Sudan. Up to now, more than 600 teachers and 160 thousand Chinese medical team members had ever worked in 43 African countries.

In 1980s, since the open and reform policy, China also tried to adjust the aid system. Contractual management became a kind of test on the donated producing or manufacturing projects. China paid more attention to the technical training, which focused on rice and vegetable planting, food processing, acupuncture, solar energy development, and so on. In the 1980s and 1990s, China focused its in-kind aid in the form of building large non-commercially oriented projects, such as sports stadiums and government office buildings.

Since 2000, the Forum on China-Africa Cooperation (FOCAC) turned China and Africa relation into a new page. China increased the budget of aid and initiated its first time over RMB10 billion debts-relief action to African countries. China also provided special fund for bilateral economic cooperation, Africa Human Resources Development Fund, and so on. According to the Ministry of Commerce, from 1999 to 2000, 24 African countries received the preferential loans for 30 projects.

At the second Forum of China-Africa Cooperation (FOCAC) Ministerial Meeting in the end of 2003, China eliminated RMB 10.9 billion debts of 31 African countries and committed to provide emergency assistance and another 372 projects in 47 African countries and 2 regional organizations under the framework of the Forum. The projects involved in road, schools, hospitals, stadiums and so on. 27 bilateral preferential loan agreements were signed at the Forum. China also committed to train 10 thousand persons from 2004-2006. In August 2005, the first Chinese volunteers (12) arrived in Ethiopia. In October 2006, another 50 volunteers started their services in Ethiopia.

At the Forum (FOCAC) in Beijing in November 2006, China committed to increase the assistance twice in 2009 as it was in 2005 (US\$5 billion preferential loans would be provided). From 2007-2010, China planed to train another 15000 persons. China also committed to establish 100 schools in rural area. China granted CNY300 million for establishing 30 anti-malaria centers. The scholarship to African students increased from 2000 at the time to 4000 persons per year before 2009. From 2007, 300 more volunteers will be sent to Africa in the coming three years, 100 each year.

It is greatly appreciated that China provided economic assistance to other developing countries when the economy of itself was very weak. China's economic assistance without any political condition shows more respects to African governments. The failure of the structures adjustment plan initiated by the Western world though the World Bank and IMF, confirmed that China's assistance was more appreciated in spite of its budget was much less than the Western ODA.

3. China's investment

After implementing the construction and engineering work on the donated projects, Chinese companies got many opportunities to provide services in African countries, mainly in the fields which donated projects involved, like road construction, water and sewerage, government buildings and bridges. According to the statistics of the Ministry of Commerce, from 2000 to 2006, Chinese companies contracted over 6000 km of road building, 3400 km of railway building or renovation, 7 electricity power stations with total capacity of over 3.5 million kilowatt. Renovation work included Nigeria's railway, the hydroelectricity station of Congo (Republic of), and the telecommunication network of Angola. In 2006, Chinese companies completed engineering and labour services valued US\$9500 million. China signed civil nuclear cooperation agreement in the year.

Since 1990s, Chinese companies were encouraged to invest in Africa and involve in the projects built with the preferential loans provided by the Chinese Government. According to the information released by the Chinese government, only in the two years from 1999 to 2000, 46 old donated projects in 21 countries were changed into Chinese company-involved joint ventures. Chinese companies started to invest outside the country slowly and carefully following the "going out" strategy initiated by the Chinese government. More and more Chinese companies which had export or import business with SSA countries started to transfer some of their production to SSA countries. In recent years, China's investment to SSA increased very fast. Up to now, there are over 800 Chinese companies in Africa involved in manufacturing, oil, mining, telecommunication (Huawei in Kenya, Zimbabwe and Nigeria), electricity (Beijing company invested US\$3.04 million in Kenya to make concrete weir pole) and so on. Chinese company involved in the Lekki free trade area building in Lagos, Nigeria). The total Chinese FDI in Africa to the end of 1999 was US\$440 million, in 351 companies. In the year of 1999, Africa's FDI inflow from China was US\$95 million separated in 54 companies. In 2004, Chinese FDI outflow to Africa was US\$135 million, 77 new Chinese companies doing business in the region. Up to 2005, China's FDI outflow in 49 African countries was US\$6270 million. China's FDI outflow to Africa in 2006 was US\$370 million. Most of China's investment was focused on mining and oil sectors. Sino-Chem signed a US\$1400 million contract in Angola on oil projects. More capitals are flowing into manufacture and services sectors. China National Petroleum Corporation (CNPC) is the single largest shareholder (40 percent) in the Greater Nile Petroleum Operating Company. The Chinese side has invested US\$3 billion in refinery and pipeline construction in Sudan since 1999. In 2006, China National Offshore Oil Corporation (CNOOC) purchased a 45% of stake in a Nigerian offshore oil and gas field for \$2.27 billion and promised to invest an additional \$2.25 billion in field development. To the end of 2006, according to the Ministry of Commerce, China's total investment in Africa was US\$ 6640 million. Chinese invested

companies can manufacture air-conditioners, refrigerators, television sets in South Africa, Nigeria, and other SSA countries.

China has signed bilateral agreements on investment protection with 28 African countries. In general, the impact of China's investment to the development of SSA is very active. But just like the situation of trade, China's investment focused on several SSA countries. Most of the SSA countries have not got many benefits from the investment. China's success in economic development set an example for other developing countries to compare with the experiences of the developed countries. It provides a new reference for them to find their own way according to the respective situation of each country.

In his work "At the Heavenly Gate in Beijing hope is born!", President Mbeki expressed his confidence on China-Africa cooperation in the future. It is sure that rising China will play more active role in the development of Africa.

4. Some challenges

It is necessary to mention the challenges both sides faced in the China-SSA cooperation.

One, the people need to know each other better. In the past 50 years, China-Africa cooperation were mainly implemented by the government, there are few Chinese immigrants in Africa. Although the Chinese government provided scholarships to African students to study in China, Chinese companies meet some problems because of the different cultural background and different business practice in Africa. SSA countries also have many differences. Chinese need to learn more about the culture, habit and law of SSA countries and get used to the business practice. SSA countries also need to know more about China and learn some useful experiences.

Two, both sides need to face the challenges emerged in the economic globalization. China's economic existence in SSA is part of its "go out" strategy, and China-SSA cooperation is part of the globalization. Since the open policy, many industries in China meet difficulties in the competition with the foreign companies. In China-SSA cooperation, some SSA enterprises find difficulties in the competition with Chinese companies. The export of China and some African countries may have competition even in a third market, such as textiles. Trade frictions need to be solved properly by the governments. For example, China committed to limit the exports of 31 categories of products to South Africa and agreed to help the compatibility of African textile industry. China-South Africa signed the agreement on strategic cooperation, which declared to initiate the negotiation of FTA between China and SACU five countries.

Three, China's activities in Africa caused great concern of the western countries. Some of them complain that China's competition in SSA market challenges their benefits, and some others call China-SSA cooperation to follow the Western standards. It is a challenge to China-SSA cooperation to coordinate with the United Nations and the western countries.

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