China continues its aggressive pursuit of Africa's resources

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16 November 2009

The ministerial Forum on China-Africa Cooperation met in Sharm el-Sheik, Egypt, last week, attended by Chinese Premier Wen Jiabao and representatives of more than 300 Chinese companies. Wen took the opportunity to chide the US for its large budget deficit.

He made it clear that China intended to press ahead with its programme of investment in Africa despite American opposition. He pledged $10 billion (£6bn) in concessional loans—loans with lower interest rates and longer repayment periods than standard loans—to Africa over the next three years. His offer was warmly welcomed by African ministers.

Within days of the conference closing, the US responded. The International Monetary Fund threatened to cut off lines of credit to the Democratic Republic of Congo if it did not scale back a Chinese investment plan. The IMF, a body dominated by the US, showed that it is quite prepared to plunge this war-torn and impoverished African country into financial isolation, a fate that has already befallen Zimbabwe, with disastrous consequences for the mass of the population.

The conflict over Chinese investment in Congo may only be a foretaste of what is to come. Stephen Roach, the Asia managing director of Morgan Stanley, has warned in no uncertain terms that a US-China trade war is a "big risk". He told the Hong Kong-based *DNA Money*, "I am worried about US-China trade friction next year. It's one of the biggest risks to the global economic climate".

China has increased its economic involvement in Africa every year for the last decade. Its trade with Africa has grown from $18.5 billion in 2003 to $107 billion in 2008. China is now South Africa's largest trading partner.

A new feature of the Chinese investment drive in Africa, which is up 77 percent in the first three quarters of 2009 over the same period last year, is the move to public-private partnerships. China now wins more than 50 percent of all new public works contracts in Africa, and Chinese companies dominate road construction in the continent. In shifting to public-private partnerships or concessions, China is following a pattern already established in the West, where construction projects are routinely financed in this way, with great profits for the financial institutions and private companies involved.

Whilst China's banks escaped the worst of the turmoil that affected Western banks last year, its export-driven economy was hit hard. Approximately 25 million workers have lost their jobs and exports have plunged, down 21 percent on average compared with the same period last year.

Huge contractors backed by China's large development banks now see the global downturn as an opportunity to get cheaper resources globally, particularly from Africa. According to the Ministry of Commerce, Chinese firms took on $8 billion of overseas contracts in the first two months of 2009, up almost 25 percent.

China has over $2 trillion in currency reserves and US Treasury bills, which are increasingly seen as a liability as the US dollar weakens. The Chinese government has begun to buy up tangible assets such as natural resources as a way of diversifying its currency reserves. In this context, low mineral prices are seen as a good investment opportunity.

Oil in Angola and Nigeria

In the last few years Chinese companies have attempted to sign exploration contracts in nearly every African country with potential oil resources. Earlier this year Sinopec bought the Canadian/Swiss company Addax, giving it access to vital offshore technology.

Angola is China's largest African trading partner, and it provides 16 percent of China's oil imports. Trade volumes between the countries reached $25.3 billion in 2008, or more than 23 percent of total China-Africa trade. Angola's imports from China were up by 96 percent to 2.5 million tonnes, according to China Customs.

With Angola's presidential elections due this year, Chinese construction projects are essential to President Dos Santos's campaign. However Angolan companies in some sectors have complained that the Chinese presence is stifling development since supplies that could be obtained in Angola are often imported from China. China's move to establish public-private partnerships is an attempt to overcome that kind of criticism.

In Nigeria, which has Africa's largest gas reserves and its second-largest oil reserves, Chinese oil companies are interested in taking over $50 billion worth of oil reserves currently licensed to Western oil majors. The China National Offshore Oil Corporation (CNOOC)—China's third-largest oil company—is trying to secure stakes of up to 49 percent in 23 oil licences, ten of which are operated by Chevron, eight by Royal Dutch Shell, four by ExxonMobil and one by Total, covering more than 10 billion barrels of proven oil reserves and substantial gas reserves.

According to Tanimu Yakubu, chief economic adviser to the Nigerian President, "Even at this early stage, where nothing has been agreed, it is clear that the Chinese are ready to pay very, very much more for some of these licences than the existing operators".

If it is successful CNOOC would become the largest foreign partner in Nigeria.

Dams, ports and pipelines

In Ethiopia, Chinese construction companies are to build a number of large dams to harness the country's hydropower potential and allow Ethiopia to expand domestic power coverage and export power to its neighbours.

In Kenya, the government recently approached China about a $3.5bn construction project involving a port in the tourist area of Lamu, and road and rail links to Kenya's borders with Ethiopia and southern Sudan. Nairobi had been in discussions with Qatar about the project, which also included a lease on 40,000 hectares of land on which to grow crops. The transport corridor could provide an export route for Chinese oil from southern Sudan, which provides 6 percent of China's oil imports.

Separately, the China National Offshore Oil Corporation is to begin prospecting for oil in northern Kenya, according to Kenya's energy ministry, and it also has exploration rights for a second block in the Lamu basin.

In Uganda, CNOOC is negotiating to buy part of Irish company Tullow's interests in oil reserves found under Lake Albert, which could amount to more than one billion barrels. Around $4 billion needs to be invested for a pipeline to the port and a refinery.

China is conscious of the need to protect its interests in Africa. It has sent a flotilla of destroyers to the Gulf of Aden using the pretext of combating piracy in the geo-politically sensitive waterway. Around 40 percent of China's goods and raw materials trade pass through these waters. This marks the Chinese navy's first major foreign engagement, outside of a UN mandate.

In Niger, China is now rivalling France as a buyer of uranium, and last year China National Petroleum Corporation signed a $5 billion contract for the Agadem oil bloc near Zinder. In Liberia, China Union is to spend $2.6 billion to develop iron ore mines in Bong County.

In Zambia, China's Non-Ferrous Company-Africa recently bought out Luanshya Copper Mine, a $230 million mine which had $200 million in debts, and China Exim Bank is putting up 85 percent of $400 million for a power project at Kariba North.

China has also been in discussions regarding building a rail-link between the east and west coasts of Southern Africa, connecting Mozambique, Angola, Congo-Kinshasa and Congo-Brazzaville, Malawi and Zambia.

Agriculture and bio-fuels

In Mozambique, China Exim Bank is to loan $2.3 billion for the Mphanda Nkuwa dam on the Zambezi River. China also awarded $800 million in agricultural support to Mozambique aimed at boosting national rice production, and has discussed how to link Lake Malawi, in neighbouring Malawi, to Mozambique's rivers and dams to improve its existing agricultural infrastructure.

Chinese companies have also been looking for land for cattle ranches and plantations in the Zambezi Valley and hope to settle 3,000 Chinese agricultural workers on other land leased in Mozambique, though this has met stiff resistance from locals. China has just 9 percent of the world's arable land, but 16 percent of the world's population, and is dependent on food imports.

In Uganda, China has leased 10,000 acres, and in Zambia, China has requested two million hectares of land for bio-fuel production. The Hong Kong-based tycoon Stanley Ho is rapidly building a bio-fuel empire worth some $40 billion, more than 10 percent of world output.

Under pressure to complete construction projects as quickly and cheaply as possible, Chinese companies have been criticised by trade unions across Africa for breaking regulations on minimum wages and on working conditions. A report by the trade union-financed African Labour Research Network (ALRN) released in late May described "tense labour relations, hostile attitudes by Chinese employers towards trade unions, violations of workers' rights, poor working conditions and unfair labour practices". The South African textile workers' union believes some 60,000 jobs have been lost in the textile sector since 2001 due to local products being undercut by imports.

At Ghana's Bui Dam controlled by Sinohydro, all workers are treated as casual labourers and are billeted twelve to a room, with little ventilation and poor sanitation. When the Sinohydro workers tried to form a union, they were intimidated and forced to abandon the plan.

Chinese financial institutions are becoming more aggressive in search of high returns on their investments following the recent economic downturn. World Bank President Robert Zoellick recently held talks with the China Investment Corporation, which manages nearly $300 billion of Beijing's foreign reserves, about cooperation on investment in African manufacturing through special industrial zones.

The weakening of the US dollar is encouraging China to develop its own global financial strategies. A consortium of Chinese banks recently injected $1 billion through Standard Bank of South Africa to fund Standard Bank's expansion in Africa and to bankroll more Chinese deals.

Beijing officials have also recently been discussing the possibility of using part of China's foreign reserves to finance the world's largest development aid programme, termed a "Harmonious World Plan", the main recipients of which would be Africa, Latin America and Asia.

The fund would be capitalised at around $500 billion, with $100 billion of foreign exchange reserves and the rest in Chinese Renminbi (about RMB2.7 trillion). It would make loans through existing institutions, such as the Forum on China-Africa Cooperation, to developing states in a mixture of US dollars and Renminbi, which would be repaid in national credit or from the profits generated.

The plan presented by economist Xu Shanda to the Chinese People's Political Consultative Conference in July is said to draw on ideas from the United States' post-war Marshall Plan. It is an attempt to offset the impact of the global recession on Chinese industry by creating new export markets and establishing the Renminbi as a currency of international trade.

The ambitious nature of Chinese plans in Africa is driven by the global recession and the increasing trend of US policy towards protectionism. Inevitably, it will lead to great tension between China and the USA, as China intrudes on an area vital to US interests.

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